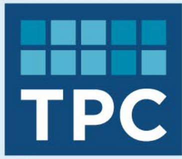

A GUIDE TO UNDERSTANDING RACIAL DISPARITIES IN THE FEDERAL INDIVIDUAL INCOME TAX SYSTEM

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ABSTRACT

This report provides an overview of interactions between the federal individual income tax system and racial and ethnic disparities in the United States. The tax code may appear to be “race blind” because the Internal Revenue Service does not ask tax filers to report their race or ethnicity. But tax benefits and liabilities depend on factors associated with race and ethnicity, including income, wealth, and various demographic characteristics. Using data from the Tax Policy Center’s microsimulation model, household surveys, and recent studies, we review 12 features of the federal individual income tax system—including tax preferences for capital gains, private businesses, and higher education—and show how each feature mitigates or exacerbates disparities between Black, Latine, and White families, both across and within income groups. We also discuss potential impacts of several alternative policy options for the tax treatment of homeowners, taxpayers filing individually versus jointly as a married couple, and lower-income families with children, and how each reform, to varying degrees based on design, could improve racial equity within the federal individual income tax system.

INTRODUCTION

Historically, racial equity has not been an explicit goal of the US tax system. Lawmakers and researchers have instead focused on issues such as how tax laws affect economic efficiency, equal treatment of families and individuals, or complexity—as well as the achievement of various economic and social policy goals, such as encouraging homeownership, higher education, and health insurance coverage. It is often impossible to achieve all tax and policy goals at once, and so trade-offs are embedded in the current tax code and new legislation.

To the extent that racial equity was considered by stakeholders in the past, it was often conflated with tax progressivity, or average tax burdens that increase with income. Black families, on average, have lower income and less wealth than White families[1] as a result of centuries of racial discrimination and structural barriers to economic security and mobility (Kijakazi et al. 2019; Morse et al. 2023).

Some of the tax code's features—including a progressive tax rate structure and standard deduction that exempts many households from owing income tax—help narrow these income gaps between Black and White families. However, they are not designed to narrow racial wealth gaps. Moreover, other federal tax policies sometimes reinforce the structural barriers to economic security and mobility. In failing to adequately consider and correct for these historical and ongoing inequities, seemingly race-blind tax policies and practices can exacerbate racial disparities.[2]

Often, racial disparities arise when factors that affect tax liabilities are associated with race (Alm, Leguizamon, and Leguizamon 2023; Brown 2021; Cronin, DeFilippes, and Fisher 2023; Dean 2022; Gale 2021; Holtzblatt et al. 2023a, 2023b; Holtzblatt, McClelland, and Garriga 2024; Moran and Whitford 1996). In addition to income, these factors include dissimilarities in investment portfolios, reliance on loans for homeownership and higher education, charitable contributions, family size, employment, marriage rates, and the shares of income earned by each spouse.

Through a vast array of tax expenditures, the US tax code either reinforces or reduces racial income and wealth gaps. Tax expenditures refer to special provisions of the tax code—such as exclusions, deductions, deferrals, credits, and lower tax rates—that benefit specific groups of taxpayers by subsidizing certain sources of income, wealth, and spending (see table A1 for the largest tax expenditures).[3]

For example, an analysis by the Tax Policy Center (TPC) showed that, in 2019, itemized deductions boosted the after-tax incomes of Black taxpayers by 0.4 percent, compared with 0.7 percent for White taxpayers (Khitatrakun et al. 2023). The itemized deduction for home mortgage interest, for instance, is one of the largest subsidies for homeownership in the United States. But limited access to the credit market, redlining, restrictive covenants, and other forms of housing discrimination have hindered Black families from buying homes over time.[4] As a consequence, the home mortgage interest deduction overall

disproportionately benefits White taxpayers—not only because they are more likely to own homes, but also because the tax value of itemized deductions is greater for homeowners in higher tax brackets. There is an exception, however, to this finding: relative to their representation in the top income quintile, high-income Black homeowners benefit more from the mortgage interest deduction than White homeowners. This may be because Black homeowners are more likely to require a mortgage to finance their home purchases, whereas affluent White homeowners are more likely to receive inheritances and family gifts that they can use to offset the costs of homeownership (Cronin, DeFilippes, and Fisher 2023; Holtzblatt, McClelland, and Garriga 2024).

Conversely, tax credits like the refundable earned income tax credit (EITC) are often targeted to benefit families with low and middle incomes, among whom Black and Latine families[5] are disproportionately represented. For example, researchers in the US Treasury Department's Office of Tax Analysis estimated that 19 percent of total tax benefits from the EITC went to Black families, who constituted 11 percent of total families in the United States in 2023 (Cronin, DeFilippes, and Fisher 2023).

Using data from TPC's microsimulation tax model, household surveys, and recent studies, we review 12 features of the federal individual income tax system and their impacts on racial disparities, both across and within income groups:

- *Tax treatment of labor and capital income*
  1. standard deduction and income tax rates
  2. labor income (wages, salaries, and self-employment income)
  3. capital gains
  4. stocks
  5. personal residences
  6. privately held businesses
  7. retirement plans
- *Subsidies for higher education and charitable contributions*
  8. higher education
  9. charitable contributions
- *Family characteristics*
  10. marital status
  11. children and dependents
  12. citizenship

We also provide an overview of some tax policy reforms that have the potential to improve racial equity within the federal individual income tax system. Specifically, we examine reforms related to homeownership, marriage, and assistance for families and workers with low incomes. Although these reforms would affect Black, Latine, and White families, we primarily focus on gaps in outcomes between Black and White families.[6]

This report builds on earlier TPC analyses—including the interactive research features "Racial Disparities and the Income Tax System" and "How the Federal Income Tax System Can Worsen Racial Disparities"—that explore how specific provisions of the individual income tax code interact with existing racial inequities, such as tax breaks for capital gains, tax subsidies for homeownership, and tax credits for families with children.[7] This report also highlights other TPC studies on racial disparities in the tax treatment of tax expenditures (e.g., home mortgage interest) and the tax treatment of marriage and capital income (Holtzblatt et al. 2023a, 2023b; Holtzblatt, McClelland, and Garriga 2024; Khitatrakun et al. 2023).

Racial Gaps in Income and Wealth

Racial disparities in both income and wealth have persisted over time and throughout the income distribution. These disparities have their roots in centuries-long discrimination against families of color, resulting in barriers to economic opportunities and upward mobility.[8] The federal individual income tax system has the potential to narrow the racial income gap through its progressive rate structure, or rates that rise with income levels. Tackling the racial wealth gap through the tax system is more challenging, however, because assets are not taxed (except by the estate tax)—although the income received from those holdings may be taxable and certain tax expenditures help subsidize the costs of acquiring and maintaining assets.

Income

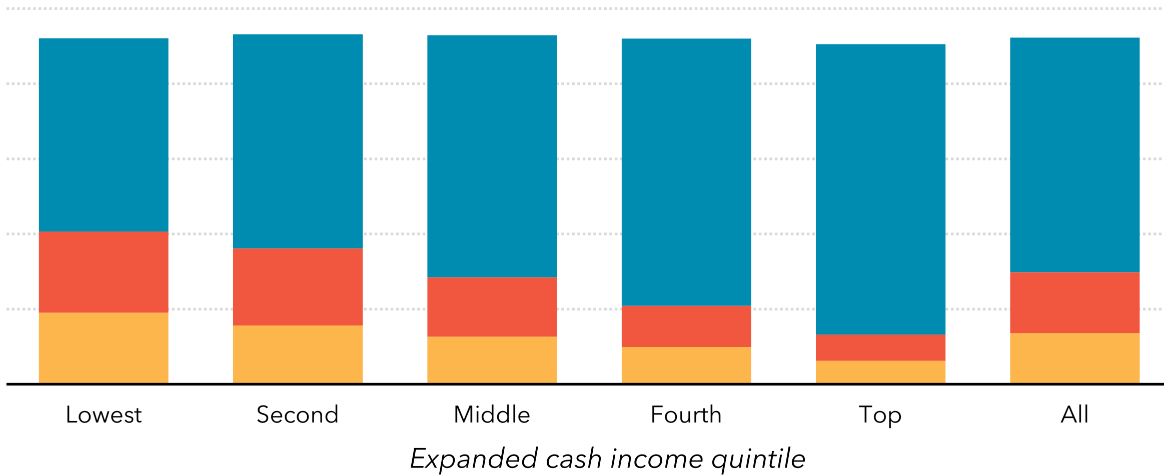
As has been well documented, poverty rates are significantly higher among Black and Latine households than among White households. According to the US Census Bureau, in 2022, the overall poverty rate in the United States was 11.5 percent. But the poverty rates for Black and Latine people (about 17 percent) were twice as high as for White people (8.6 percent).[9]

Prior estimates from TPC's microsimulation tax model have shown that racial gaps extend throughout the income distribution. In 2019, 14 percent of tax units were Black, 16 percent were Latine, and 62 percent were White (Khitatrakun et al. 2023).[10] But, relative to White tax units, Black and Latine tax units were more likely to be in the lower income quintiles and less likely to be in the higher income quintiles (figure 1). For example, in the lowest income quintile, 19 percent of tax units were Black, 22 percent were Latine, and 51 percent were White. In contrast, in the top income quintile, 6 percent of tax units were Black, 7 percent Latine, and 77 percent White.

FIGURE 1

Black and Latine Tax Units Are Disproportionately in the Lowest Income Quintiles

Racial or ethnic classification of tax units by income quintile, 2019



Source: Urban-Brookings Tax Policy Center microsimulation model (version 0721-2).
Notes: Data does not sum to 100 because families of other races and ethnicities not shown. Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. Race and ethnicity are based on the responses of the reference person in the survey data used to derive targets for the TPC microsimulation tax model. All other members of the tax unit are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the tax unit is not included in the counts of Black, White, or Latine units. Latine units do not include units where the respondent identified primarily as Black or White. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2019 dollars): 20% $25,500; 40% $50,600; 60% $90,500; 80% $163,800.

Wealth

Historically, Black, Latine, and other families of color have had significantly less net wealth than White families. Centuries of actions by federal, state, and local governments, businesses, and individuals—including enslavement, racial segregation, redlining laws and covenants, mass incarceration, and discrimination in the workplace and educational institutions—have hindered economic opportunities for many families of color (Morse et al. 2023). As a result, families of color, on average, have had significantly fewer opportunities to accumulate wealth.

In the 50 years following Emancipation, there was a large convergence of the gap in the amounts of assets owned by Black and White families. Even against the backdrop of continuing racial hostilities and

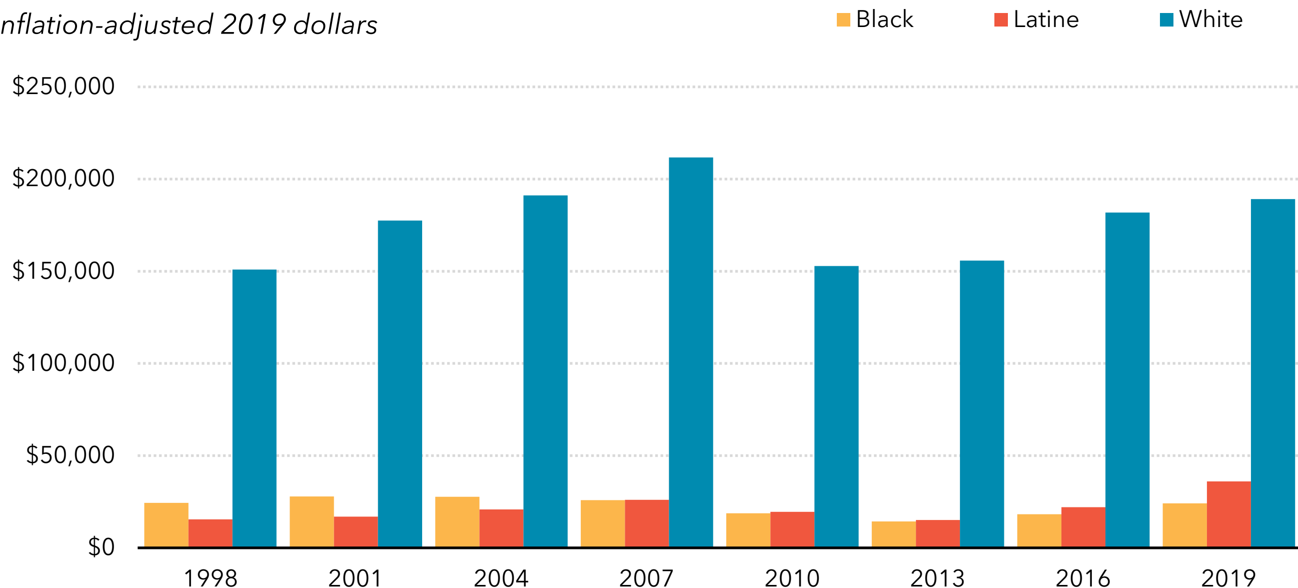
discrimination, the ratio of median wealth among White families relative to Black families fell from about 60 times in 1860 to about 10 times in 1920. But since the 1950s, this convergence of wealth has stalled and even reversed (Derenoncourt et al. 2022).

Across all families, net wealth—the difference between assets and liabilities—totaled $96 trillion in 2019, according to the Federal Reserve Board.[11] The median net wealth of White families ($189,100) was eight times that of Black families ($24,000) and five times that of Latine families ($36,050; figure 2). One in four families in the United States was either Black or Latine, but altogether they owned only 5 percent of assets (net wealth).

FIGURE 2

Average Wealth of White Families is Five to Eight Times Higher than for Black and Latine Families

Median net wealth of families, by race or ethnicity, 1998 to 2019



Source: The Federal Reserve Board, 2019 Survey of Consumer Finances (SCF). Accessed February 2023.
Notes: Net wealth is calculated by summing the values of total financial and nonfinancial assets and subtracting the value of total debt. The family unit is the SCF's primary economic unit (PEU), consisting of the survey respondent, spouse or partner, and dependents. Only SCF respondents are asked to identify their race and ethnicity. All other members of the PEU are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the family is not included in the counts of Black, Latine, and White units. Latine families do not include units where the respondent identified primarily as Black or White.

The magnitude of the racial wealth gap tends to grow with incomes, and it persists within income groups (table 1). For example, in 2019, in the middle-income percentile, net wealth averaged $345,100 for White families, compared with $130,200 for Black families and $136,500 for Latine families in 2019. Even among

families in the top income percentile, the net wealth gap was wide. In 2019, average net wealth totaled $1.4 million for Black families, $1.5 million for Latine families, and $4.4 million for White families.

TABLE 1

Racial Wealth Disparities Persist across Income Levels

Average net wealth of families, by income percentile and race or ethnicity, 2019

	Amount ($)		
Income (percentile)	**Black**	**Latine**	**White**
Lowest quintile	$23,000	$44,900	$88,200
Second quintile	$52,300	$73,800	$207,000
Middle quintile	$130,200	$136,500	$345,100
Fourth quintile	$276,800	$332,700	$674,100
Top quintile	$1,379,300	$1,481,900	$4,444,200
Total	$142,300	$165,500	$980,500

Source: Urban-Brookings Tax Policy Center, using data from the 2019 Survey of Consumer Finances (SCF).
Notes: Net wealth is calculated by summing the values of total financial and nonfinancial assets and subtracting the value of total debt. The family unit is the SCF's primary economic unit (PEU), consisting of the survey respondent, spouse or partner, and dependents. Only SCF respondents are asked to identify their race and ethnicity. All other members of the PEU are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the family is not included in the counts of Black, Latine, and White units. Latine families do not include units where the respondent identified primarily as Black or White. The SCF definition of income includes wages and self-employment income, taxable and tax-exempt interest, dividends, realized capital gains, Supplemental Nutrition Assistance Program benefits and other related assistance provided by the government, pensions and withdrawals from retirement accounts, Social Security, alimony and other support payments, and miscellaneous sources of income received by family members. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2020 dollars): 20% $25,800; 40% $51,300; 60% $91,600; 80% $165,900; 90% $244,500; 95% $347,700; 99% $837,200; and 99.9% $3,707,700.

Despite the economic disruption caused by the COVID-19 pandemic, net wealth rose to $139 trillion in 2022—a 25 percent increase from 2019, after adjusting for inflation. Median net wealth increased more rapidly for Black and Latine families than for White families—up by 58 percent, 49 percent, and 30 percent, respectively (Aladangady et al. 2023). Consequently, net racial and ethnicity wealth gaps narrowed, with median net wealth of White families falling to six times that of Black families. The gap between White and Latine families, however, fell by less than a percentage point.

In large part, the narrowing of the racial wealth gap between 2019 and 2022 reflected the growth in housing equity among Black and Latine families. The median net housing value for the typical Black family grew faster than for other families, and the growth rate in homeownership—accompanied by a relatively large increase in new mortgage applications—was largest for Latine families.

These surges in home equity, however, may reflect the uniqueness of the pandemic, combined with historically low interest rates. As interest rates rebounded in 2022, the number of mortgage originations

among Black families dropped by more than 16 percent and the mortgage denial rate among Black applicants increased by 3 percent.[12]

Evaluating Tax Policies

Public finance scholars have long evaluated the success of tax policies by three measures:

1. efficiency
2. equity
3. simplicity

A tax policy is deemed *efficient* if it does not distort taxpayers' choices. For example, a decision would be inefficient if a taxpayer chooses the less productive investment simply because of its tax advantages. Historically, a tax policy has been viewed as *equitable* on two scales: if average taxes rise as income or ability to pay increases (progressivity), and if taxpayers with similar characteristics (e.g., income and family size) are treated similarly. The *simplicity* of a policy is judged by the burden placed on taxpayers to comply with the law (e.g., recordkeeping) and the administrative costs of the Internal Revenue Service (IRS). Social and economic policy goals—such as encouraging work, making higher education affordable, and saving for retirement—may also be benchmarks for measuring the success of a tax law. But achieving all these goals is often impossible, and so priorities have to be weighed when considering changes to the individual income tax.

Racial equity considerations may be implicit in some of the goals, but they typically have not been highlighted in past legislative discussions about tax reforms. And to the extent that they have been discussed, racial equity is sometimes conflated with vertical equity, because Black families, on average, have less income and net wealth than White families. However, racial discrepancies also occur *within* income groups because of factors other than total income, such as the amount of assets, the composition of asset portfolios, homeownership, and employment status.

TAXATION OF LABOR AND CAPITAL INCOME

At its core, the federal individual income tax system can be characterized by two simple features: the level at which income becomes taxable and the tax rates applicable to each additional dollar of income. But the income tax deviates from this simple model in many ways, including the exclusion of some types of income from taxation and the application of lower tax rates for other types of income.

Standard Deduction and Income Tax Rates

The federal individual income tax system is generally progressive, meaning that average tax burdens increase with income. The statutory rate structure and the standard deduction both contribute to the progressivity of taxes.

Income is typically not taxable until it exceeds a certain threshold—generally, the amount of an individual's or a couple's standard deduction. In 2023, the threshold levels were $13,850 for single individuals, $20,800 for heads of households, and $27,700 for married couples. These tax thresholds are close to the federal poverty thresholds, although the two are not explicitly linked in the tax code. Unlike the poverty thresholds, however, the standard deduction is not adjusted for family size beyond two people, either a married couple or an unmarried person with a related dependent. Under current law, the family size adjustment is partially achieved through credits (through 2025) and a combination of credits and exemptions (after 2025).[13]

Furthermore, statutory tax rates increase from 10 to 37 percent as taxable income rises—that is, income after exclusions, exemptions, and deductions (table 2). In 2026, after the expiration of nearly all the individual income tax provisions included in the Tax Cuts and Jobs Act of 2017 (TCJA), the standard deduction will drop and the top federal individual income tax rate will increase to 39.6 percent.[14]

TABLE 2

Statutory Tax Rates and Brackets in 2023

Income Tax Bracket			
Single	**Head of Household**	**Married Filing Jointly**	**Rate**
Less than or equal to $11,000	Less than or equal to $15,700	Less than or equal to $22,000	10%
$11,000 to $44,725	$15,700 to $59,850	$22,000 to $89,450	12%
$44,725 to $95,375	$59,850 to $95,350	$89,450 to $190,750	22%
$95,375 to $182,100	$95,350 to $182,100	$190,750 to $364,200	24%
$182,100 to $231,250	$182,100 to $231,250	$364,200 to $462,500	32%
$231,250 to $578,125	$231,250 to $578,100	$462,500 to $693,750	35%
Over $578,125	Over $578,100	Over $693,750	37%

Source: Internal Revenue Service, Rev. Proc. 2022-38, 26 CFR 601.602: Tax Forms and Instructions, Part III Administrative, Procedural, and Miscellaneous (2022).
Note: The tax brackets are based on taxable income – income after exclusions, exemptions, and deductions.

In combination, the standard deduction and the progressive tax rate structure may partially offset gaps in income by race and ethnicity. However, all sources of income are not taxed at the same tax rates. Some incomes are not taxed at all or only a portion is included in taxable income, while special tax rates apply to certain types of taxable income.

These tax provisions are typically intended to achieve economic or social policy goals, such as boosting economic growth by incentivizing certain types of investments or encouraging workers to save for retirement, although economists sometimes disagree on the effectiveness of using the tax system for these purposes. To the extent that there are differences in the composition of income or deductions between Black, Latine, and White families, targeted provisions may lead to pervasive racial and ethnic disparities, both across and within income groups. For example, net income from certain types of assets—including stocks, pensions, housing, and privately held businesses—is treated more favorably by the federal income tax system than wages and salaries, net self-employment income, interest, and many other types of income that are not derived from assets (all referred to as "ordinary income").

Consequently, taxpayers with similar income levels may pay different amounts of income taxes based on the composition of their investment portfolios.[15] To the extent that Black and Latine families have fewer tax-preferred assets, racial and ethnic disparities in income and assets may be reinforced by the federal individual income tax system (Brown 2021; Moran and Whitford 1996).

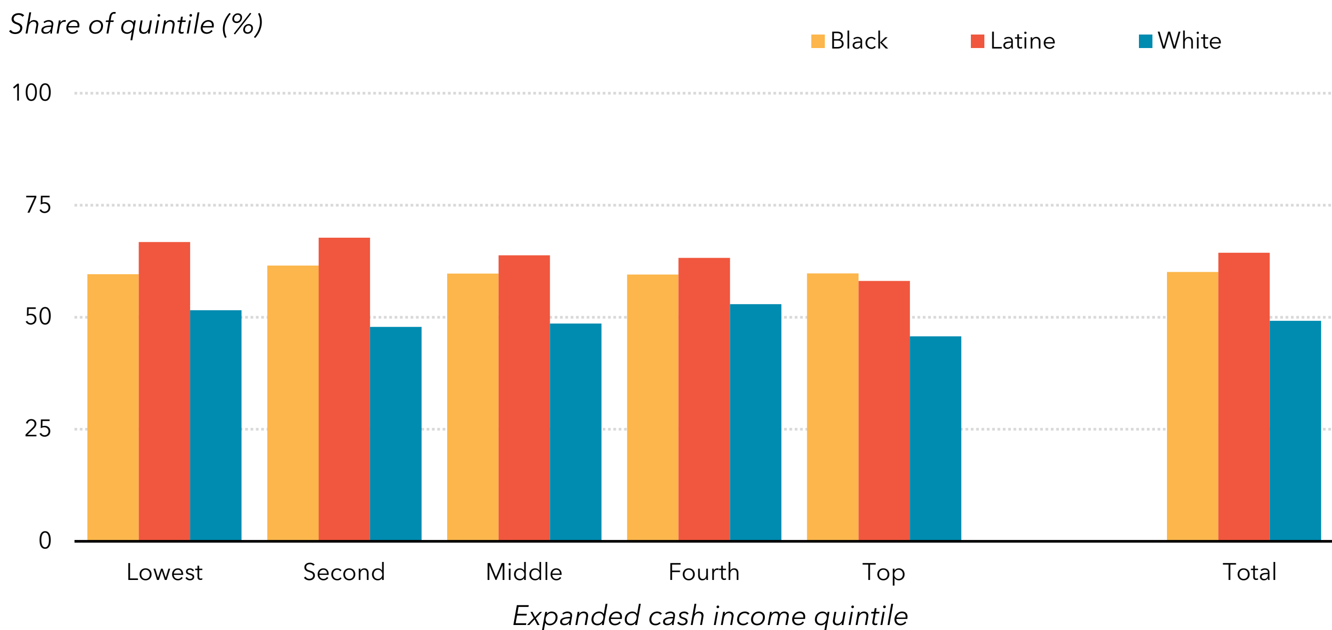
Labor Income

Wages, salaries, and self-employment income—also referred to as "labor income"—are taxed at the progressive federal income tax rates, ranging from 10 to 37 percent as shown in table 2.

FIGURE 3

Wages and Salaries Are a Larger Source of Income for Black and Latine Families than for White Families

Share of positive expanded cash income from wages, salaries, and self-employment, by race, ethnicity, and income group, 2019



Source: Urban-Brookings Tax Policy Center microsimulation model (version 0721-2).
Notes: ECI = expanded cash income. Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see https://www.taxpolicycenter.org/resources/income-measure-used-distributional-analyses-tax-policy-center. Race and ethnicity are based on the responses of the reference person in the survey data used to derive targets for the TPC microsimulation tax model. All other members of the tax unit are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the tax unit is not included in the counts of Black, Latine, and White units. Latine units do not include units where the respondent identified primarily as Black or White. The total includes all race and ethnicity groups, in addition to Black, Latine, and White units. The income percentile classes used in this figure are based on the income distribution for the entire population and contain an equal number of persons, not tax units. The breaks are (in 2020 dollars): 20% $25,800;40% $51,300; 60% $91,600; and 80% $165,900.

Wages and salaries constitute a larger share of the expanded cash income of Black and Latine families than of White families (see figure 3 above). In 2019, among families in the lower four quintiles, the share of total income derived from labor income was estimated to be highest for Latine families. Among families in the top quintile, the ratio was highest for Black families (60 percent), closely followed by Latine families (58 percent). The ratio of earnings to income was consistently lower for White families across the income distribution, down to 46 percent in the top quintile.

Capital Gains

Capital gains are a significant source of racial disparities in the federal income tax system. The tax treatment of capital income costs the federal government hundreds of billions of dollars each year, and it disproportionately benefits White taxpayers who are already more likely to be wealthy and receive inheritances.[16]

Capital gains are profits from the sales of capital assets, such as shares of stock or investments in businesses or land. The tax code distinguishes between short-term and long-term net capital gains by how long an asset was held before being sold; short-term net gains are the receipts (or net of expenses) from the sale of assets held for a year or less and long-term net gains are the remainder.

Although policymakers have periodically adjusted income tax rates over the past four decades, they have usually set the tax rates on long-term capital gains at lower levels than on other types of income, including wages, salaries, and interest income from bank accounts. In 2023, the tax rates on long-term capital gains were 0, 15, and 20 percent. Short-term net capital gains were taxed at ordinary tax rates. A 3.8 percent surtax—the net investment income tax—was also applied to both short-term and long-term net capital gains (as well as most other types of investment income) when taxpayers' adjusted gross income (AGI) exceeded $200,000 if unmarried and $250,000 if married and filing jointly.[17]

Long-term net capital gains receive other favorable treatment under the tax code. First, taxes on capital gains are deferred until the asset is sold ("realized"). Moreover, those accrued capital gains may escape taxation entirely if the owner does not sell the asset during their lifetime. Capital gains on assets held during a taxpayer's lifetime are excluded from taxable income entirely when that person dies; their heirs will generally pay taxes on the gains that accrue only between the time of the taxpayer's death (stepped-up basis) and when those inherited assets are sold or exchanged.

For assets other than personal property, losses are subtracted from any gains realized in that year, effectively reducing taxes at the same rate as that applies to capital gains. If total losses over the year exceed total gains, the net loss may be used to reduce the taxpayer's other sources of income. But that reduction is capped at $3,000 per year; losses greater than $3,000 may be carried forward to future years. `

The US Treasury Department estimates that, in 2023, preferential rates for capital gains and the stepped-up basis of capital gains at death cost the federal government $118 billion and $49 billion, respectively, making them among the largest tax expenditures.[18] Overall, capital gains constitute a much larger share of income for White families than for Black and Latine families. In 2019, nearly 8 percent of White families' expanded cash income was estimated to have consisted of capital gains income. In contrast, net capital gains represented less than 1 percent of incomes for Black and Latine families (Holtzblatt et al. 2023b).

Among all families, the average amount of capital gains rose with income (table 3). In every income group, White families realized more capital gains, on average, than Black and Latine families. In the 80–90th and 90–95th percentiles, Black and Latine families realized, on average, similar amounts of capital gains. In the top 5 percent, however, Black families had substantially larger average amounts of capital gains than Latine families.

TABLE 3

White Families, on Average, Receive Substantially Larger Capital Gains than Black and Latine Families

Average capital gains among all families, by race, ethnicity, and income group, 2019

	Average Amount ($)		
ECI (percentile)	Black	Latine	White
Lowest quintile	$10	*	$110
Second quintile	$30	*	$360
Middle quintile	$150	$130	$1,060
Fourth quintile	$260	$520	$2,280
Top quintile	$6,260	$3,700	$45,540
80–90th percentile	$810	$740	$4,480
90–95th percentile	$1,500	$1,410	$9,130
95–100th percentile	$31,640	$18,340	$167,100

Source: Urban-Brookings Tax Policy Center microsimulation model (version 0721-2).
Notes: ECI = expanded cash income. Includes both filing and non-filing units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class. For a description of expanded cash income (ECI), see https://www.taxpolicycenter.org/resources/income-measure-used-distributional-analyses-tax-policy-center. Race and ethnicity are based on the responses of the reference person in the survey data used to derive targets for the TPC microsimulation tax model. All other members of the tax unit are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the tax unit is not included in the counts of Black, Latine, and White units. Latine units do not include units where the respondent identified primarily as Black or White. The income percentile classes used in this figure are based on the income distribution for the entire population and contain an equal number of persons, not tax units. The breaks are (in 2020 dollars): 20% $25,800; 40% $51,300; 60% $91,600; 80% $165,900; 90% $244,500; and 95% $347,700.
*Non-zero values rounded to zero.

Disparities in the accumulation of capital gains by race have been a major driver of the widening racial wealth gap in the United States since the 1980s (Derenoncourt et al. 2022). The US Treasury Department estimates that, in 2023, 92 percent of the tax value of the preferential treatment of long-term capital gains and

qualified dividends from stock holdings (described below) went to White families (Cronin, DeFilippes, and Fisher 2023). Among those with long-term capital gains and qualified dividends, the average tax value of the preferential rates did not vary significantly by race and ethnicity, except for those in the top 5 percent of the income distribution. In that top income group, the average tax benefit was the highest for White families ($24,300), followed by Black families ($20,600) and Latine families ($16,900; Cronin, DeFilippes, and Fisher 2023).

The US Treasury Department's analysis of capital gains and race does not distinguish by type of asset. But tax provisions for capital income—including capital gains—vary among assets, particularly between financial assets (e.g., stock) and nonfinancial assets (e.g., personal residences and privately held businesses).

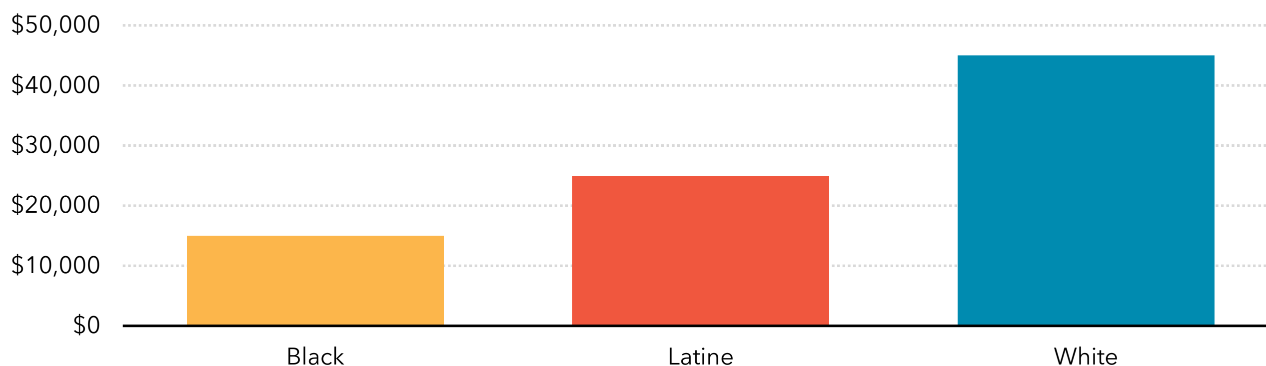
Stocks

Income from stocks can take the form of capital gains or dividends. Capital gains are taxed, as described above. Since 2003, qualified dividends have also been taxed at the same rates (inclusive of the net investment income tax) as long-term capital gains.[19] The US Treasury Department estimates that the tax treatment of qualified dividends cost the federal government $35 billion in 2023.

FIGURE 4

The Average Amount of Stocks Held by White Families Is Three Times That of Black Families

Median value of stock holdings among families with stocks, by race and ethnicity, 2019



Source: Urban-Brookings Tax Policy Center, using data from the 2019 Survey of Consumer Finances (SCF).
Notes: The family unit is the SCF's primary economic unit (PEU), consisting of the survey respondent, spouse or partner, and dependents. Only SCF respondents are asked to identify their race and ethnicity. All other members of the PEU are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the family unit is not included in the counts of Black, Latine, and White units. Latine families do not include units where the respondent identified primarily as Black or White. Stock holdings include amounts directly held by taxpayers or in mutual funds.

In 2019, one in four White families owned stock, either directly or through mutual funds, while only 8 percent of Black families and 5 percent of Latine families held these types of assets (Holtzblatt et al. 2023b). Within their investment portfolios, stock holdings constituted 3 to 4 percent of gross asset values for Black and Latine families, but over 13 percent for White families. Among those with stock holdings, the median values ranged from $15,000 for Black families to $45,000 for White families (see figure 4 above).

As with capital gains realizations, the average amount of dividends rose with income. In all income groups, White families received, on average, the largest dividends (Holtzblatt et al. 2023b).

Personal Residences

Homeownership continues to be an important way to build wealth and financial mobility in the United States, but households of color are significantly less likely to own their homes. According to the US Census Bureau, in 2022, 74 percent of White families owned their homes, compared with less than half of Black families (45 percent) and Latine families (49 percent). Homeownership rates for Asian and Native American families were 61 percent and 53 percent, respectively.[20]

For Black households in particular, the long history of redlining, barriers to credit, and other discriminatory practices have had substantial impacts on their housing wealth.[21] The tax code subsidizes homeownership in several ways, including the tax benefits of owning and living in one's home and the proceeds from the sale of that home.[22]

When considering the benefits of owning a home, people typically focus on the fact that they are no longer paying rent to a landlord. Viewed from another perspective, homeowners' incomes increase by the unobserved rental value of their home. And that income—or imputed rent—is tax free, in large part because of the administrative challenges of taxing income that is never visible to owners, third parties, and the IRS. The US Treasury Department estimates that the exclusion of net imputed rent from taxation cost the federal government $134 billion in 2023.[23]

Moreover, certain expenses are deductible. Homeowners who itemize their tax deductions benefit from two tax provisions. First, they can deduct all or a portion of the mortgage interest paid on their primary or secondary residence from taxable income.[24] As a consequence of TCJA, mortgages taken out after December 16, 2017, must be smaller than $750,000 for the interest to be deductible. But with the expiration of the act at the end of 2025, the mortgage limit will revert to $1 million. The US Treasury Department estimates that the deductibility of mortgage interest on owner-occupied homes cost the federal government $36 billion in 2023.[25]

Second, homeowners can deduct property taxes; though the amount, combined with other state and local taxes, is capped at $10,000 through the end of 2025. Both deductions tend to be more valuable for taxpayers with higher incomes, because their tax value increases as income and therefore their marginal tax rate rises,

and because those with higher incomes are more likely to own homes and have sufficient deductible expenses to make itemizing more advantageous than taking the standard deduction.

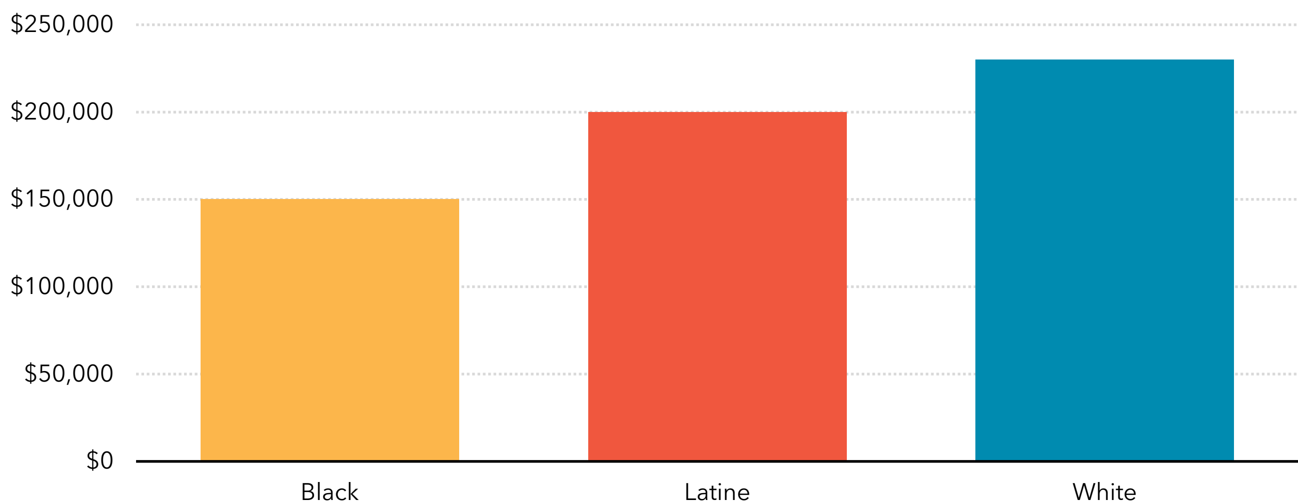
When homeowners sell their personal residence, the capital gains from the sale are generally subject to the same preferential rates as the net profits from stock transactions, but with two key differences: First, homeowners can exclude up to $250,000 ($500,000 for married couples filing jointly) of such gains from taxable income. The capital gains exclusion on home sales was estimated to have cost the federal government $51 billion in 2023.[26] Second, losses from the sale are typically not deductible.

Overall, personal residences were often the most valuable asset in families' investment portfolio. But, again, there were significant racial and ethnic gaps. In 2019, as a share of gross assets, personal residences were estimated to be 44 percent for Black families, 51 percent for Latine families, and just 24 percent for White families (Holtzblatt et al. 2023b). Even so, median home values were generally lower for Black families than for White families in every income and wealth group (figure 5).

FIGURE 5

A Home Owned by a Typical White Family Is Worth 50 Percent More than a Home Owned by a Typical Black Family

Median value of personal residences among families owning their homes, by race and ethnicity, 2019



Source: Urban-Brookings Tax Policy Center, using data from the 2019 Survey of Consumer Finances (SCF).
Notes: The family unit is the SCF's primary economic unit (PEU), consisting of the survey respondent, spouse or partner, and dependents. Only SCF respondents are asked to identify their race and ethnicity. All other members of the PEU are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the family is not included in the counts of Black, Latine, and White units. Latine families do not include units where the respondent identified primarily as Black or White. Gross median values (before debt) are shown for personal residences.

Within each income and wealth group, the gap persisted between the average value of the homes of White families and that of Black families. Among homeowners with incomes in the middle quintile, the average home value was about $176,000 for Black families and $231,000 for White families. The average home value for Latine families was about $20,000 higher than for White families. In the highest income quintile, the average value of the homes of Latine families was still higher than for the other two groups: $436,000 for Black families, $571,000 for White families, and $629,000 for Latine families.

Given their higher homeownership rates, White families were also more likely to have a mortgage (47 percent) than Black families (28 percent) and Latine families (32 percent; Holtzblatt, McClelland, and Garriga 2024). But the prevalence of mortgages among Black families in the highest income quintile was substantially higher than for Latine families and White families: 84 percent for Black families, compared with roughly 71 percent for both Latine and White families. It is possible that high-income Black homeowners are more likely to require mortgages to finance their home purchases than affluent White homeowners who are more likely to receive inheritances and family gifts (Bhutta et al. 2020).

Still, the average amount of mortgage debt in the middle-income group was generally higher for Latine families than for Black and White families: roughly $110,000 for both Black and White families, compared with $155,000 for Latine families (likely reflecting their higher home values). At the top income quintile, the average amount of mortgage debt was about $222,000 for Black families, $325,000 for Latine families, and $337,000 for White families.

Data on mortgage interest payments in 2019 also reflected similar differences by race. The shares of families with any home mortgage interest payments were higher for White families than the other groups in the bottom four quintiles, whereas Black families were the most likely to make mortgage interest payments at the top of the income distribution (Holtzblatt, McClelland, and Garriga 2024). But in terms of amounts, among families that held home mortgages, Latine families paid, on average, more mortgage interest than Black and White families in all income quintiles (table 4). Particularly in the middle quintiles, White families' payments were similar in size as Black families' payments.

TABLE 4

In Every Income Group, Latine Families, on Average, Pay Higher Interest on Mortgages than White and Black Families

Average home mortgage interest among families with mortgage interest, by race, ethnicity, and income group, 2019

	Average Amount ($)		
ECI (percentile)	**Black**	**Latine**	**White**
Lowest quintile	$2,120	$4,040	$2,890
Second quintile	$3,030	$4,620	$2,910
Middle quintile	$3,610	$4,760	$3,760
Fourth quintile	$5,520	$6,270	$5,650
Top quintile	$9,690	$11,010	$10,400
80–90th percentile	$8,230	$9,450	$8,170
90-95th percentile	$8,830	$12,290	$10,120
95–100th percentile	$15,330	$15,210	$15,110

Source: Urban-Brookings Tax Policy Center microsimulation model (version 0721-2).
Notes: ECI = expanded cash income. For definition of ECI, see taxpolicycenter.org/resources/income-measure-used-distributional-analyses-tax-policy-center. Latine families are not included in the categories of Black and White families.

These findings are consistent with analyses of the racial gaps in the home mortgage interest deduction. Eighty-four percent of the total tax benefits from the deductibility of mortgage interest accrued to White families in 2023 (Cronin et al. 2023). Within income deciles, the share of families benefiting from the deduction did not significantly differ by race and ethnicity. However, the average value of the deduction was slightly higher for Black and Latine families than for White families in the top two income deciles. Similarly, unlike families in the bottom four income quintiles, Black families in the top quintile had a disproportionately larger share of the benefits from home mortgage interest deduction relative to Latine and White families (Holtzblatt et al. 2024).

Privately Held Businesses

All businesses are not taxed the same way. Businesses can be organized in several ways and various legal factors may be weighed in the decisionmaking. One of those factors is the tax code, which treats businesses very differently depending on their organizational structure.

Net income on C corporations is taxed twice: at the corporate income tax rate and when that income is distributed to shareholders through dividends or capital gains. Although the double taxation can be a deterrent to organizing as a C corporation (if eligible), that factor may be outweighed by the flat tax rate of 21 percent, which is 16 percentage points lower than the top rate on ordinary income under the individual income tax.

Income from pass-through businesses, in contrast, is only taxed once. When partnerships, S corporations, and sole proprietorships distribute net income to owners, they are effectively "passing through" the tax liabilities to the owners. The owners' share of the business's income is treated as ordinary income earned by the owners, and, as noted above, the rates on individual income can be substantially higher than on corporate income.

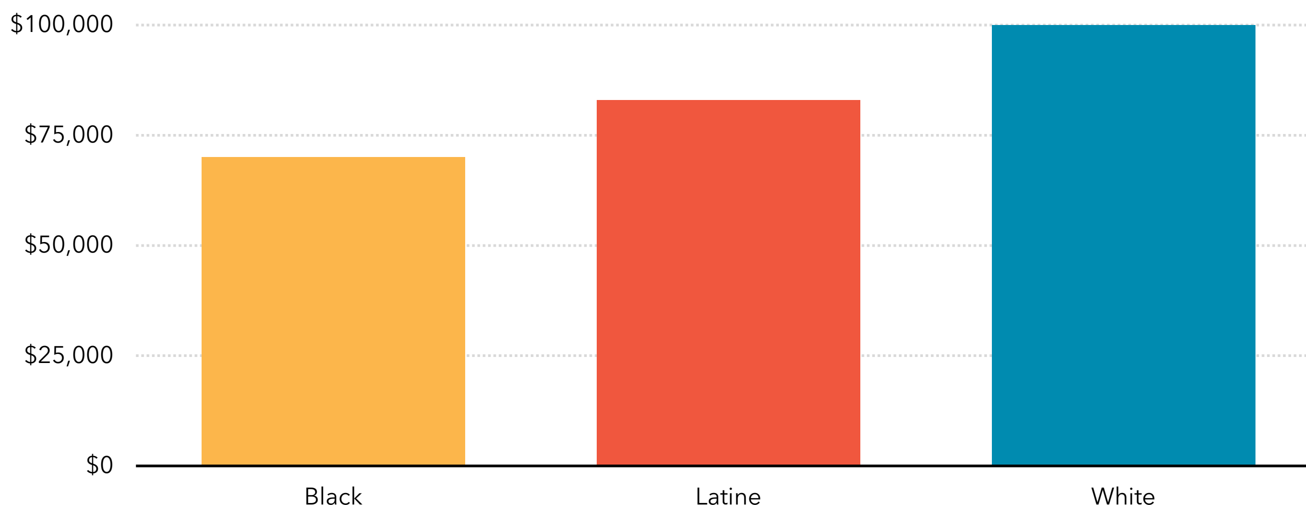
Many pass-through businesses benefit from the Section 199A deduction created by TCJA. Although the details are complicated, Section 199A essentially allows owners to deduct from taxable income the lesser of 20 percent of their qualified business income or 20 percent of their taxable ordinary income minus net capital gains and qualified dividends. The deduction, however, is subject to numerous restrictions. For example, some service providers (e.g., lawyers and accountants) lose part, and eventually all, of the deduction when their income exceeds specified thresholds. The US Treasury Department estimates that, in 2023, the deduction for certain pass-through income cost the federal government $50 billion.[27] The deduction, along with many other individual income tax provisions in TCJA, is scheduled to expire at the end of 2025.

In 2019, 14 percent of White families owned privately held nonfarm businesses, which is a significantly higher ownership rate than for Black families (5 percent) and Latine families (6 percent; Holtzblatt et al. 2023b).[28] As a share of total assets, the gross value of those businesses, on average, was 8 percent for Black families, 10 percent for Hispanic families, and 19 percent for White families. The median gross values ranged from $70,000 to over twice that amount for families who did not identify as Black, Latine, or White (figure 6).

FIGURE 6

Gross Value of Businesses Is Much Larger for a Typical White Family than for Black and Latine Families

Median value of privately held nonfarm businesses among families owning businesses, by race and ethnicity, 2019



Source: Urban-Brookings Tax Policy Center, using data from the 2019 Survey of Consumer Finances (SCF).
Notes: The family unit is the SCF's primary economic unit (PEU), consisting of the survey respondent, spouse or partner, and dependents. Only SCF respondents are asked to identify their race and ethnicity. All other members of the PEU are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the family is not included in the counts of Black, Latine, or White units. Latine families do not include units where the respondent identified primarily as Black or White. Gross median values (before debt) are shown for privately held nonfarm businesses.

In an eight-year survey of nearly 5,000 enterprises formed in 2019, non-White and foreign-born entrepreneurs were 61 percent more likely than White entrepreneurs to organize their businesses as C corporations, even when they appeared eligible to make an S corporation election (Satterthwaite 2019).

The US Treasury Department estimates that roughly 90 percent of the tax value of Section 199A benefits accrued to White families in 2023 (Cronin, DeFilippes, and Fisher 2023), whereas Black families received only 2 percent of the total tax benefits. Within income deciles, however, the US Treasury Department did not find that the share of families benefiting from the deduction varied significantly by race and ethnicity. The average value of the deduction was relatively small for all groups throughout the income distribution, but it was roughly $2,000 higher for White families than for Black and Latine families in the 95th income percentile.

Retirement Plans

Retirement savings are a crucial vehicle for accumulating wealth for many families. People with access to retirement plans—and, importantly, with sufficient income to set aside contributions to those plans—can accumulate greater savings, and the value of their assets effectively grows tax free over their lifetime. The

federal income tax system encourages saving for retirement through preferential treatment of defined benefit (DB) plans, such as traditional employer pensions and defined contribution (DC) plans, such as individual retirement accounts (IRAs) and 401(k) plans.

For many types of retirement plans, taxes are deferred on at least some of the income deposited into the accounts, and the saver pays taxes on the deferred income when the money is withdrawn from the plan. This is especially advantageous if the taxpayer will be in a lower tax rate bracket when they retire. For example, the employer's contribution into a DB plan is excluded from the employee's income. When the employee retires and begins receiving their pension, they pay income taxes on the portion of the benefits that are attributable to their former employer's contributions to the plan. Similarly, taxes are deferred on a portion of contributions to traditional 401(k) plans and IRAs—up to $22,500 for 401(k) plans and $6,500 for IRAs, in 2023; if the saver is age 50 or older, the caps rise to $30,000 and $7,500, respectively. Another choice is the Roth DC plans in which contributions are paid from after-tax income and benefits are not subject to taxes.

One feature is common to all tax-preferred retirement plans: the income earned on the contributions to the plans (the inside buildup) is never taxed at all.

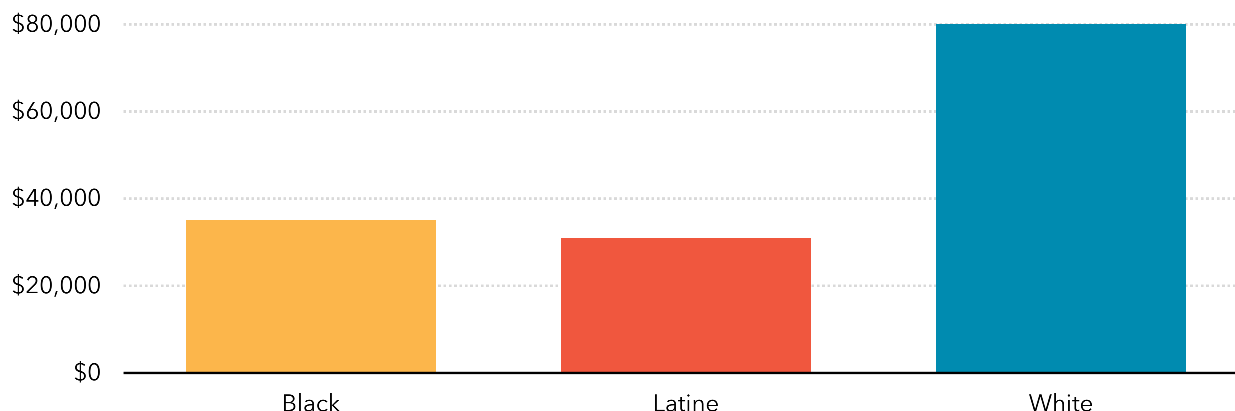
The US Treasury Department estimates that, in 2023, the exclusion of retirement plan contributions and earnings cost the federal government $115 billion for DC plans, $70 billion for DB plans, $37 billion for self-employed plans, and $24 billion for IRAs.[29]

In 2019, 60 percent of White families participated in an employer-sponsored retirement plan—either a DC plan or a DB plan—compared with 44 percent of Black families and 34 percent of Latine families (Bhutta et al. 2020). These discrepancies, in part, reflect differences in access to plans: 68 percent of White families worked for an employer who offered a retirement plan, compared with 56 percent of Black families and 44 percent of Latine families (Bhutta et al. 2020). Because of persistent discrimination in the labor market, people of color face greater difficulties in accessing higher-paying jobs with more benefits.[30] Firm size, industry, and occupation, as well as workers' income levels and likelihood of working part time, contribute to racial gaps in access and participation in retirement plans (Butrica and Johnson 2010). In 2019, the median value of White families' DC accounts ($80,000) was over twice the value held by Black families ($35,000) and Latine families ($31,000; figure 7).[31]

FIGURE 7

Defined Contribution Plan Values Are Twice as High for a Typical White Family than Those of Black and Latine Families

Median value of defined contribution plans among families with plans, by race and ethnicity, 2019



Source: Urban-Brookings Tax Policy Center, using data from the 2019 Survey of Consumer Finances (SCF).
Notes: The family unit is the SCF's primary economic unit (PEU), consisting of the survey respondent, spouse or partner, and dependents. Only SCF respondents are asked to identify their race and ethnicity. All other members of the PEU are deemed to be the same race and ethnicity as the respondent. In cases where the respondent self-identified as more than one race, the family is not included in the counts of Black, Latine, or White units. Latine families do not include units where the respondent identified primarily as Black or White.

According to our analysis of data from the 2019 Survey of Consumer Finances, DC plan savings were a larger share of Black families' investment portfolios than for White families: 19 percent for Black families and 15 percent for White families. Throughout the income distribution, DC plans also constituted a greater share of Black families' net wealth relative to that of White families. However, the average retirement savings within income groups were larger for White families than for Black and Latine families. In the middle-income quintile, the average values were $61,000 for Black families and $120,400 for White families. In the top quintile, the averages rose to $512,600 for Black and $730,000 for White families. Latine families had the lowest average retirement savings: $50,300 in the middle-income quintile and $390,000 in the top income quintile.

The data above understate families' retirement assets because they exclude the value of DB plans, which can be challenging to compute.[32] Although many employers have replaced DB plans with DC plans, traditional pensions are still common in the public sector—a sector with a relatively high concentration of Black workers (Thompson and Volz 2021).

Per our estimates, the average value of DB and DC plans combined (other than IRAs) was highest for White families in the lower four expanded cash income quintiles in 2019. However, in the top income quintile, the average value for White and Black families converge, with Black families having a slightly higher amount.

HIGHER EDUCATION AND CHARITABLE CONTRIBUTIONS

Lawmakers often rely on tax deductions and credits to achieve economic and social policy goals. Reducing the costs of spending on certain activities through deductions and credits in the federal individual income tax system encourages people to engage in those activities, such as attending college or contributing to charities.

Higher Education

In 2016, the federal government provided $91 billion in subsidies toward higher education, across a combination of grants, guaranteed student loans, and tax benefits—nearly 40 percent was attributable to tax benefits (Congressional Budget Office 2018). The two largest tax provisions were the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC).

The AOTC provides up to $2,500 each year per student for eligible expenses incurred during the first four years of higher education. It is partially refundable, allowing eligible taxpayers to claim the credit even if they do not have any federal income tax liability. However, the refundable portion is capped at 40 percent of the credit amount, up to $1,000. Taxpayers are not eligible for the credit if their AGI (with some modifications) exceeds $90,000 if unmarried or $180,000 if married and filing jointly.

The LLC is worth up to $2,000 per tax return, not per student. Unlike the AOTC, the LLC can be used for more than four years and can cover eligible expenses for graduate and professional degree programs as well as undergraduate education. Moreover, the LLC is not refundable, meaning that taxpayers are ineligible for the credit if they do not have any federal income tax liability. Eligibility is cut off at the same income thresholds as the AOTC.

In addition to the two tax credits, taxpayers can deduct up to $2,500 in interest payments on student loans for higher education. But the deduction begins to phase out when modified AGI exceeds $75,000 ($155,000 if married and filing jointly), and it is completely phased out for taxpayers with AGI of $90,000 or more ($185,000 if married and filing jointly).[33]

Unlike the higher education spending programs such as Pell Grants, the tax credits are generally available only in the year after tuition, fees, and other expenses are paid. People with positive income tax liabilities could adjust their withholding to effectively accelerate the benefits of the nonrefundable credits, but doing so is complicated and precision is unlikely. This means that students may not have the funds when tuition bills are due if there is a delay in receiving the tax benefits.

In 2019, among 18- to 24-year-olds, higher-education enrollment rates were similar among Black, Latine, and White people, with lower rates for Native American people and higher rates for Asian people (table 5).[34] However, among those seeking a bachelor's degree, Asian and White students were more likely than Black, Latine, and Native American students to graduate within six years of enrolling.[35] Overall, Black, Latine, and Native American people attained bachelor's degrees at lower rates than Asian and White people.[36]

TABLE 5

Higher Education Enrollment and Attainment Rates for Asian and White People Are Higher than Those of Others

By race or ethnicity, 2019

Share of population	Asian	Black	Latine	Native American	White
Ages 18 to 24 enrolled in two-year or four-year colleges	62%	37%	36%	24%	41%
Bachelor's degree–seeking students graduating within six years	76%	44%	58%	41%	67%
People ages 25 and over holding bachelor's or higher degree	56%	23%	18%	16%	37%
People ages 25 and over holding associate's degree	6%	9%	7%	10%	9%

Source: National Center for Education Statistics, Digest of Education Statistics: 2019, Tables 302.60, 326.10, and 104.40 [Based on US Census Bureau's American Community Survey and Current Population Survey data], accessed February 2023.
Notes: Six-year graduation rates are for first-time, first-institution attending, full-time bachelor's degree seeking students at four-year institutions (cohort entry year 2013). In cases where the respondent self-identified as more than one race, the student is not included in the counts of Black, Latine, or White categories. The categories for Black and White individuals do not include people who identify as Latine.

Black students are significantly more likely to borrow larger amounts for higher education than other groups, partly because of income inequalities that impede their families from having sufficient savings or wealth to pay for tuition and related expenses. Among 2015–16 bachelor's degree recipients, one in three Black students borrowed over $40,000, compared with 18 percent of White students, 13 percent of Latine students, and 9 percent of Asian students (Blagg et al. 2022). Black and Latine students with student loan debt also have lower lifetime earnings and fewer assets to draw from to service their debt, which raises the costs for future borrowing and the probability of defaulting (Carnevale, Rose, and Cheah 2011).[37]

We are not aware of research on the racial implications of higher education tax provisions. However, findings from income distribution analyses suggest that White families may disproportionately benefit from the tax subsidies, whereas Black and Latine families are more likely to benefit from Pell grants than White families.

For example, in 2016, tax benefits for higher education largely accrued to families in the middle three income quintiles, and the benefits covered a larger share of educational expenses for families in those income

ranges than for families in the bottom and top quintiles (Congressional Budget Office 2018). In contrast, the benefits paid through spending programs, such as the needs-based Pell grants program, were concentrated among families with lower incomes. According to the National Center for Education Statistics, 72 percent of Black students received Pell Grants in the 2015–16 academic year, compared with 36 percent of Asian students and 34 percent of White students. The average award amount, however, was highest for Asian students ($5,030), followed by Black students ($4,900), Latine students ($4,860), and White students ($4,610).[38]

Charitable Contributions

Taxpayers can deduct charitable contributions from their taxable income. Individuals may deduct cash and certain other contributions up to 60 percent of AGI in a given year and carry forward any excess contributions onto future tax returns for up to five years. The US Treasury Department estimates that the deductibility of charitable contributions cost the federal government $78 billion in 2023.[39]

Before TCJA, the contribution limit was 50 percent of AGI, and it will revert to that level in 2026 after the expiration of many of the individual provisions in TCJA. As part of COVID-19 pandemic–related relief, Congress enacted an "above the line" deduction for charitable contributions, meaning that taxpayers could subtract the contributions from income even if they do not itemize. The deduction was capped at $300 ($600 if married and filing jointly) and was available only for tax years 2020 and 2021.

The itemized deduction is more advantageous to taxpayers with higher incomes than those with lower incomes for two reasons. First, the value of itemized deductions is higher for those in higher tax brackets. Second, taxpayers must have sufficient qualifying expenses—including charitable contributions—to make it advantageous to itemize deductions rather than claim the standard deduction. Although TCJA increased the amount of deductible charitable contributions, it reduced the overall benefit of itemizing by raising the standard deduction, capping the state and local tax deduction at $10,000, and lowering statutory tax rates (which reduced the tax value of the deduction).

Between 2017 and 2018, when TCJA took effect, the number of taxpayers claiming the itemized deduction for charitable contributions fell by 61 percent, and the amount of the claimed contributions dropped by 23 percent (McClelland and Hunter 2022). The decline in the amount of itemized charitable contributions was concentrated among families with incomes below $200,000.

Because most taxpayers do not itemize deductions, the IRS does not have data on total charitable contributions. Some states, however, do not limit tax subsidies for charitable contributions only to itemizers. Evidence from those states indicates that total charitable contributions fell by much less than the amount claimed on federal itemized deductions (McClelland and Hunter 2022).

Comparing charitable contributions in 2018 relative to 2000, when some of the tax benefits for claiming the deduction was greater than in the years following TCJA, the share of Black households contributing at least

$25 fell by 16 percentage points, with average contributions dropping by a third; among White households, the share declined by 13 percentage points, with average contributions dropping by about 16 percent (Lilly Family School of Philanthropy 2021).

The US Treasury Department estimates that 91 percent of the value of the deduction for charitable contributions was received by White families in 2023, with the remaining share evenly distributed among the other racial and ethnic groups (Cronin, DeFilippes, and Fisher 2023). The tax benefit of the deduction for White families, on average, was about five to six times higher than for Black and Latine families. However, among families with higher incomes, the average tax benefit of the deduction was larger for Black families than for Latine and White families (Cronin, DeFilippes, and Fisher 2023).

FAMILY CHARACTERISTICS

The federal individual income tax system treats taxpayers differently, depending on their marital status, family size, citizenship status, and income. In some instances, adjustments are made to account for differences in people's ability to pay because of family responsibilities (e.g., the presence and number of children). These adjustments often overlap with economic and social policy goals, such as providing assistance to families with lower incomes.

Marital Status

Although many countries base taxes on an individual's own income, the tax unit in the US tax system is linked to marital status. An unmarried taxpayer must file either as a single or as a head of household. To claim "head of household" filing status, filers must provide over half the costs of the home in which they live with their children or other related dependents for over half the year. Spouses typically file a tax return jointly.[40] The choice of filing status affects taxpayers' income tax liabilities because of its linkages to various tax provisions, such as the amount of the standard deduction, the tax rate schedule, and eligibility for various tax expenditures.

Because of the progressive, family-based US income tax system, marriage may cause a couple's tax bill to go down (a marriage bonus) or up (a marriage penalty) relative to their combined tax liabilities if each spouse were to file as unmarried. In some cases, marriage has no impact at all on a couple's tax bill. Typically, two-earner couples are more likely than other couples to incur penalties—especially if the spouses earn similar amounts—because their combined income pushes them into a higher tax bracket or into a phaseout range of a tax deduction or credit. Conversely, one-earner couples are more prone to marriage bonuses, because the working spouse's earnings may be taxed at a lower rate than the couple's combined income.

Two other factors can affect a couple's likelihood of incurring a marriage penalty: The first factor is having children and other dependents. Relative to a single, childless individual, an unmarried parent benefits from a

larger standard deduction and, in most income ranges, a more generous tax rate schedule. Consequently, the sum of the standard deductions of a childless, single individual and an unmarried parent is greater than the standard deduction of a married couple.[41] Taxpayers with children may be eligible for the EITC, but their combined income may push them into the phaseout range of the credit, meaning that they may lose some or all of the credit when they marry.

The second factor is a couple's income level on the income distribution. Certain tax provisions that are not marriage-neutral are concentrated at specific income levels (e.g., the EITC at low- and middle-income levels, as well as the top tax rate brackets and the alternative minimum tax at very high-income levels).

Marriage penalties are more prevalent among Black married couples than White married couples because they are more likely to possess the three characteristics described above that increase the probability of higher taxes as a consequence of marriage (Holtzblatt et al. 2023a). In 2018, about 46 percent of Black couples were estimated to have incurred a marriage penalty, compared with 43 percent of White couples (table 6). Conversely, Black couples were less likely to receive a marriage bonus than White couples—36 percent and 43 percent, respectively.

TABLE 6

Black Married Couples Likelier to Face Marriage Penalties across Income Levels

Prevalence of marriage penalties by income and race for all married couples, 2018

AGI level	Black	White
< $50,000	19%	18%
$50,000–$100,000	59%	51%
$100,000–$200,000	68%	57%
≥ $200,000	64%	51%
All	**46%**	**43%**

Source: Holtzblatt, Janet, Swati Joshi, Nora Cahill, William G. Gale. 2023. "Racial Disparities in the Income Tax Treatment of Marriage." Washington, DC: Urban-Brookings Tax Policy Center.
Notes: AGI = adjusted gross income. In this analysis, A couple is categorized as Black (or White) if the respondent said that they identified primarily as Black (White) – either solely or in combination with another race.

Among married couples with penalties, Black couples incurred an average penalty of 1.8 percent of AGI because of marriage, while White couples incurred an average penalty of 1.4 percent of AGI (table 7). The bonus rate, among those with bonuses was about the same for Black and White couples—2.6 percent and 2.7 percent, respectively.

TABLE 7

Marriage Penalties Are a Larger Share of Income for Black Families than for White Families

Marriage penalty rate as a share of AGI, by income and race for married couples with marriage penalty, 2018

AGI level	Black	White
< $50,000	-3.5%	-3.1%
$50,000–$100,000	-2.1%	-1.8%
$100,000–$200,000	-1.6%	-1.4%
≥ $200,000	-1.2%	-1.2%
All	**-1.8%**	**-1.4%**

Source: Holtzblatt, Janet, Swati Joshi, Nora Cahill, William G. Gale. 2023. "Racial Disparities in the Income Tax Treatment of Marriage." Washington, DC: Urban-Brookings Tax Policy Center.
Notes: AGI = adjusted gross income. In this analysis, A couple is categorized as Black (or White) if the respondent said that they identified primarily as Black (or White) – either solely or in combination with another race.

These findings hold even among Black and White couples in the same income groups, in large part because of the differences in the prevalence of two-earner couples, the division of earnings between the two spouses, and the presence of dependents. For example, relative to White couples, Black couples with AGI between $50,000 and $100,000 were more likely to face marriage penalties (59 percent as opposed to 51 percent for White couples) and less likely to receive marriage bonuses (33 percent as opposed to 44 percent for White couples). Black couples in this income group paid, on average, a net penalty of $358; White couples in this income group received, on average, a net bonus of $61.

Although marriage penalties are more prevalent among Black married couples, Black households are less likely to be headed by a married couple than White households. As a result, among all adults, a greater share of White adults incurred marriage penalties than Black adults in 2018.

Children and Dependents

The federal individual income tax system aids families with children through the child tax credit (CTC), the EITC, and the head of household filing status (discussed above). Prior to 2018, a family's tax liability was also helped by the dependent exemption. This provision is scheduled to be reinstated in 2026, following the expiration of TCJA's individual income tax provisions, but the CTC's benefits will be reduced at that time.

In 2022, there were 36.8 million households with children under 18 years of age.[42] White households comprised the largest share (about 55 percent) of all households with children. However, as shares of their respective totals, households of color were likelier to have children than White households. The same year, 41

percent of Latine households had children under age 18, compared with 33 percent of Asian households, 30 percent of Black households, and 24 percent of White households.[43]

Children of color are significantly more likely to be living in poverty than White children.[44] In 2022, 22.3 percent of Black children lived below the federal poverty threshold, compared with 37.1 percent of Native American children, 21.7 percent of Latine children, 10 percent of White children, and 8.8 percent of Asian children.[45]

Child Tax Credit

The CTC is among the most prominent tax provisions for families with children in that it helps reduce their tax liabilities and further boosts the incomes of those in the lower quintile through its partially refundable design. In 2023, the CTC cost the federal government $108 billion, making it one of the largest tax expenditures.[46] Congress first enacted the CTC in 1997, expanded it in 2001, and then temporarily increased it under the TCJA in 2017.

The CTC provides eligible taxpayers up to $2,000 for each child ages 16 and under. For those with lower incomes, the credit is partially refundable ("additional") up to a maximum of $1,600, meaning that families receive the credit even if they do not have any income tax liability. Taxpayers with very high or very low incomes, however, may not be eligible for the full amount. Filers must have at least $2,500 in earned income (e.g., wages, salaries, and self-employment income) to qualify for the refundable CTC. The credit is also reduced for single filers earning over $200,000 ($400,000 for joint filers). To be eligible, the child must live with the taxpayer for over half the year and meet certain relationship tests, or the custodial parent may sign a waiver to allow a noncustodial parent to claim the credit.

Taxpayers may claim a $500 credit for other related dependents, including children who are 17 and 18 years old and full-time college students ages 19 to 24, but it is not refundable. To claim the credit, the taxpayer must provide over half the support of the dependent, whose gross income must be below $4,700 in 2023.

Unless extended by Congress in forthcoming years, these parameters will return to pre-2018 levels after 2025: the CTC for children ages 16 and under will revert to $1,000 per child and will begin to phase out if AGI is greater than $75,000 for single filers and $110,000 for joint filers. The $500 nonrefundable credit for other related dependents will no longer be available; and, to be eligible for the refundable portion of the CTC in 2026, filers will be required to have at least $3,000 in earned income.

However, the personal exemption, which was temporarily repealed in TCJA, will be restored in 2026 and available for all dependents. The amount of the personal exemption was $4,050 in 2017, and it should be adjusted for inflation under the tax code. Unlike the CTC, the tax value of the personal exemption increases as tax rates—and thus incomes—rise, although it phases out at very high incomes.

The US Treasury Department found that Latine families disproportionately benefit from the current CTC. Although they represent 15 percent of all families in the United States, they received 22 percent of total tax benefits from the CTC in 2023 (Cronin, DeFilippes, and Fisher 2023); Black and White families received 9 percent and 66 percent, respectively. The average credit was also substantially higher for Latine families than for other groups. They received, on average, $867, compared with $491 for Black families and $605 for White families. These differences persist throughout the income distribution, which may be because of the larger number of children in Latine families compared with other families.

Another factor contributing to the discrepancies in average benefits may be inherent in the design of the CTC: its partial refundability. Because of the credit's minimum earnings requirement and the phase-in amount, parents or caregivers with very low incomes may not be able to receive the full benefit as a result of structural barriers to employment and unavailability of affordable and reliable child care.[47] Black and Latine families are more likely to be among those with lower incomes than White families, so the CTC's limited benefits at the bottom of the income distribution can disproportionately leave them out. Half of Black and Latine children were not eligible for the full amount in 2019, compared with roughly one in four White children (Goldin and Michelmore 2022).

Earned Income Tax Credit

The EITC largely provides income support to working taxpayers with low and middle incomes. It has been praised as an effective antipoverty measure for people across occupations, education levels, and geographic locations.[48] The US Treasury Department estimates that the EITC cost the federal government $62 billion in 2023.[49] Unlike the CTC, the EITC is fully refundable.

Although the EITC is available to taxpayers without any qualifying children, it is far more generous for those with children. In 2023, the maximum credit ranged from $600 for a single filer with no children to $7,430 for a filer with three or more children. The cutoff for eligibility was as low as $17,640 for a single filer without children and as high as $63,398 for a married couple with three or more children.[50] Qualifying children must meet various relationship, residency, and age tests (typically, age 18 or under, full-time students from ages 19 to 24, or permanently and totally disabled at any age). Single filers with no qualifying children must be between ages 25 and 65.

The EITC is highly progressive. TPC estimates that, in 2022, nearly half of the credit's total tax benefits accrued to taxpayers with incomes below $30,000, boosting their after-tax incomes, on average, by over 3.5 percent.[51]

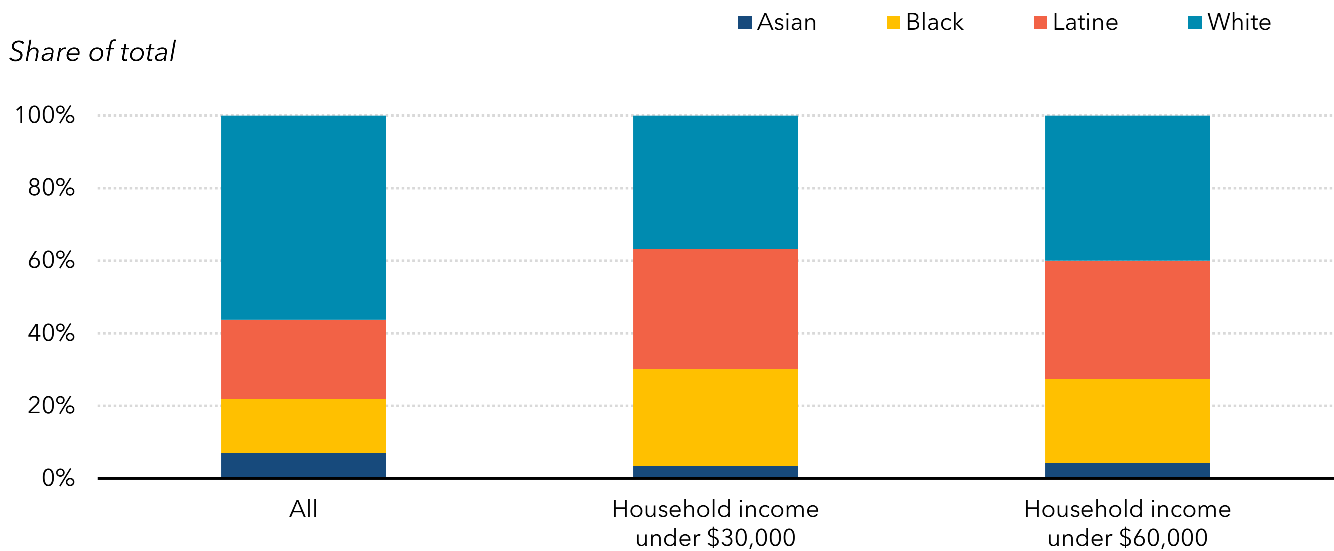
According to the Census Bureau, in 2022, lower-income households with children were disproportionately Black and Latine. Black households constituted 15 percent of all households with children, but 23 percent of those with income below $60,000, which is about the maximum income for married filers with children to

qualify for the EITC. Similarly, Latine households constituted about 32 percent of all households with children and incomes below $60,000, much higher than their share (22 percent) of all households with children (figure 8).

FIGURE 8

Lower-Income Households with Children Are Disproportionately Black and Latine

Share of all households with children, by income level and race or ethnicity, 2022



Source: US Census Bureau, Current Population Survey, 2022 Annual Social and Economic Supplement, Table HINC-04: Presence of Children Under 18-Year-Old-Households, by Total Money Income in 2022, August 2023.
Notes: Census money income is defined as income received on a regular basis (exclusive of certain money receipts such as capital gains) before payments for personal income taxes, social security, union dues, medicare deductions, etc.; it does not reflect noncash benefits. A household consists of all people who occupy a housing unit. Race and ethnicity are based on the responses of the householder (generally one of the people in the household who owns or rents the residence). All other members of the household are deemed to be the same race and ethnicity as the respondent. In cases where the householder self-identified as more than one race, the household is not included in the counts of Black, Latine, or White units. Latine households do not include units where the householder identified primarily as Black or White.

The US Treasury Department estimates that the EITC disproportionately benefits Black and Latine families. In 2023, 19 percent of the tax benefits were received by Black families, who represent 11 percent of all families, and 28 percent by Latine families, who represent 15 percent of all families (Cronin, DeFilippes, and Fisher 2023).

Across income deciles, the impact of the EITC varied. White families benefited from the credit more than Black and Latine families in the bottom 10 percent of the income distribution, largely because most

beneficiaries in that income group were disproportionately White adults who did not have qualifying children. The reverse was true among middle-income families (Cronin, DeFilippes, and Fisher 2023).

Prior research has shown that the EITC reduces racial disparities at the 25th and 50th percentiles of the income distribution (Hardy, Hokayem, and Ziliak 2022). However, it is less effective at reducing Black-White income gaps in the bottom 10th percentile of the income distribution because of the phase-in of the credit amount.[52]

Citizenship

The tax treatment of non-US citizens raises several issues: the extent to which they are liable for income taxes, their eligibility for certain tax benefits, and the unique challenges they face in filing tax returns.

All noncitizens in the United States—regardless of their legal status—are required to pay federal income and payroll taxes. For most, income taxes are based on their total income. However, for a subset who are considered "nonresident aliens" because they are presumed to be in the country temporarily (e.g., diplomats and students), income taxes are based solely on the portion of income related to their residence in the United States.[53]

Citizenship status affects eligibility for the EITC and CTC, and each credit has different requirements. First, nonresident aliens are always ineligible for the EITC, but they may be able to claim the CTC under some circumstances. Second, EITC claimants—including both spouses, if married, and their qualifying children—must have the type of Social Security number (SSN) that is issued only to those eligible to work in the United States; generally, this excludes undocumented workers. In contrast, CTC claimants do not need to have a work-authorized SSN, although their qualifying children must; a filer can claim the $500 nonrefundable credit for each of their related dependent children without a qualifying SSN.

More generally, anyone filing a tax return must have a "unique" identifier. For most taxpayers, this is their SSN, whether the number was issued to people authorized to work or to obtain certain benefits from federal, state, or local government agencies. For others, including undocumented immigrants and certain noncitizens, this means they must apply for an Individual Taxpayer Identification Number (ITIN) from the IRS.[54] According to the Treasury Inspector General for Tax Administration, there were 5.8 million active ITINs in December 2022 (TIGTA 2022).

Applying for or renewing ITINs can be especially difficult to navigate because of complicated procedures.[55] Moreover, some undocumented immigrants may not be able to easily access free tax filing assistance (Godinez-Puig, Boddupalli, and Mucciolo 2022), or they may be fearful of the Trump administration's now-defunct expansion of the "public charge" rule.[56]

US citizens can also be affected by the ITIN rules. Some estimates suggest that, as of 2018, over four million US-citizen children under the age of 18 lived with at least one undocumented parent (American Immigration Council 2021). Therefore, administrative barriers to filing taxes and claiming tax refunds for mixed-status immigrant families—who are disproportionately Latine—can impact many US-citizen children. For example, families are ineligible for the EITC if one parent does not have an SSN issued to an authorized worker, even if the rest of the family does. Prior research has shown that these families experience disproportionately high material hardships (Guelespe, Echave, and Gonzalez 2023).

TAX POLICY OPTIONS

In this section, we examine the impacts of various tax policy options that may be particularly beneficial to Black and Latine families in enhancing housing wealth, reducing marriage penalties, and alleviating poverty.[57] In addition to the options discussed below, other changes to the tax code could further reduce racial disparities.[58] For example, any increase in the capital gains tax to the same rates applicable to income from wages and salaries would put a greater share of the burden on White taxpayers (Holtzblatt et al. 2023b).

Homeownership

As discussed above, Black and Latine families are less likely than White families to own a home and consequently benefit from the itemized deduction for home mortgage interest. TPC's recent interactive research feature "How the Federal Income Tax System Can Worsens Racial Disparities" (2024) also shows how current tax subsidies for housing can worsen historical racial inequities in housing.

Tax subsidies for homeownership could be made more progressive by replacing the current itemized deduction for home mortgage interest with a tax credit available to all current and potential homeowners, rather than just those who have sufficient expenses to take advantage of itemizing deductions. Furthermore, the credit rate could be capped below the top statutory income tax rates, thus making it more progressive than a deduction that is larger for those in higher tax brackets. The racial impacts of these alternative tax policy options, however, may be nuanced.

Under one option, the home mortgage deduction could be replaced with a 12 percent nonrefundable tax credit, which is about the average marginal tax rate faced by taxpayers in 2019.[59] The current deduction's limits on the size of mortgages could apply to the credit. And because the credit would be nonrefundable, the amount would not exceed the taxpayer's income tax liability. This tax policy option would increase the overall progressivity of the federal individual income tax system because the credit rate is lower than many homeowners' statutory tax rates.

However, had it been in effect in 2019, this option would have generally favored White families more than Black and Latine families (Holtzblatt et al. 2023b). In the first four quintiles of the income distribution, taxes

would have fallen for all families, but White homeowners, on average, would have received a disproportionate share of the tax benefit. Because the value of the tax credit is less than the value of the deduction for families with higher incomes, Black and White families would have incurred an average tax increase in the top income quintile. And a disproportionate share of the tax increase would have fallen on high-income Black homeowners because of the greater prevalence of mortgages and interest payments among this group. Latine families in the top income quintile would have, on average, received a very small tax cut.

Alternatively, raising the tax credit rate to 22 percent, which is about the average marginal tax rate applied to ordinary income for taxpayers in 2019, would have lowered taxes, on average, for families in all income quintiles. Still, Black taxpayers in the top 95th percentile of the income distribution would have faced an average tax increase, while all other families in that group would have received, on average, a tax cut (Holtzblatt et al. 2023b).

Both credit options, as well as the current deduction for home mortgage interest, would benefit those currently holding mortgages, but they would do little to help those who may need assistance with down payments. As described above, White households have higher net wealth and are likely to receive inheritances. First-time homebuyers can withdraw some funds from retirement plans for down payments, but these provisions are also more advantageous to White families who have, on average, substantially higher retirement account balances.[60]

By offering an immediate subsidy for homeownership, rather than a subsidy over the life of the mortgage, a first-time homebuyer credit can cover a portion of the down payment and assist families who might not be able to purchase a home. It is likely that this assistance would increase demand for housing, unlike tax subsidies for mortgage interest, which prior research suggests only increase the size of mortgages (McClelland, Mucciolo, and Sayed 2022).

Although the federal government currently does not offer a first-time homebuyer credit, it has done so in the past. From 2008 through 2010, first-time homebuyers received a refundable tax credit toward purchasing a home. The provision was temporary, aimed at reinvigorating demand for real estate after the Great Recession. Initially, the credit was set at a maximum of $7,500, and homebuyers were required to repay the amount, making its design more like a loan. In 2009, the maximum was increased to $8,000 and the repayment requirement was eliminated. In its fiscal year 2025 budget, the Biden administration proposed a refundable first-time homebuyer credit, up to a maximum of $10,000.[61]

First-time homebuyer credit have some drawbacks. The credit would subsidize many households that may not need the assistance, which would make it an expensive tax expenditure. In addition, unless the credit is fully refundable, it may be used only by households that owe federal individual income taxes at least as much as the credit. But full refundability would further increase its costs. Some economists have also questioned

whether the federal individual income tax system ought to be subsidizing homeownership over other types of investments (Toder 2014).

Marriage Penalties

Both the prevalence and magnitude of marriage penalties are greater for Black families than for White families. Reforms to the tax code could reduce marriage penalties for all couples, but the relative impacts on Black families may vary based on the design of the tax policy options.

One option could give spouses the choice to file as a married couple or as single filers. For families with children, optional individual filing would help reduce the impact that dependents have on marriage penalties by allowing one spouse to use the head-of-household filing status.

Had this tax policy option been in effect in 2018, it would have eliminated all marriage penalties. But it would have been expensive for the federal government, with an annual cost of about $49 billion (in 2018 dollars) in forgone tax revenue. Black and White couples would have received gains of 1.1 percent and 0.8 percent of their income, respectively (Holtzblatt et al. 2023a).[62] The changes would have been more beneficial for couples with dependents and larger, as a share of income, for those with lower incomes. But because the marriage rate of White adults is twice as high as that of Black adults, the tax cut would have benefited only about 17 percent of Black adults, compared with 30 percent of White adults.

If Congress were to reinstate a two-earner deduction, similar to the one in the early 1980s, it could help reduce the impact that relatively equal spousal earnings have on higher marriage penalties for Black couples. Allowing couples to deduct 10 percent of the lower-earner's earnings (up to $90,000) would have reduced total marriage penalties by nearly $15 billion and increased marriage bonuses by about $5 billion in 2018 (Holtzblatt et al. 2023a). But this would have lowered the prevalence of marriage penalties by only 1.8 percentage points among all Black married couples and 3.1 percentage points among all White married couples. Even among just two-earner couples, the prevalence of penalties would have fallen by just 5 percentage points for Black couples and 7 percentage points for White couples. The effects are quite large among the highest income groups, both because the lower-earner's earnings are more likely to be closer to the maximum of $90,000 and because the deduction would be worth more to couples in higher tax brackets. The benefits would have gone to 20 percent of Black adults, compared with 33 percent of White adults.

Although both tax policy options could reduce marriage penalties, neither would improve progressivity in the federal individual income tax system. Individual tax filing would require strict allocation rules to prevent couples with higher incomes from shifting their income and deductions to minimize their income tax liabilities. Such allocation rules would be difficult to administer, enabling some couples to take aggressive approaches to minimize their tax liabilities. Redesigning the two-earner deduction as a credit and lowering the cap on the qualifying expenses could make that tax policy option more progressive.

Child Tax Credit and the Earned Income Tax Credit

In the American Rescue Plan Act of 2021, Congress expanded the CTC and EITC for taxpayers with no qualifying children. These measures were meant to provide economic relief to low- and middle-income taxpayers because of the impacts of the COVID-19 pandemic, and so they were effective only in 2021. However, even as temporary measures, the effects of the expansion were substantial. In particular, the CTC expansion substantially reduced poverty in 2021.[63]

The CTC expansion contained four key features:

1. The maximum credit amount was increased from $2,000 for each child to $3,600 for each child under age 6 and $3,000 for each child ages 6 through 17. The age cutoff for qualifying children was raised by one year.
2. The differential between the prior $2,000 maximum credit and the temporary maximum credits (a difference of $1,600 for young children and $1,000 for older children) was phased out at income levels above $75,000 for single filers, $112,500 for heads of households, and $150,000 for married couples filing jointly. The phaseout thresholds for the remaining amount of the credit were not changed.
3. The credit was made fully refundable.
4. Up to half of the credit was payable in advance, with the amounts computed from information on a filer's 2019 or 2020 tax return or provided by the claimant on an IRS portal. Filers were able to receive the remaining portion of the credit when they filed their 2021 tax returns. If, however, they received too much in advance, they were required to return the overpayment, with one exception: lower- and middle-income taxpayers did not have to pay back some or all of the excess amount if it was caused by changes in the number of qualifying children between 2020 and 2021.

According to the US Census Bureau's estimates, the CTC expansion contributed significantly to the dramatic reduction in child poverty rates between 2020 and 2021. Basing the analysis on the supplemental poverty measure, which measures after-transfer and after-tax income, Census found that the expansion itself lifted 2.9 million children out of poverty, including over 700,000 Black children, 1.2 million Latine children, and 820,000 White children.[64] It also reduced food insecurity and, contrary to claims from some critics, did not result in significant employment reductions among recipients (Karpman et al. 2022).

After the CTC expansion expired, along with other COVID-19 pandemic–related assistance, child poverty rose in 2022, and the number of children lifted out of poverty as a result of the CTC fell by about half (Shrider and Creamer 2023).

If the CTC were to be fully refundable, as was the case under the American Rescue Plan Act of 2021, Black children would disproportionately benefit (Goldin and Michelmore 2022). Black families would also disproportionately benefit from the elimination of the CTC's minimum earnings requirement. Eliminating the

cap on the amount of the refundable credit, while maintaining minimum earnings, would disproportionately benefit Latine children (Goldin and Michelmore 2022).

One caveat to these findings is that the CTC expansion occurred during a unique year, when the COVID-19 pandemic was still rampant and the US economy was recovering from relatively high unemployment. Different economic circumstances could either magnify or diminish the impact of a larger CTC. And, though many newly eligible families claimed the credit in 2021, improvements in the administration of the credit—in particular, extensive outreach and simplifications to filing—would be needed to reach families who may not typically have contact with the IRS, either because they do not work or because they have very low incomes, and thus may not know they are eligible for the refundable tax credit (Broadus et al. 2022).

The American Rescue Plan Act of 2021 also expanded the EITC for taxpayers with no qualifying children, with some key features:

- The maximum credit was raised nearly 300 percent to $1,500, lifting the rate at which the credit increases for each additional dollar from 7.65 to 15.3 percent.
- Eligibility was extended to those with incomes from about $16,000 to at least $21,000.
- The age limits were relaxed, with eligibility extended to adults ages 65 and over or those between ages 19 to 24 if they were not full-time students.

Relative to the CTC expansion, extending the childless EITC expansion would have modest impact. But with a credit rate of 15.3 percent, the expanded EITC could offset the combined employer-employee Social Security taxes and increase after-tax income for those with very low incomes who are disproportionately likely to be Black, Latine, and Native American families.

CONCLUSION

The federal individual income tax system can be a transformative force for supporting the economic prosperity of all families. However, despite its overall progressivity, it was not purposely designed to reduce racial inequities that impede the well-being of Black, Latine, and other families of color.[65]

This report provides an overview of the interactions between the federal individual income tax system and racial and ethnic inequities. Although the tax code may appear to be "race blind" because it does not typically ask tax filers to report their race or ethnicity, several legal scholars have disputed that assessment (Brown 2021; Dean 2022; Moran and Whitford 1996).

Public finance researchers have only recently begun to measure racial disparities in tax treatment and resulting income and wealth gaps. As our review of the 12 features of the federal individual income tax system suggests, the impacts of taxes are not race-neutral; tax benefits and liabilities can depend on factors that are

associated with race and ethnicity, including income, wealth, and various demographic characteristics. More generally, racial disparities in the individual income tax can be associated with factors of structural racism—as both the result and the cause of a system that reinforces disparities.[66]

The tax code could be designed to more equitably support economic security and wealth-building for Black, Latine, and other families of color in the United States.[67] In this report, we highlighted the following several key tax policy options that could, to varying degrees based on how they are designed, boost the incomes and wealth of Black and Latine families and help reduce the racial wealth gaps:

- replace the itemized deduction for home mortgage interest with a nonrefundable tax credit
- give married couples the option to file individual income tax returns or, if both spouses work, to deduct a portion of the earnings of the spouse who earns less
- reinstate the income threshold and refundability expansions of the CTC and EITC implemented under the American Rescue Plan Act of 2021

The design of each option will impact its effectiveness in reducing racial disparities.

The credit rate, for example, would determine how many families will benefit from replacing the home mortgage deduction with a tax credit. A 15 or 22 percent credit rate would increase the benefit and extend it to more families than a lower rate, regardless of race. Even so, a credit would generally favor White families in the first four income quintiles more than Black and Latine families because of the substantial racial and ethnicity gaps in homeownership. The value of a 15 or 22 percent tax credit would be less than the value of the deduction for families with very high incomes. Therefore, both Black and White families in the top income quintile would incur an average tax increase with the 15 percent credit, but a disproportionate share would fall on high-income Black homeowners because of the greater prevalence of mortgages and interest payments among this group. A 22-percent credit would lower taxes, on average, for all families through the top quintile, but only Black homeowners in the top 5 percent of the income distribution would experience a tax increase, on average. Limiting the credit to new homebuyers might narrow the racial equity gap more than a credit for mortgage interest because Black and Latine families are less likely, under current law, to own a home. However, a credit for new homebuyers would not benefit many low- and moderate-income families unless it is made refundable.

The design of the marriage penalty relief will also impact Black and White couples differently. Giving spouses the option to file as unmarried has the potential to eliminate marriage penalties, with Black couples benefiting more than White couples. But optional individual filing would require complicated rules to allocate nonwage income and deductions between the spouses. A two-earner deduction would target spouses with similar earnings—a major source of marriage penalties, especially for Black couples—and it would be much simpler and less costly. But because the deduction is more valuable to higher-income couples, White couples

would benefit more than Black couples. Alternatively, a capped deduction or a two-earner credit with a progressive rate might be more valuable for Black couples.

Even the design of refundable tax credits for low- and middle-income families will have different impacts, depending on the family's race and ethnicity. Black and Latine families would benefit more from an expansion of the refundable CTC than White families because of their lower incomes. Making the CTC fully refundable would be especially valuable for Black families, whereas lifting the cap on the amount of refundable credit would be more beneficial to Latine families because of their larger family sizes, on average.

Our analysis is not exhaustive. We have examined each option under the assumption that there are no other changes to the tax code. However, legislation to amend the tax code is often more comprehensive, with implications for the impact of the options; changes to the tax rate structure, for example, could mitigate or reinforce options intended to reduce marriage penalties.

The federal individual income tax system may contain many more tax provisions that impact racial disparities. The exclusion of employer contributions for health insurance premiums and the refundable premium assistance tax credit were estimated to result in $237 billion and $59 billion, respectively, in forgone tax revenue in 2023. And, according to The US Treasury Department, tax benefits of the former disproportionately benefited White families, whereas the latter was distributed more proportionately by race and ethnicity (Cronin, DeFilippes, and Fisher 2023).

Moreover, our analysis does not cover racial inequities that can stem from administrative and enforcement practices, as discussed in TPC's "How the Federal Income Tax System Can Worsen Racial Disparities."[68] Recent research has shown that Black taxpayers are three to five times more likely to be audited than other taxpayers (Elzayn et al. 2023). IRS researchers are currently engaged in an in-depth analysis of the contributory factors—including the audit selection methods and procedures—to these administrative and enforcement disparities.[69]

We are in a relatively nascent stage of researching racial and ethnic inequities associated with the tax code. In prior decades, insufficient data on both race and tax liabilities had created barriers for further research in this area. But those barriers are lifting as government agencies and other organizations, including TPC, impute race and ethnicity to their tax microsimulation models (Fisher 2023; Khitatrakun et al. 2023). Other researchers are also analyzing racial disparities by applying tax calculators to household survey data that contain the race and ethnicity of respondents (Alm, Leguizamon, and Leguizamon 2023; Holtzblatt et al. 2023a). And, in response to the 2021 Executive Order on Advancing Racial Equity and Support for Underserved Communities through the Federal Government, the US Treasury Department is expanding its research and administrative efforts to mitigate racial inequalities.[70] This includes, but is not limited to, releasing distributional analyses by race and ethnicity of select tax proposals (including CTC and EITC expansions), addressing racial disparities in audit rates, and lifting administrative barriers for processing ITINs.[71]

With future methodological advancements, researchers will be able to tackle other difficult questions about the relationship between the tax code and racial and ethnic inequities. One set of questions is spurred by the expiration of TCJA's individual income tax provisions at the end of 2025, including the reduction of statutory tax rates, changes to the standard deduction, the CTC and dependent exemption, the cap on the deduction for state and local taxes, and the reduced scope of the alternative minimum tax. Prior research has shown that the impacts of TCJA's provisions on families vary based on their income, marital status, presence of children, and taxpayers' age, many of which may cause disparate tax outcomes between Black, Latine, and White families.

Further evidence on the incidence of tax policies by race and ethnicity may lead to more informed discussions about the impact of tax laws on families and the trade-offs between racial equity and other policy goals.

TABLE A1

The Largest Tax Expenditures Are for Retirement Savings, Capital Gains, Health Insurance, and Families with Children

Billions of dollars, fiscal year 2024

Rank	Tax expenditure	JCT	Treasury
1	Tax benefits for employer defined contribution plans	$251.4	$117.8
2	Reduced rates of tax on dividends and long-term capital gains	$225.1	$156.3
3	Tax exclusion for employer-sponsored health insurance	$199.8	$252.4
4	Tax benefits for defined benefit plans	$122.1	$70.0
5	Credit for children and other dependents	$119.9	$109.5
6	Subsidies for insurance purchased through health exchanges	$79.9	$47.3
7	Earned income tax credit	$73.0	$66.9
8	Exclusion of capital gains at death	$59.7	$51.9
9	20 percent deduction for qualified business income	$59.3	$50.8
10	Deduction for charitable contributions	$55.4	$82.2
11	Exclusion of untaxed social security and railroad retirement benefits	$50.6	$31.7
12	Reduced tax rate on active income of controlled foreign corporations	$46.3	$35.1
13	Exclusion of capital gains on principal residences	$42.1	$52.3

Source: Joint Committee on Taxation (JCT). "Estimates of Federal Tax Expenditures for Fiscal Years 2022-2026," December 2022; US Department of the Treasury. "Tax Expenditures: Fiscal Year 2024," updated March 2023.
Notes: Estimates include both personal income and corporate income tax expenditure amounts and includes both losses and outlays from refundable credits. JCT regards the exclusion of net imputed rental income as an administrative necessity, and does not classify it as a tax expenditure. However, the Treasury does include it in its tax expenditure estimates ($135 billion for FY2024).

NOTES

[1] We capitalize the term "White" to avoid perpetuating the notion of Whiteness as the standard or norm to which all other races and ethnicities are compared.

[2] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities," February 14, 2024, https://apps.urban.org/features/federal-income-tax-system-can-worsen-racial-disparities/.

[3] Tax Policy Center, "What Are Tax Expenditures and How Are They Structured?" in the Tax Policy Center Briefing Book, updated January 2024, https://www.taxpolicycenter.org/briefing-book/what-are-tax-expenditures-and-how-are-they-structured.

[4] Kilolo Kijakazi, Jonathan Schwabish, and Margaret Simms, "Racial Inequities Will Grow Unless We Consciously Work to Eliminate Them," *Urban Wire* (blog), Urban Institute, July 1, 2020, https://www.urban.org/urban-wire/racial-inequities-will-grow-unless-we-consciously-work-eliminate-them.

[5] We use the term "Latine" to refer to people of Hispanic or Latino/a origin.

[6] At the time this report's analysis was completed, data sources on income and wealth, such as from the US Census Bureau and the Federal Reserve Board, did not have sufficient information for other racial groups, including Asian and Native American families.

[7] Tax Policy Center, "Racial Disparities and the Income Tax System," January 30, 2020, https://apps.urban.org/features/race-and-taxes/; "How the Federal Income Tax System Can Worsen Racial Disparities."

[8] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

[9] Poverty rate data are from the US Census Bureau, Poverty in the United States: 2022 (Washington, DC: US Census Bureau, 2023), figure 2, https://www.census.gov/content/dam/Census/newsroom/press-kits/2023/iphi/20230912-iphi-slides-poverty.pdf. The US Census Bureau uses a measure of "money income" to determine poverty status, which includes but not limited to earnings, unemployment compensation, workers' compensation, Social Security, Supplemental Security Income, public assistance, veterans' payments, and other sources of income. Poverty thresholds in 2022 were $14,880 for a one-person household, $18,900 for a two-person household, $23,280 for a three-person household, and $29,950 for a four-person household.

[10] In our analyses, a "tax unit" refers to an individual or a married couple who files a tax return—or would file a tax return if their income were high enough—along with all dependents of that individual or married couple. "Income" refers to expanded cash income, as described in Rosenberg (2013): https://www.taxpolicycenter.org/publications/measuring-income-distributional-analysis.

[11] The Federal Reserve Board's Survey of Consumer Finances (SCF) is conducted every three years and contains more detailed information on family wealth than other household surveys. At the time this report's analysis was completed, the most recent data available were from the 2019 SCF. The 2022 SCF was released in September 2023. See Aladangady, Chang, and Krimmel (2023). It is important to note that the SCF's information on race is only available for the respondent in the primary economic unit (i.e., the respondent, their spouse, and their dependents). In this report, unless otherwise indicated, we distinguish between non-Hispanic Black, Latine, and non-Hispanic White families. For simplicity, we refer to non-Latine Black and non-Latine White families as "Black" and "White" families. The estimates of the racial wealth gap would increase if the SCF included the holdings of billionaires listed in the Forbes 400, which are excluded because of privacy concerns, and they would decrease if the values of defined benefit plans were added to the data (Thompson and Volz 2021).

[12] Jung Hyun Choi, Amalie Zinn, and Aniket Mehrotra, "Black Homeownership Increased Slightly during the Pandemic, but High Interest Rates Threaten to Further Widen Racial Homeownership Gaps," *Urban Wire* (blog), Urban Institute, https://www.urban.org/urban-wire/black-homeownership-increased-slightly-during-pandemic-high-interest-rates-threaten.

[13] Tax Policy Center, "What are personal exemptions?," updated January 2024, https://www.taxpolicycenter.org/briefing-book/what-are-personal-exemptions.

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[14] Tax Policy Center, "How did the Tax Cuts and Jobs Act change personal taxes?," updated January 2024, https://www.taxpolicycenter.org/briefing-book/how-did-tax-cuts-and-jobs-act-change-personal-taxes.

[15] William Gale and Semra Vignaux, "Racial Inequities Will Grow Unless We Consciously Work to Eliminate Them," *TaxVox* (blog), Tax Policy Center, September 7, 2023, https://www.taxpolicycenter.org/taxvox/difference-how-wealthy-make-money-and-pay-taxes.

[16] Tax Policy Center, "Racial Disparities and the Income Tax System" and "How the Federal Income Tax System Can Worsen Racial Disparities."

[17] Internal Revenue Service, "2024 Form 1041-ES: Estimated Income Tax for Estates and Trusts," accessed April 9, 2024, https://www.irs.gov/pub/irs-pdf/f1041es.pdf. The tax brackets are based on taxable income—that is, income after exclusions, exemptions, and deductions. Long-term capital gains are the receipts (or net of expenses) from the sale of assets held for longer than a year. Qualified dividends are generally paid from stock held for more than 60 days in the 121-day period that began 60 days before the dividend was paid and processed.

[18] US Department of the Treasury, "Tax Expenditures: FY 2024," accessed April 17, 2024, https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures.

[19] The tax code distinguishes between qualified and nonqualified dividends. Qualified dividends are paid from stocks held for more than 60 days in the 121-day period that began 60 days before the dividend was paid and processed. They are generally paid by domestic corporations or certain foreign corporations, including, for example, corporations whose stock is traded in the major securities markets in the United States.

[20] US Census Bureau, "Housing Vacancies and Homeownership (CPS/HVS): Annual Statistics," Table 22. Homeownership Rates by Race and Ethnicity of Householder, revised March 12, 2024, https://www.census.gov/housing/hvs/data/prevann.html.

[21] Rashawn Ray, Andre M. Perry, David Harshbarger, Samantha Elizondo, and Alexandra Gibbons, "Homeownership, Racial Segregation, and Policy Solutions to Racial Wealth Equity," Brookings Institution, September 1, 2021, https://www.brookings.edu/articles/homeownership-racial-segregation-and-policies-for-racial-wealth-equity/.

[22] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

[23] US Department of the Treasury, "Tax Expenditures: FY 2024."

[24] The amount of deductible interest depends partly on when homeowners took out their mortgages. Interest on mortgages taken out before October 31, 1987, are fully deductible; mortgages taken out after that time but before December 16, 2017, must be smaller than $1 million for the interest to be deductible. As a consequence of the TCJA, mortgages taken out after December 16, 2017, must be smaller than $750,000 for the interest to be deductible; however, with the expiration of the act at the end of 2025, the mortgage limit will revert to $1 million after December 31, 2025.

[25] US Department of the Treasury, "Tax Expenditures: FY 2024."

[26] US Department of the Treasury, "Tax Expenditures: FY 2024."

[27] US Department of the Treasury, "Tax Expenditures: FY 2024."

[28] According to the 2022 Survey of Consumer Finances, from 2019 to 2022, ownership of farm and nonfarm business equity (less debt) among Black families rose from 5 to 11 percent, and among Latine families from 7 to 10 percent. This may reflect a surge in noncorporate business formation during the COVID-19 pandemic. Board of Governors of the Federal Reserve Board, "2019 Survey of Consumer Finances," updated April 3, 2024, https://www.federalreserve.gov/econres/scf_2019.htm.

[29] US Department of the Treasury, "Tax Expenditures: FY 2024."

[30] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

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[31] Board of Governors of the Federal Reserve Board, "2019 Survey of Consumer Finances."

[32] In the 2019 Survey of Consumer Finances, retirees are asked whether they currently receive a pension from a DB plan, and, for people still working, whether they anticipate receiving these benefits from a current or past employer. But figuring out the value of DB plans is challenging because their worth depends on—among other things—the number of years employed, the formula used to compute the benefits, and the beneficiary's life expectancy. Based on these factors, Thompson and Volz (2021) compute the value of current and anticipated benefits, which they include in their estimates of net wealth, and find that the ratio of average White wealth to average Black wealth is 5.5 to 3.4.

[33] The thresholds for the student loan deduction are adjusted annually for inflation. In contrast, the thresholds for AOTC and LLC are not indexed.

[34] National Center for Education Statistics, Digest of Education Statistics: 2020, "Table 302.60. Percentage of 18- to 24-Year-Olds Enrolled in College, by Level of Institution and Sex and Race/Ethnicity of Student: 1970 through 2019," accessed April 11, 2024, https://nces.ed.gov/programs/digest/d20/tables/dt20_302.60.asp.

[35] National Center for Education Statistics, Digest of Education Statistics: 2020, "Table 326.10: Graduation Rate from First Institution Attended for First-Time, Full-Time Bachelor's Degree-Seeking Students at 4-year Postsecondary Institutions, by Race/Ethnicity, Time to Completion, Sex, Control of Institution, and Percentage of Applications Accepted: Selected Cohort Entry Years, 1996 through 2013," accessed April 11, 2024, https://nces.ed.gov/programs/digest/d20/tables/dt20_326.10.asp.

[36] National Center for Education Statistics, Digest of Education Statistics: 2020, "Table 104.40: Percentage of Persons 18 to 24 Years Old and 25 Years Old and Over, by Educational Attainment, Race/Ethnicity, and Selected Racial/Ethnic Subgroups: 2010 and 2019," accessed April 11, 2024, https://nces.ed.gov/programs/digest/d20/tables/dt20_104.40.asp.

[37] Urban Institute, "Nine Charts about Wealth Inequality in America (Updated)," October 5, 2017, https://apps.urban.org/features/wealth-inequality-charts/.

[38] National Center for Education Statistics, "Indicator 22: Financial Aid," updated February 2019, https://nces.ed.gov/programs/raceindicators/indicator_rec.asp.

[39] This is the cumulative cost in forgone tax revenue from three tax expenditures on the deductibility of charitable contributions. The Treasury presents three distinct provisions in its reporting: (1) "deductibility of charitable contributions (health)"; (2) "deductibility of charitable contributions (education)"; and (3) "deductibility of charitable contributions, other than education and health." Typically, we do not sum distinct tax expenditures because the elimination of some tax expenditures would change the cost of others, and the sum of the cost of all tax expenditures is not equal to the revenue gain that would occur if all tax expenditures were eliminated simultaneously. US Department of the Treasury, "Tax Expenditures: FY 2024."

[40] There is a "married filing separately" filing status option in the tax code, but it typically results in higher tax bills than filing jointly. In 2019, only 2 percent of total tax returns were filed by married couple filing separately, compared with 14 percent for heads of households, 35 percent for married couple filing jointly (and surviving spouses), and 49 percent for single persons. Internal Revenue Service, SOI Tax Stats—Individual Income Tax Returns Complete Report (Publication 1304)," Table 1.2: All Returns: Adjusted Gross Income, Exemptions, Deductions, and Tax Items—Tax Year 2019 [Filing Year 2020]," updated February 1, 2024, https://www.irs.gov/pub/irs-soi/19in12ms.xls.

[41] The standard deduction of a married couple filing jointly is twice the amount received by a person filing as single. Hence, when two single filers marry, their standard deduction equals the combined amount they received as single filers. The tax value, however, is not necessarily the same, because it depends on the filers' tax rate brackets.

[42] US Census Bureau, Current Population Survey (CPS) Annual Social and Economic (ASEC) Supplement: 2022, "HINC-04. Presence of Children Under 18 Years old—Households, by Total Money Income, Type of Household, Race and Hispanic Origin of Householder," revised August 9, 2023, https://www2.census.gov/programs-surveys/cps/tables/hinc-04/2023/hinc04_3.xlsx.

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[43] US Census Bureau, Current Population Survey (CPS) Annual Social and Economic (ASEC) Supplement: 2022.

[44] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

[45] The federal poverty threshold varies by family size and composition and is updated annually by the US Census Bureau; for example, the threshold for a family of four with two children was $29,678 in 2022 (Shrider and Creamer 2023).

[46] US Department of the Treasury, "Tax Expenditures: FY 2024."

[47] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

[48] Cecile Murray and Elizabeth Kneebone, "The Earned Income Tax Credit and the White Working Class," Commentary, Brookings Institution, April 18, 2017, https://www.brookings.edu/articles/the-earned-income-tax-credit-and-the-white-working-class/.

[49] US Department of the Treasury, "Tax Expenditures: FY 2024."

[50] Tax Policy Center, "EITC Parameters: 1975 to 2023," Statistics, December 19, 2022, https://www.taxpolicycenter.org/statistics/eitc-parameters.

[51] Tax Policy Center, "T22-0249—Tax Benefit of the Earned Income Tax Credit (EITC), Baseline: Current Law, Distribution of Federal Tax Change by Expanded Cash Income Level, 2022," Model Estimates, December 28, 2022, https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-december-2022/t22-0249-tax-benefit-earned-income.

[52] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

[53] "Nonresident aliens" are treated differently from other noncitizens under the tax code. They pay income taxes solely on income that is either effectively connected with a trade of business in the United States or US-sourced, and they are considered ineligible for most tax credits. To be considered a "resident alien" for tax purposes, an individual must have a green card or meet the conditions of the substantial presence test, which is generally 31 days of physical presence in the country during the tax year and 183 days over the current year and the prior two years. Days spent in the United States on certain temporary visas, such as for students, diplomats, and professional athletes, are not counted. For more information, see Aravind Boddupalli, "Filing Taxes: A Nonresident's Experiences," *TaxVox* (blog), Tax Policy Center, May 15, 2018, https://www.taxpolicycenter.org/taxvox/filing-taxes-nonresidents-experiences.

[54] Besides undocumented immigrants, certain survivors of domestic violence, Cuban and Haitian entrants, and certain spouses and children of taypayers with employment visas also use ITINs.

[55] National Taxpayer Advocate, "Now Is the Perfect Time for the IRS to Make Improvements to the Individual Taxpayer Identification Number Program," *NTA Blog*, Internal Revenue Service, updated February 8, 2024, https://www.taxpayeradvocate.irs.gov/news/nta-blog/ntablog-now-is-the-perfect-time-for-the-irs-to-make-improvements-to-the-individual-taxpayer-identification-number-program/2018/10/; and National Taxpayer Advocate, "Most Taxpayers Needing a New ITIN Are Prohibited from Filing Electronically, Causing Unnecessary Refund Delays," *NTA Blog*, Internal Revenue Service, updated February 8, 2024, https://www.taxpayeradvocate.irs.gov/news/nta-blog/nta-blog-most-taxpayers-needing-a-new-itin-are-prohibited-from-filing-electronically-causing-unnecessary-refund-delays/2021/04/.

[56] According to the US Department of Homeland Security, "a noncitizen who is deemed likely to become a 'public charge,' meaning that they are likely to become primarily dependent on the government for subsistence, can be denied admission or lawful permanent residence." The Trump administration had expanded the definition of whom the federal government may deem as dependent on government assistance based on a range of additional income, wealth, health, and other metrics to potentially deny visas and green cards. The administration's rule was formally announced in 2019 and was in effect between 2020 and 2021—but it has since been revised. For more information, see US Department of Homeland Security, "DHS Publishes Fair and Humane Public Charge Rule," press release, September 8, 2022, https://www.dhs.gov/news/2022/09/08/dhs-publishes-fair-and-humane-public-charge-rule.

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[57] There are several caveats to this analysis. First, we chose options that are often discussed as ways to narrow the racial income and wealth gaps through the tax system. As such, the selection of these options should not be viewed as our recommendations. Second, we assume that other features of the tax system do not change, but legislation to amend the tax code is often more comprehensive with implications for the impact of the options; for example, changes to the tax rate structure could mitigate or reinforce marriage penalty relief. Third, we have not considered levers outside the tax system that might reinforce the goal of racial equity (e.g., the expansion of spending programs or promulgation of new regulations).

[58] Aravind Boddupalli, "Four Ways to Reduce Racial Inequities in the Federal Income Tax System," *Urban Wire* (blog), Urban Institute, February 14, 2024, https://www.urban.org/urban-wire/four-ways-reduce-racial-inequities-federal-income-tax-system.

[59] This is the average marginal tax rate faced by taxpayers in 2019, estimated using IRS data. See Internal Revenue Service, SOI Tax Stats—Individual Income Tax Returns Complete Report (Publication 1304), "Table 3.4. All Returns: Tax Classified by Both the Marginal Rate and Each Rate at Which Tax Was Computed, by Filing Status: Tax Year 2019 (Filing Year 2020)," updated January 31, 2024, https://www.irs.gov/pub/irs-soi/19in34tr.xls.

[60] First-time homebuyers with IRAs can make up to $10,000 in penalty-free withdrawals to purchase a home. In addition to several restrictions, that amount is the maximum that can be withdrawn over the course of a lifetime. Those with 401(k) plans, however, can borrow without penalty the lesser of $50,000 or 50 percent of the amount vested in the account.

[61] Howard Gleckman, "Biden's Homebuyer Tax Credit Has Potential But Can Be Improved," *TaxVox* (blog), Urban-Brookings Tax Policy Center, March 22, 2024, https://www.taxpolicycenter.org/taxvox/bidens-homebuyer-tax-credit-has-potential-can-be-improved.

[62] In this analysis, Black couples included cases where the respondent identified as Black only and as Black and another race. The same approach was applied to White couples. Moreover, income was measured as AGI.

[63] Kalee Burns, Liana Fox, and Danielle Wilson, "Expansions to Child Tax Credit Contributed to 46% Decline in Child Poverty Since 2020," America Counts: Stories, US Census Bureau, September 13, 2022, https://www.census.gov/library/stories/2022/09/record-drop-in-child-poverty.html.

[64] Burns, Fox, and Wilson, "Expansions to Child Tax Credit Contributed to 46% Decline in Child Poverty Since 2020."

[65] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

[66] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

[67] Boddupalli, "Four Ways to Reduce Racial Inequities in the Federal Income Tax System."

[68] Tax Policy Center, "How the Federal Income Tax System Can Worsen Racial Disparities."

[69] Daniel I. Werfel, IRS commissioner, letter to Senator Ron Wyden, May 15, 2023, https://www.finance.senate.gov/imo/media/doc/werfel_letter_to_sen_wyden.pdf.

[70] The White House, "Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government," Briefing Room: Presidential Actions, January 20, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/.

[71] US Department of the Treasury, "Advancing Equity through Tax Reform: Effects of the Administration's Fiscal Year 2025 Revenue Proposals on Racial Wealth Inequality," Tax Policy: Administration's Revenue Proposals, March 11, 2024, https://home.treasury.gov/system/files/131/Advancing-Equity-through-Tax-Reform-FY2025.pdf; "2024 Racial Equity Progress Report," April 13, 2024, https://home.treasury.gov/system/files/306/24-Racial-Equity-Progress-Report-FINAL-update-508.pdf.

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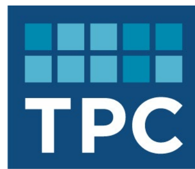

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