# CONSEQUENCES • TAXES



## FUTURE TRENDS: TAX EQUALITY, THE GIG ECONOMY

**The tax code can be used to either improve or worsen inequality.** In general, federal taxes help make after-tax income more equal, while state taxes make it less equal. The most regressive state tax systems rely heavily on sales and excise taxes, while the least regressive states tend to have a progressive graduated income tax. The states that are often labeled as “low-tax” also tend to be high-tax for low- and middle-income households. In addition, reductions in state tax rates for income tax, sales tax, or payroll taxes would only slightly increase the income of ALICE families, but would have a negative impact on the public services and infrastructure — schools, roads, health care — that these families rely on.[28] Changes in the tax structure that reduce or increase wealth inequality could affect the burden on workers, primarily through changes to property taxes, capital gains taxes, corporate taxes and an individual wealth tax.[29]

**The challenge of collecting tax revenue will increase as the gig economy grows.** More than 2.5 million U.S. taxpayers participate in the gig economy every year, and that number is set to more than double in the next few years. However, the classification of different types of work (e.g., salaried, contract, freelance) on tax forms hasn’t kept pace with this trend. Misclassification of work status by employers can allow them to shift tax administration and payment responsibilities to workers as well as evade other parts of employment law such as minimum wage, overtime, and benefits.[30]

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