
Our Vision for Fair, Equitable Tax Policy

Imagine a world where our oldest and youngest Americans get the care they need. A world where racial inequities are something we work to face and heal rather than exacerbate. Imagine a world where our public schools and universities provide excellent educations that set our students up for success. A world where new businesses can flourish and research and development lead to incredible breakthroughs promoting well-being in science and technology. And imagine a world where our roads, bridges, and drinking water are safe and our infrastructure helps to mitigate the looming climate crisis. This world doesn't have to be a dream. It is possible if we view our government as a force for social good—intended to benefit the largest number of people in the largest possible way—and our tax policy as a means to get there.

What we decide to do together and how we choose to pay for it reflects what we value as a society. It is how we express our democratic priorities for the collective good. It signifies our priorities and considerations of fairness and reciprocity. And it signals how we treat the most privileged versus people who are left behind or left out; individuals and businesses; investors and employees. Unlike almost any other government policy, tax squarely answers the question: “What (if anything) do we owe to each other?”.¹

Tax is a complicated and often emotional issue because it tends to be a proxy for the collision of two core but divergent concepts that guide American society: the roles of individual responsibility versus the common good. Beyond that, tax is also one of the most visible representations of the role of government in our lives, and it sets key incentives for many aspects of our economy and society.

Our government is not just an abstract, remote bureaucracy. Under democratically legitimate governance, it represents all of us. Government is intended to be a means to enact our collective will, and one of the critical ways we can build a “more perfect union.”

More practically, our government is responsible for maintaining our nation's roads and bridges; keeping our air, food, and water safe; taking care of our veterans; conducting and funding research that can lead to medical and technology breakthroughs, new energy technologies, and critical vaccines; providing health care and education; and much more. Our government is what makes our market economy possible, providing a stable currency of exchange; enforceable contracts and property rights; and consumer protections. Our government has a profound impact on our everyday lives. It has played an even more important role during the Covid pandemic, keeping families and small businesses afloat during these challenging times, just as it has in wartime and other past emergencies.

¹ A riff of T.M. Scanlon's book of a similar title: [What We Owe To Each Other](#)

But good government is not free. It must be adequately funded to carry out its charge effectively.

With sufficient revenue, we could pay for programs and services that give every American a chance to get ahead: creating jobs that pay a livable wage; investing in education and making college affordable; shoring up our safety net programs for the long term; reducing poverty; and protecting people who have been marginalized by our current systems. To make these government services accessible and responsive, we need quality civil service and civil servants—which also cost money.

We recognize that our government does not always live up to these ideals. Often, it falls short because it is not adequately funded. For decades, conservative politicians and thought leaders have been advocating for smaller government, which erodes its ability to function properly. At the same time, political pressures can sway policymakers to do the bidding of special interests at the expense of those with less influence or power.

We believe in the role of government and the value it can bring. Tax policy is a critical means to achieve a healthy and stable democracy, economy, and shared values. Americans agree. [According to a September 2020 survey by Gallup](#), “For the first time in Gallup's 28-year trend, a majority of Americans think the government should do more to solve the nation's problems. As the U.S. continues to struggle with the coronavirus pandemic, the resulting economic downturn, and racial injustice issues, 54% of U.S. adults favor increased government intervention.”

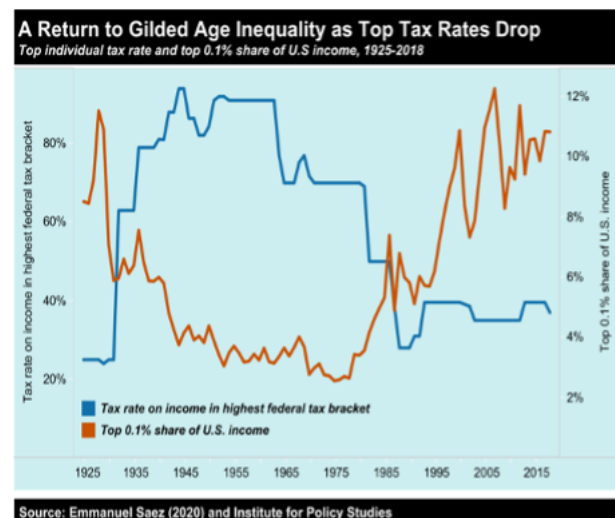
For these reasons, we believe US tax policy should be guided by four core principles that reflect the values of a democratic country; values that center the well-being of the many over the benefits of a privileged few.

Omidyar Network's Principles for Fair and Equitable Tax Policy

1. People with less shouldn't pay more than people with plenty.
2. Wealth should not be rewarded more than work.
3. Big businesses should pay their fair share.
4. Tax expenditures should build toward the future we want for all.

The Current Situation

Our tax code furthers the divide between the haves and the have-nots—not just in the size of their wallets, but also in how they relate to and support each other. This can and has led to erosion of our sense of shared belonging and reciprocity.



In a variety of important ways, our tax code is not aligned with our American values of fairness and equity.² It contributes to a corrosive inequality (across incomes, wealth, geography, gender, and race) that undermines our social fabric and our democracy, which in turn creates openness to authoritarian responses and solutions, a theme the Tony Blair Institute for Global Change warned of in 2018.

² Thomas Paine in "The Rights of Man": Whatever is my right as a man is also the right of another; and it becomes my duty to guarantee as well as to possess.

If we look at our federal tax system as a whole and for individual taxpayers, it is, broadly, progressive.³ People with higher incomes tend to face higher tax rates on their income. For instance, the bottom 20% of households pay just 0.9% of their income in federal taxes, while the top 1% of households pay one-third of their income in federal taxes.

However, rates do not tell the whole story. From a tool created by the [Economic Policy Institute](#) to examine how US taxes and spending affect income inequality:

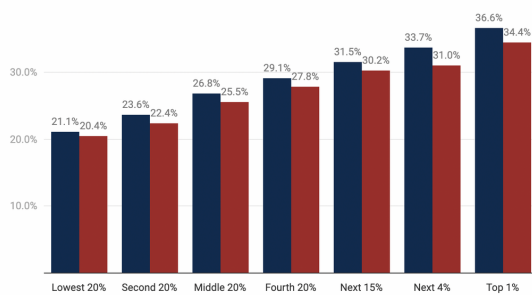
Decades of corporate tax cuts and increases in payroll taxes, which are less progressive, have weakened the equalizing effect of the federal tax system. Those taxpayers who derive most of their wealth from capital assets enjoy preferential tax rates while flat taxes on consumer goods, such as the gas tax, disproportionately harm those at the bottom of the income distribution. And the decline in corporate tax rates also explains why some analyses of the absolute richest households (the top 0.1% or the Forbes 400, for example) show their tax rates are actually lower than those faced by typical taxpayers.

Because of our [upside-down tax code](#), in many cases, as Warren Buffet famously pointed out, people who have lower incomes end up paying a higher share of their income in taxes than people who have higher incomes

Total Federal, State & Local Effective Tax Rates in 2020, Current Tax Law vs. Pre-Tax Cuts and Jobs Act

by income group

■ Pre-TCJA ■ Current Law



Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, July 2020 · Created with Datawrapper

We also tax income generated from labor at a higher rate than capital generated from wealth and investment. And businesses can take advantage of loopholes to avoid taxes that most employees cannot, again preferencing those with power.

³ This is not always the case at the state level, however.

What We Believe & What We Should Do

Our society, democracy, and the functioning of our economy depend on citizens knowing that our social contract is being honored, and that there is fairness and reciprocity and opportunity for all, not just for some. The current tax code and its outcomes, however, do not live up to this standard; rather, they undermine trust and stand in the way of shared prosperity.

We know it requires much more than a fair tax code to build an equitable and inclusive economy. Often, tax is an output, redistributing money as a result of other economic policies. **Ultimately, we believe we will have better outcomes if we focus upstream, building the markets and systems we want rather than trying only to remedy their unequal outcomes on the back end.** So we view tax policy as a, “Yes, and.”

To that end, Omidyar Network also works on issues like expanding [worker power](#), reshaping markets so that they incentivize businesses to contribute to the [common good](#), and [reining in monopoly power](#) to increase competition and spark innovation.

In our effort to [reimagine capitalism](#) and seed a new economic paradigm, we argue that our government must govern markets in ways that prioritize the public good. We also call out the failings in our economic system that foment economic insecurity, exacerbate inequality, and deny opportunity, and as we have recently experienced, has resulted in [the consequent openness to authoritarian siren songs](#).

Omidyar Network, in alignment with our [Call to Reimagine Capitalism in America](#), believes our [tax code](#) currently reinforces [wealth and income inequality](#). We believe instead it should promote fairness, reciprocity, and a renewed social contract based on mutual trust between individuals and government. We urge our funding partners, current and future grantees, and policymakers at the local, state, and federal levels to consider the following principles when evaluating, advocating, and enacting tax policy:

1.

People with less shouldn't pay more than people with plenty.

The current tax code doesn't ask enough of the wealthy.

This is grounded in the Peter [Parker Principle](#): With great power comes great responsibility. Before Spiderman, even Adam Smith, the Father of Economics and Capitalism wrote in *The Wealth of Nations*:

"[I]t is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion", because a tax on "the luxuries and vanities of life [which] occasion the principal expense of the rich... would in general fall heaviest upon the rich; and in this sort of inequality there would not, perhaps, be anything very unreasonable."

We believe we have mutual obligations to each other that should be reflected in our tax code, and that wealthy individuals have a responsibility to pay their fair share. People with higher incomes and assets should have both higher nominal and effective tax rates. Our tax code should reflect our values and reinforce broadly shared prosperity for the many, not just the privileged few.

2.

Wealth should not be rewarded more than work.

Currently, our tax code gives preferential treatment to wealth-holders by taxing capital income at lower rates than labor income. This is true nominally through lower statutory rates and substantively through lower effective rates. This not only fuels inequality but disincentivizes work and deemphasizes investment in the real economy at the expense of increasing returns for shareholders.⁴

Economists Emmanuel Saez and Gabriel Zucman wrote, “Less capital taxation means that the wealthy—who derive most of their income from capital—can mechanically accumulate more. This feeds a snowball effect: wealth generates income, income that is easily saved at a high rate when capital taxes are low; this saving adds to the existing stock of wealth, which in turn generates more income, and so on.”

⁴ Oren Cass, “The Corporate Erosion of Capitalism,” March 2021: <https://americancompass.org/essays/the-corporate-erosion-of-capitalism/>

Research suggests that many CEOs who take a \$1 salary are rewarded with stock, option, or bonus packages that match—or even outweigh — the cash they sacrifice on a pay stub.⁵ One 2011 [study](#) of 50 executives concluded that the average “\$1 CEO” gives up \$610k in salary but gains \$2m in other “not-so-visible forms of equity-based compensation.” These skewed compensation schemes are a predictable response to the incentives in our tax code.

There are many potential policy remedies to bring capital and labor taxation more in balance, and in turn, reduce economic inequities. Reflecting this principle, we support equalizing the treatment and rates (nominal and effective) between labor income and capital gains, which would likely entail raising tax rates on capital.

3.

Big businesses should pay their fair share.

As with individuals, we suggest that large companies who earn more should pay more.

Part of that belief is based on an obligation to the common good but also acknowledges that many companies benefit from a range of government-provided services or investments (like the internet, highways, the postal system, government-sponsored research) that contribute to their ability to get off the ground, their profitability, and their basic operations.

⁵ <https://thehustle.co/1-ceo-salary/>

Our tax policies and a raft of [tax expenditures](#), both large and small, create a broad labyrinth of incentives to catalyze smart investments, support research and development, foster competition and competitiveness, slow the pace of climate change, and fuel our economy.⁶

At its best, tax policy can motivate businesses to hire people who would otherwise have a hard time finding work, including veterans and people with disabilities; encourage them to invest in communities that have been overlooked and left out; bring jobs home from overseas; promote clean energy to address our growing climate crisis; and help small business owners get started and succeed.

We are an organization founded by an entrepreneur. We believe our tax policies should help new businesses get off the ground, and we share the goal of fostering a vibrant, dynamic start-up economy. In alignment with The Tax Foundation, we too believe our [tax code should be seen as a vehicle for accelerating economic growth and dynamism](#).

For decades, economists posited that higher individual and corporate tax rates stifle entrepreneurship and new start-up formation. The opposite is true. Data shows if you overlay corporate tax rates with rates of new business creation, you'll see that as [corporate tax rates decreased over time, so did new business creation](#).⁷

Additionally, evidence on the effect of tax on entrepreneurship is mixed at best, as the [Center on Budget and Policy Priorities](#) has noted:

⁶ We also recognize that there are many instances of corporate tax policy that incentivize what we consider “bad behavior”, such as fossil fuel subsidies.

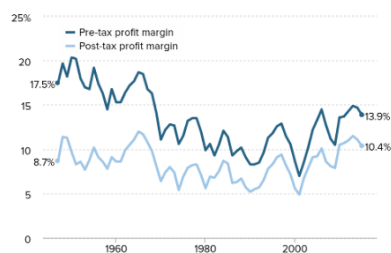
⁷ 2020 and the response to Covid, saw the first major uptick in new business formation in years. It is too early to know if this is a durable trend or a one-off response to the major employment shock of March 2020.

150 executives surveyed by *Endeavor Insight*, a research firm that examines how entrepreneurs contribute to job creation and long-term economic growth, said a skilled workforce and high quality of life were the main reasons why they founded their companies where they did; taxes weren't a significant factor.

Our government and our tax policies provide the infrastructure for new businesses to not only get started, but to thrive. From support for R&D, to roads and bridges that move goods, to public services and universities that educate our students and working people, to basic elements and institutions that guarantee rule of law and the enforceability of contracts and private property, our government and our tax policies champion corporate opportunity.

U.S. corporate tax rate is not hurting corporate profits

U.S. corporate pre- and post-tax profit margin rate, 1947–2015



Note: Figure depicts profit margins in the non-financial corporate sector.
Source: Adapted from Bivens (2015)

Economic Policy Institute

With that opportunity again comes an obligation for corporations to pay their fair share. The corporate share of federal tax revenue has dropped by two-thirds in 60 years. Corporate tax revenue accounted for 32.1% of federal revenue in 1952, but by 2012, the share of corporate tax revenue had fallen to 9.9%, according to the Office of Management and Budget.

Why? It's not because businesses are less profitable, or less competitive (In 1952, post-tax corporate profit was 8.6%; in 2012, it was 11%⁸). Rather our tax code now has enshrined a range of loopholes and exemptions that not only allow, but encourage, corporations to avoid or evade taxes.

⁸ Source: Adapted from Bivens (2015)

⁹ We also note that these corporations spend a significant amount of money to make sure it is the law. According to the Sunlight Foundation: Between 2007 and 2012, 200 of America's most politically active corporations spent a combined \$5.8 billion on federal lobbying and campaign contributions. [But] what they gave pales compared to what those same corporations got: \$4.4 trillion in federal business and support. <https://sunlightfoundation.com/2014/11/17/fixd-fortunes-biggest-corporate-political-interests-spend-billions-get-trillions/>

In 2020, 55 of the nation's largest and most profitable corporations—including FedEx, Nike and Archer-Daniels-Midland—paid no federal corporate income tax, according to the Institute for Taxation and Economic Policy. This was legal. It was not fair.

Tax avoidance schemes involving tax havens in places like the Cayman Islands are estimated to cost as much as \$100 billion a year in lost revenue, according to a [US Senate subcommittee report](#) from 2008.

We do not fault them for taking advantage of the laws as written to minimize their tax obligations. They are behaving legally and rationally given the system's rules. But we believe the laws themselves should change to better reflect our shared values.

While corporations can reduce the amount they owe in taxes in a variety of legal ways, but we believe that avoiding fair taxation should not be a badge of honor. As billionaire entrepreneur Mark Cuban said, "While some people might find it distasteful to pay taxes, I don't. I find it patriotic."

Growth over the past 60 years has actually been stronger when corporate tax rates were higher, according to the Economic Policy Institute.

We need to close loopholes and strike the right balance in our corporate tax policy so that businesses can remain competitive while fulfilling their obligation to the broader community for the benefit of most Americans.

4.

Tax expenditures should build toward the future we want for all.

There is always a push and pull with our tax code. Above, we spoke primarily about how we can pull back bad behavior and promote fairness. We also can use tax policy and tax expenditures to push good behavior forward and toward the outcomes we want as a society.

According to the Congressional Joint Committee on Taxation (JCT), the projected cost of the tax expenditures in 2020 was \$1.795 trillion, with \$172 billion in corporate expenditures and \$1.62 trillion in individual expenditures.¹⁰ The US tax code in recent years annually enshrines between 280 - 300 separate tax expenditures, roughly 60% of which are aimed at individual taxpayers, and the other 40% at business taxpayers.

The three biggest individual tax incentives by dollar amount are for employer-sponsored health plans, earnings on defined contribution pension plans, and reduced rates on dividends and long-term capital gains (see principle #2 above). A number of them are broad-based and well-intentioned, for instance, home mortgage interest deductions to promote home ownership, charitable contributions, or several more recent corporate tax expenditures, aimed at encouraging companies to repatriate income and jobs from overseas and remove intellectual property loopholes to avoid paying US tax. Others are quite narrow, for instance, commuting to work by bicycle.

¹⁰ Source: Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2018-2022"

However, in any broad analysis, like the vast majority of our tax code, tax expenditures tend to favor the wealthy and well-connected corporations. [According to the Congressional Budget Office](#) (CBO), on the individual taxpayer side, the top 1% of earners receive 17% of the benefit from individual tax expenditures. Lobbyists have wrangled expenditures for their clients' special interests, including special depreciation schedules for corporate jets, loopholes that allow inversions, subsidies for fossil fuels, and deductions for CEO bonuses, as well as regular tax law that allows wealthy owners to depreciate their ownership of multi-billion-dollar sports teams.

Instead of being unduly swayed by corporate lobbyists, we encourage policymakers to examine tax expenditures with a holistic lens toward the future we want to build. We suggest the questions below as a guide so that expenditures are a vehicle for prosperity, fairness, and equity in our tax system:

- *How can tax expenditures help close the racial wealth gap and address the systemic inequities that marginalize Black, Brown, and poor families?*
- *How can tax expenditures help us mitigate and adapt to a rapidly changing climate?*
- *How can tax expenditures spur research and development to prepare for the future, and invest in the real economy (while correcting for current shortfalls that allow R&D investments to be opaque on tax returns)?*
- *How can tax expenditures spark innovation to create the tech we want in service of the common good?*
- *How can tax expenditures promote economic mobility and growth for the many, and improvement of the safety net for the least fortunate?*
- *How can tax expenditures more generally reinforce a fairer, more progressive tax system?*

The recent changes to and expansion of the Child Tax Credit (CTC) provide one clear answer to these questions. If made permanent, the CTC could “dramatically [reduce childhood poverty](#) and improve children’s chances of upward intergenerational mobility, increasing both their future earnings and the corresponding tax revenue that will be collected on it.”¹¹ These are the types of tax expenditures that can have a dramatic, positive impact on our society for many Americans.

In theory, our tax code is “race-neutral.” However, it builds on a toxic legacy of policies that unfairly and unequally distribute resources. [Recent analysis by the Tax Policy Center](#) shows a variety of ways in which tax policies also [exacerbate income and wealth inequalities](#) stemming from [long-standing discrimination](#) in areas such as housing, education, and employment. According to a [study by the National Community Reinvestment Coalition](#), three out of four neighborhoods redlined on government maps 80 years ago continue to struggle economically.

Educational outcomes are also linked to redlining. [The Annenberg Institute for School Reform at Brown University](#) found that districts and schools located in [formerly redlined neighborhoods](#) have lower average test scores. Today, 44% of Black families own their own home, compared to 74% of white families. To encourage more Black families to buy homes and build wealth, we could give a credit for first-time home buyers instead of a deduction for mortgage interest, which benefits borrowers buying bigger homes.

Conclusion

As policymakers consider new tax policies, we suggest they meet the following tests:

¹¹ Washington Center for Equitable Growth, accessed September 4, 2021 <https://equitablegrowth.org/the-child-allowance-will-pay-dividends-for-the-entire-u-s-economy-far-into-the-future/>

- *Does it benefit the many, not just the privileged few?*
- *Does it address collective challenges, not just individual ones?*
- *Does it reduce wealth and income inequalities, rather than increase them? Does it promote upward mobility for all?*
- *Does it help achieve our shared values (e.g., reducing child poverty, creating good jobs, equity across race and gender)?*
- *Does it foster innovation, economic growth, and investment in the real economy, rather than incentivize shareholder primacy and stockpiling cash and profits?*
- *Does it preserve the principle of progressivity in our tax policy overall?*
- *Does it discourage “bad behavior” and mitigate externalities (e.g., carbon tax, sin taxes on alcohol and cigarettes, financial transactions tax)?*

We are committed to applying this test to our own advocacy work related to revenue-focused policies at the federal and state level.

Tax policy must be reformed so that it is fairer and more equitable. We believe restructuring our tax code can take many forms, and while we do not prescribe specific policy recommendations or rates here, we do commit to greater transparency in our own work related to tax,¹² and to honoring the principles outlined above. There is much that we as philanthropists, our grantees, advocates, lawmakers, and regulators can do so that every American has a fair chance to prosper and thrive and we no longer have to imagine that world, we can live in it.

¹² A list of Omidyar Network’s partners within our Reimagining Capitalism portfolio can be found [here](#). Many of them are working for better and fairer tax policy.