



**TAX POLICY CENTER**  
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## **RACIAL DISPARITIES IN THE TREATMENT OF CAPITAL INCOME IN THE FEDERAL INDIVIDUAL INCOME TAX**

Janet Holtzblatt, Laura Kawano, Robert McClelland, Gabriella Garriga  
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## ABSTRACT

Although the US tax code does not explicitly reference race or ethnicity, the federal income tax system contributes to racial disparities when factors that affect tax liabilities are correlated with race. For example, the federal income tax favors certain types of capital income, but Black and Hispanic families are less likely than White families to benefit from those provisions because their investment portfolios are smaller and less likely to include tax-preferred assets. This study is the first to use the Tax Policy Center’s microsimulation model—newly enhanced with race and ethnicity imputations—to analyze the disparate impacts of policy changes to the individual income tax on Black, Hispanic, White, and other families. We consider three policy options that could help mitigate racial disparities in income and wealth. First, increasing the tax rates on long-term capital gains and qualified dividends to those imposed on ordinary income would disproportionately increase taxes on White families because of their higher propensity to hold risky assets throughout the income distribution. Second, while replacing the mortgage interest deduction with a nonrefundable tax credit increases the overall progressivity of the individual income tax, this option generally favors White families more than Black and Hispanic families because of differences in the prevalence of mortgages and average interest payments. Lastly, implementing a broad-based wealth tax with a high asset threshold would narrow the racial wealth gap, particularly if paired with cash reparations, but significant wealth disparities between Black and White families would persist.

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## EXECUTIVE SUMMARY

The Internal Revenue Code generally does not refer to race or ethnicity, nor are taxpayers asked to reveal that information on their individual income tax returns. Yet the federal individual income tax system may contribute to racial disparities in the United States when factors that affect tax liabilities are correlated with race (Brown 2021; Dean 2022; Gale 2021; Holtzblatt et al. 2023; Moran and Whitford 1996).

The tax treatment of investment (or capital) income demonstrates how even a “race-blind” tax system can affect Black, Hispanic, and White families differently, including among families with similar incomes. Capital gains and dividends, for example, are effectively taxed at lower rates than wages, salaries, interest, and other forms of “ordinary income.” But within the same income ranges, Black and Hispanic families are less likely than White families to benefit from those tax preferences because, on average, they have significantly less net wealth and their investment portfolios contain much smaller amounts of the tax-preferred assets. Tax preferences for certain types of capital income may not only reinforce current wealth gaps but also perpetuate them by reducing the after-tax income of Black and Hispanic families and thus their ability to invest and transmit wealth across generations.

Although lawmakers have often proposed ways to either increase or reduce income taxes on capital income or even to apply new taxes directly on wealth, the impact of those policies on racial and ethnicity disparities was rarely discussed in the past. Contributing to that oversight in policy discussions was the absence of data linking tax liabilities to race and ethnicity.

In 2021, the Urban-Brookings Tax Policy Center (TPC) embarked on a project to fill that knowledge gap by developing race and ethnicity imputations for its microsimulation model, which regularly produces distribution analyses of tax legislation and proposals (Khitatrakun et al. 2023). This paper is the first study that uses the enhanced microsimulation model (and to our knowledge, the first to use a tax microsimulation model with imputed race and ethnicity) to analyze the impact of policy changes to the individual income tax system—and specifically, the taxation of capital income—by race and ethnicity.<sup>1</sup>

We focus on three types of assets—stocks, personal residences, and privately held businesses—which, in combination, comprise about 65 percent of US families’ net worth.<sup>2</sup> The net income derived from those sources can receive preferential tax treatment:

- Most dividends and long-term capital gains—the net proceeds from the sales of capital assets held for longer than a year—are taxed at lower rates than many other sources of income, including wages, salaries, self-employment income, and interest from savings accounts and bonds.
- Families derive intangible benefits from living in their own properties, but the value of those benefits is not taxed. Further, up to a threshold, capital gains from the sale of personal residences are exempt from taxes, and taxpayers can deduct mortgage interest expenses if they itemize.

- Net business income may effectively be taxed at lower rates than many other sources of income, but its preferential tax treatment depends on a number of factors, including the organizational structure of the company and the type of services and products it provides.

Several key findings emerged from our study. First, as many researchers have long noted, there is a substantial net wealth gap between White families and Black and Hispanic families. According to the Federal Reserve's Survey of Consumer Finances (SCF), non-Hispanic White families had, on average, eight times the net wealth of the typical non-Hispanic Black family in 2019.<sup>3</sup> (For simplicity, we will henceforth refer to non-Hispanic Black families as Black and non-Hispanic White families as White.) One in four families was Black or Hispanic but, in combination, those families owned only 5 percent of assets, net of debt. The median net wealth of White families was \$189,100, whereas it was \$24,000 for Black families and \$36,050 for Hispanic families.

The magnitude of the racial wealth gap not only was larger at higher income levels, but it also persisted within income groups. In the middle-income quintile, the net wealth of White families averaged \$345,100 compared to \$130,200 for Black families and \$136,500 for Hispanic families. Even in the top income quintile, the net wealth gap was wide, with average net wealth totaling \$1.4 million for Black families, \$1.5 million for Hispanic families, and \$4.4 million for White families.

Second, equally striking were the differences in the composition of investment portfolios. Relative to White families, risky, but potentially high-return investments, such as stock holdings and privately held businesses, were a much smaller share of assets for Black and Hispanic families.<sup>4</sup> While one in four White families owned stock, only 8 percent of Black families and 5 percent of Hispanic families held those types of assets. Within their investment portfolios, stock holdings represented 3 to 4 percent of gross asset values for Black and Hispanic families but over 13 percent for White families.

Fewer White families (14 percent) owned privately held businesses than stock, while ownership rates were even smaller for Black and Hispanic families (5 and 6 percent, respectively). Still, the gross value of those businesses represented nearly 20 percent of White families' investment portfolios, compared to 8 percent for Black families and 10 percent for Hispanic families.

The data show a more nuanced story for homeownership. As with stock and privately held businesses, a greater share of White families (74 percent) owned their homes compared to Black and Hispanic families (45 and 48 percent, respectively). As a share of their portfolios, housing values were larger for Black and Hispanic families (44 and 51 percent, respectively) than for White families (20 percent). Overall, White families were more likely to have a mortgage than Black and Hispanic families, but the prevalence of mortgages among Black families in the highest income quintile was substantially higher than for White and Hispanic families (84 percent compared to roughly 71 percent for both White and Hispanic families).

Third, data from TPC's tax model indicated that the composition of families' income mirrored the amount and allocation of their assets.<sup>5</sup> Relative to White families, Black and Hispanic families received a greater portion of their total income in 2019 from wages, salaries, and self-employment income, all of which are effectively taxed at higher rates than

most dividends and long-term capital gains. Throughout the income distribution, the average amounts of capital gains and dividends were higher for White families than for other families.

In contrast, average mortgage interest payments by White and Black families were similar, with Hispanic families' payments, on average, higher than both groups. And as we observed with mortgages, Black families in the top income quintile were more likely to make mortgage interest payments than White and Hispanic families.

Fourth, we consider how policy changes to the tax treatment of capital income would have affected racial disparities, had those provisions been enacted in 2019. Those disparities might be narrowed by reducing the tax preference for capital income, redesigning the home mortgage interest deduction as a tax credit, or supplementing the income tax with a tax on assets—a wealth tax. We chose those three options for several reasons. First, President Joe Biden and other lawmakers have proposed increases in the tax rates on long-term capital gains and certain types of dividends. Second, the expiration by the end of 2025 of the individual income tax provisions in the Tax Cuts and Jobs Act will affect the tax value of homeownership and privately held businesses and provide an opportunity for lawmakers to consider alternative policies. Finally, wealth taxes received much attention in 2020 when Senators Bernie Sanders and Elizabeth Warren proposed them during their presidential campaigns.

Increasing the tax rates on long-term net capital gains would have disproportionately increased taxes on White families. The relative burden on White families would have been greater if higher capital gains taxes applied only to higher-income taxpayers, whether that threshold is measured by being in the top income tax bracket or by earning more than \$1 million, as President Biden proposed. Those effects, however, would have dissipated if taxpayers avoided the higher rates by deferring the sale of their assets.

Replacing the home mortgage deduction with a 12 or 22 percent nonrefundable tax credit would have increased the overall progressivity of the individual income tax because the credit rate is lower than many homeowners' statutory tax rate. However, the options would have generally favored White families more than Black and Hispanic families. In the first four quintiles of the income distribution, taxes would have fallen for all families, but White homeowners would have, on average, received a disproportionate share of the benefits. Because the value of the tax credit is less than the value of the deduction for higher-income families, Black, Hispanic, and White families in the top 5 percent of the income distribution would, on average, have faced tax increases. But a disproportionate share would have fallen on Black homeowners in this income group due to their higher prevalence of mortgages and interest payments, which we observed in the data from the SCF and TPC's tax model.

Adding a tax directly on capital—a wealth tax—would have narrowed the racial wealth gap, particularly if paired with cash reparations financed by its proceeds. Still, even a significant wealth tax, such as the one proposed by Senator Bernie Sanders in 2020, offset by cash reparations for all Black individuals, would have only reduced the gap by about 2 percentage points.



## RACIAL WEALTH GAP

Derenoncourt et al. (2022) document that in the 50 years following Emancipation, there was a large convergence in 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 in 1860 to about 10 in 1920. But since the 1950s, this convergence of wealth has stalled and even reversed in the last few decades as capital gains have disproportionately accrued to White families.

According to the SCF, the racial wealth gap remained large in 2019. Across all families, net wealth totaled \$2.5 trillion. White families held about 85 percent of net wealth, although they represented less than two-thirds of all families. In contrast, 14 percent of families were Black, but they owned only 3 percent of net wealth (table 1). One in 10 families was Hispanic, and they possessed just 2 percent of net wealth. Median net wealth of White families was eight times that of Black families and five times that of Hispanic families (table 2).

**TABLE 1**  
Net Wealth by Race and Ethnicity, 2019



Race and Ethnicity	All Families (%)	Total Net Wealth (%)
Black	14	3
Hispanic	10	2
White	65	85
Other	11	10
All	100	100

**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.

The "other" category includes SCF respondents who identify as Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other races, and all respondents reporting more than one race.

**TABLE 2**  
Median Net Wealth by Race and Ethnicity, 2019



Race and Ethnicity	Median (\$)
Black	24,100
Hispanic	36,050
White	189,100
Other	74,500

**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.

The "other" category includes SCF respondents who identify as Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other races, and all respondents reporting more than one race.

The racial wealth gap was magnified by the concentration of asset holdings among White families at the top of the net wealth and income distributions. Over 80 percent of net wealth owned by White families was held by those with holdings in

excess of \$1 million; only about 40 percent of Black and Hispanic families' net wealth was held by families in that range (table 3).

**TABLE 3**  
Distribution of Net Wealth by Race and Ethnicity, 2019



Net Wealth (thousands of 2019 dollars)	Black Families		Hispanic Families		White Families		Other Families	
	Families (%)	Net Wealth (%)	Families (%)	Net Wealth (%)	Families (%)	Net Wealth (%)	Families (%)	Net Wealth (%)
Less than 50	40.9	3.9	43.8	3.4	18.5	0.3	30.7	0.6
50-100	13.2	6.8	13.5	5.9	10.4	0.8	9.8	1.1
100 -500	21.2	34.0	27.0	38.1	35.7	9.1	24.9	9.9
500-1,000	3.9	19.5	2.9	11.9	11.8	8.7	9.7	10.5
More than 1,000	1.9	40.1	2.6	42.0	15.5	81.4	11.4	79.1
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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.

The "other" category includes SCF respondents who identify as Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other races, and all respondents reporting more than one race.

Not surprisingly, average net wealth was larger at higher income levels among all groups (table 4). However, net wealth gaps persisted within each income group. Among families whose incomes were in the middle quintile, the average net wealth of White families was \$345,100, compared to \$130,200 for Black families and \$136,500 for Hispanic families. For those with incomes in the top quintile, average net wealth was \$4.4 million for White families, \$1.4 million for Black families, and \$1.5 million for Hispanic families.

**TABLE 4**  
Distribution of Average Net Wealth by Race, Ethnicity, and  
Income, 2019



Income (percentile)	Black Families	Hispanic Families	White Families	Other Families
	Average Net Worth (\$)			
Lowest Quintile	23,000	44,900	88,200	49,500
Second Quintile	52,300	73,800	207,000	101,900
Middle Quintile	130,200	136,500	345,100	187,700
Fourth Quintile	276,800	332,700	674,100	420,900
Top Quintile	1,379,300	1,481,900	4,444,200	3,093,900
All	142,300	165,500	980,500	656,600

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.

The "other" category includes SCF respondents who identify as Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other races, and all respondents reporting more than one race.

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.

The racial wealth gaps documented above reflect racial inequities in the ability to save and invest. About 49 percent of White households report that they are able to save out of current income, compared to about 35 percent of Black, Hispanic, and Asian American households (Yoong et al. 2019).

How families divide their investments among various types of assets also affects their long-term accumulation of wealth (table 5). Stocks, for example, tend to benefit from much higher appreciation than housing even though they also involve more risk. Racial differences in the composition of investment portfolios thus have important implications for wealth accumulation (Gittleman and Wolff 2000).

**TABLE 5**  
Stocks, Personal Residences, and Privately Held Businesses by Race and Ethnicity, 2019



Asset	Black Families	Hispanic Families	White Families	Other Families
<b>Stock</b>				
Percent with asset	8.1	4.8	25.1	20.3
Median (\$)	15,000	25,000	45,000	26,000
<b>Personal Residences</b>				
Percent with asset	45.0	47.6	73.7	54.3
Median (\$)	150,000	200,000	230,000	308,000
<b>Privately Held Businesses</b>				
Percent with asset	4.6	6.0	14.0	10.5
Median (\$)	70,000	83,000	100,000	150,000

**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.

The "other" category includes SCF respondents who identify as Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other races, and all respondents reporting more than one race.

Gross median values (before debt) are shown for personal residences and privately held businesses.

### **Stock**

One in four White families owned stock in 2019. In contrast, only 8 percent of Black families and 5 percent of Hispanic families included stock in their investment portfolios. Within their portfolios, the gap in shares of gross portfolio values was also broad: 4 percent for Black families, 3 percent for Hispanic families, and 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.

### **Homeownership**

Overall, families' personal residences were the most valuable asset in their investment portfolio, but again, there were significant racial and ethnicity gaps. Whereas nearly three-quarters of White families owned their homes, less than half of Black and Hispanic families were homeowners. As a share of gross assets, personal residences were 44 percent for Black families, 51 percent for Hispanic families, and just 24 percent for White families, and the gap in median values was smaller than for stocks. Even so, home values were generally less for Black families than for White families in every income and wealth group. The median value of a Black family's home was \$150,000, compared to \$230,000 for a residence belonging to a White family. Among Hispanic families, the median home value was \$200,000.

Within each income and wealth group, the gap persisted between the average value of the homes of White families and that of homes owned by Black families.<sup>6</sup> Among those with incomes in the middle quintile, the average value was about \$176,000 for Black families and \$231,000 for White families. The average home value for Hispanic families was about \$20,000 higher than for White families. By the highest income quintile, the gaps had broadened, with the average value of Hispanic families' homes still larger than the other two groups: \$436,000 for Black families, \$571,000 for White families, and \$629,000 for Hispanic families.

Overall, White families were more likely to have a mortgage than Black and Hispanic families (28 percent for Black families, 32 percent for Hispanic families, and 47 percent for White families). But the prevalence of mortgages among Black families in the highest income quintile was substantially higher than for White and Hispanic families (84 percent compared to roughly 71 percent for both White and Hispanic families). Still, the average amount of mortgage debt in the middle-income group was generally higher for Hispanic families with mortgages than for Black and White families: roughly \$110,000 for both Black families and White families, compared to \$155,000 for Hispanic families. And at the top income quintile, those average values were about \$222,000 for Black families, \$325,000 for Hispanic families, and \$337,000 for White families.

### ***Privately Owned Businesses***

Less than 5 percent of Black families and 6 percent of Hispanic families owned nonfarm businesses, compared to 14 percent of White families. 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 value of Black-owned businesses was 70 percent of the median value for White families (\$70,000 and \$100,000, respectively). Among Hispanic families, the median value (\$83,000) fell nearly halfway between the amounts for the other two groups.

## **IMPACT OF PANDEMIC ON RACIAL WEALTH GAP AND PORTFOLIO COMPOSITION**

The 2019 SCF's estimates of net wealth predate the COVID-19 pandemic. At the end of 2022, total net wealth in the United States exceeded prepandemic levels, after adjusting for inflation, according to the Federal Reserve's financial accounts for the nation. But high unemployment during the worst of the pandemic and the surge in inflation as the pandemic abated more adversely affected people of color compared to White individuals (Hardy, Hokayem, and Roll 2022). The pandemic-induced economic crisis may have widened the racial wealth gap, but the full effects will not be known until the Federal Reserve releases the findings from the 2022 SCF.

Stock portfolio patterns may also have shifted during the COVID-19 pandemic, reflecting changes in both Black and White households' investment strategies. According to the 2022 Ariel-Schwab Black Investor Survey, the racial gap in stock ownership narrowed by 2022, driven by the falling stock market participation rate among White households. Black households remained as likely to invest in stocks as they had at the start of the survey in 1998. At the same time, Black investors were more likely than White investors to own cryptocurrency (25 and 15 percent, respectively).

## REASONS FOR RACIAL DIFFERENCES IN PORTFOLIO COMPOSITION

Our analysis of the 2019 SCF confirmed what other researchers have observed in past surveys: Black and Hispanic families have less net wealth than White families overall and even among families with similar incomes. Moreover, they are less likely to make risky and potentially more remunerative investments compared to White families, even when they have similar incomes (Brown 2007; Choudhury 2001; Gutter and Fontes 2006; Shin and Hanna 2015).

One inference might be that White families are more tolerant of risk than Black and Hispanic families. But the evidence on differences in risk tolerance by race and ethnicity is mixed (Yoong et al. 2019). And even if Black and Hispanic investors were more risk averse, the question would remain as to the underlying causes of those behaviors. As described below, prior research has highlighted various challenges faced by Black and Hispanic families that contribute to the investment patterns observed in the data.

### ***Access to Credit***

A history of discrimination in the housing market and mortgage lending industry has resulted in lasting racial gaps in homeownership rates and housing wealth. The practice of redlining restricted access to credit among minorities (Rothstein 2017; Schill and Wachter 1995). Even after the practice was banned under the Fair Housing Act of 1968, housing values in formerly redlined census tracts continued to be lower than in adjacent neighborhoods (Appel and Nickerson 2016).

Credit bureau data also reveal that Black and Hispanic families are more likely to have low or missing credit scores, delinquencies, bankruptcies, and high levels of debt (Dey and Brown 2022), contributing to the racial differences in the likelihood of obtaining a mortgage. But even after controlling for credit quality and demographic characteristics, Black mortgage applicants are much more likely to be rejected (Charles and Hurst 2002).

Possibly because of their restricted access to mortgages, Black households are less likely to apply for a mortgage than comparable White households. In the mid-1990s, differences in the probability of initiating a mortgage application explained roughly 93 percent of the gap in transitions into homeownership (Charles and Hurst 2002), and more recent data confirm this lower propensity among Black households to make mortgage inquiries (Dey and Brown 2022).

Barriers to credit may also be a factor explaining the fewer investments in privately held businesses by Black families. Black Americans start a new business at a higher rate than White families (Koellinger and Minniti 2006). But Black-owned businesses are more likely to fail (Bates 1989; Headd 2003; Kroeger and Wright 2021), which has been linked to lower asset levels, credit constraints, and greater difficulties in raising startup capital even after controlling for measures of credit worthiness (Blau and Graham 1990; Fairlie and Robb 2007; Fairlie, Robb, and Robinson 2020).

### ***Differences in Financial Education***

Racial differences in financial education can also contribute to many aspects of the observed differences of asset portfolio composition. The 2022 Ariel-Schwab Black Investor Survey shows, relative to White Americans, Black Americans are less likely to have discussed the stock market with their families while growing up and more likely to perceive the stock market

as risky and unfair. These differences contribute to the racial gap in stock market participation rates documented in the previous section.

Differences in financial education, combined with the legal and tax complexities surrounding the choice of business organizational form, may also contribute to racial disparities in how entrepreneurs set up their businesses. Entrepreneurs have several options for how they organize their businesses, with implications for owners' responsibilities for the business's debt, management responsibilities, and tax liabilities. A privately held business could structure itself as either a C corporation or a pass-through entity. (Taxation of the former organization is specified in subchapter C of the Internal Revenue Code; hence, the name.) Pass-through entities include sole proprietorships, partnerships, and S corporations (also named after the relevant subchapter of the tax code).

Satterthwaite (2019) found that White entrepreneurs were more likely than Black business owners to organize their businesses as pass-through entities. In a study of all new businesses formed in 2004, she found that White entrepreneurs were 47 percent less likely than Black entrepreneurs to form C corporations, and among firms that appeared eligible to elect S corporation status, nonwhite and foreign-born entrepreneurs were 61 percent more likely than White entrepreneurs to remain C corporations.

### ***Economic and Health Uncertainties***

The higher risks of job loss and health concerns may also contribute to the less risky investment choices made by Black and Hispanic families. Both concerns may cause those families to choose assets that can be accessed quickly without much loss (Blau and Graham 1990).

### ***Intergenerational Transfers***

Some studies find that differences in bequest and family support account for more of the racial wealth gap than any other demographic or socioeconomic indicator (Blau and Graham 1990; Hamilton and Darity 2010; Menchik and Jianakoplos 2007). In the 2019 SCF, 30 percent of White families reported having received an inheritance, compared to 10 percent of Black families and 7 percent of Hispanic families. Similarly, a much higher share of White families anticipated a future bequest (Bhutta et al 2020).

White households are also much more likely to receive financial assistance from relatives for a down payment on a house than Black families. In the early 1990s, 42 percent of White households obtained family help for the down payment on a home, but less than 10 percent of Black households benefited from similar assistance (Charles and Hurst 2002). White college graduates are also more likely to have received financial assistance from their parents for college than Black college graduates who, in addition, are more likely to provide financial support to older generations (Meschede et al. 2017).

Racial disparities in asset holdings can contribute to longer-run trends in wealth disparities through the intergenerational transmission, not only of accumulated wealth, but also of risk preferences and investment strategies. Both asset ownership probabilities (Chiteji and Stafford 1999) and asset portfolio choices (Charles and Hurst 2003) are correlated across generations.

## TAX SYSTEM

Some types of income from assets (such as dividends and long-term capital gains) receive preferential tax treatment relative to the returns from other types of investments (such as interest income) and wages and salaries. As several legal scholars have observed, this preferential tax treatment results in otherwise similar taxpayers paying different amounts of income taxes based purely on the sources of their income or the composition of their investment portfolios (Brown 2021; Moran and Whitford 1996). Thus, a family’s investment portfolio has consequences for their income taxes, after-tax income, and potential to invest in the future. To the extent that Black families have fewer assets and less income from tax-preferred assets, racial disparities in income and assets may be reinforced and perpetuated by the tax system. However, as noted earlier, understanding and quantifying these interactions has been challenging because of inadequate data.

### *Taxation of Wealth and Capital Income*

Few countries tax net wealth. Instead, most countries, including the United States, tax income derived from those assets. However, the US federal tax code does not apply the same tax treatment to all types of income. Net income from certain assets is treated more favorably than wages and salaries, net self-employment income, and other types of income that are not derived from assets, often referred to as “ordinary income.” Moreover, some types of capital income receive preferential treatment relative to other forms of capital income.

As a baseline for comparison, first consider the tax rates applied to ordinary income. In 2023, those rates range from 10 to 37 percent (table 6). With the expiration of the Tax Cuts and Jobs Act at the end of 2025, the top rate will rise to 39.6 percent.

**TABLE 6**  
Statutory Tax Rates and Brackets in 2023



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

Source: Internal Revenue Service.

In addition, a surtax—the net investment income tax—may apply to interest income, in combination with nearly all other types of investment income, when adjusted gross income (after some modifications) exceeds a threshold. The rate is 3.8 percent, and the thresholds are \$250,000 for married couples filing a joint tax return and \$200,000 for unmarried taxpayers.

## Stocks

Income from stocks can take the form of dividends or capital gains—the net profit from the sale of stocks. 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, net of costs, from the sale of stock held for a year or less, and long-term net gains are the remainder. Another distinction is made between qualified and nonqualified dividends, with the former 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.<sup>7</sup> Other financial assets also generate capital gains that receive preferential tax treatment.<sup>8</sup>

Although lawmakers 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 the rates on other types of income. Since 2003, qualified dividends have also been taxed at the same rates as long-term capital gains. In 2023, the tax rates on long-term gains and qualified dividends are 0, 15, and 20 percent (table 7).<sup>9</sup> Short-term capital gains and nonqualified dividends are taxed at ordinary tax rates. (The net investment income tax, described above, applies to dividends and both short-term and long-term capital gains.)

**TABLE 7**  
Long-Term Capital Gains and Qualifying Dividends: Tax Rates and Brackets in 2023



Rate (%)	Tax Bracket		
	Single	Head of Household	Married Filing Jointly
0	0 to \$44,625	0 to \$59,750	0 to \$89,250
15	\$44,625 to \$492,300	\$59,750 to \$523,050	\$89,250 to \$553,850
20	Over \$492,300	Over \$523,050	Over \$553,850

**Source:** Internal Revenue Service.

**Notes:** The tax rate applies to long-term capital gains and qualified dividends in excess of the beginning of the tax bracket. Long-term capital gains are the receipts, net of expenses, from the sale of an asset held for longer than a year.

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

For most types of assets, losses are subtracted from any gains realized in that year, effectively reducing taxes at the same rate that applies to capital gains. When computing tax liability, long-term losses are subtracted from long-term gains, and short-term losses are subtracted from short-term gains. Net losses in one category can then be subtracted from net gains in the other.

Losses from the sale of long-term capital assets can affect taxes at rates that differ from those that apply to long-term 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 in any year—a level set in 1978 and not adjusted for inflation since then. Had that cap been adjusted for inflation, the current limitation would be about \$14,600. Losses greater than that amount



may be carried forward to future years and used to reduce capital gains and then, if the taxpayer still has a net loss, ordinary income.

An exception to the preferential tax treatment of long-term gains and losses is personal property. For example, gains from the sale of a vehicle (the most commonly held asset) are taxed at the same rate as ordinary income, and losses are not deductible.

### ***Personal Residences***

The tax code subsidizes homeownership in several ways, including preferential treatment of both the tax benefits of owning and living in one's home and the proceeds from the sale of that home. But losses from the sale of personal residences do not receive the same tax preferences as those from the sale of stock.

Tax policy analysts use the term "imputed rent" to refer to some of the benefits derived from owning a home. 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 value of the shelter and other services they receive from investing in owner-occupied housing. But that income—or imputed rent—is tax free, in large part because of the administrative challenges of taxing unobserved income.

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 residence or secondary residence from taxable income.<sup>10</sup> Because higher-income taxpayers face higher tax rates, the deduction is worth more to them than to lower-income taxpayers. A deduction for \$10,000 of annual interest reduces taxes by \$3,700 for a taxpayer in the 37 percent tax bracket, but only \$1,000 for a taxpayer in the 10 percent tax bracket. Second, itemizers can also deduct property taxes, though the amount, combined with state and local taxes, is capped at \$10,000 through the end of 2025.

When homeowners sell a personal residence, the capital gains from the sale generally are subject to the same preferential rates as the net profits from stock transactions. There are two key differences, however. First, homeowners can exclude up to \$250,000 (\$500,000 for married couples filing joint tax returns) of such gains from taxable income. And as noted above, losses from the sale of personal property—which includes personal residences—generally are not deductible.

### ***Sole Proprietorships and Partnerships***

Businesses can be organized in several ways, and various legal factors may be weighed in making those choices. 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: first at the corporate income tax rate and again when that income is distributed to shareholders through dividends or capital gains. Although the double taxation of corporate income can be a deterrent to organizing as a C corporation (if eligible), that factor may be outweighed by the tax rate of 21 percent, which is 14 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 owner’s share of the pass-through business’s income is treated as ordinary income earned by those owners though, as noted above, the rates on individual income can be substantially higher than on corporate income.

Pass-through businesses may also benefit from the Section 199A deduction created by the Tax Cuts and Jobs Act of 2017. 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. Those deductions are subject to numerous restrictions. For example, some service providers (including lawyers and accountants) lose part, and eventually all, of the deduction when their income exceeds specified thresholds.

## DATA AND TAX MODEL

In the next two sections, we examine the distribution of capital income and policy options to change the taxation of that income. For this analysis, we used TPC’s large-scale microsimulation model.<sup>11</sup> TPC regularly produces analyses of the distributional effects of various tax provisions under current law and changes to the tax code using that microsimulation model, which can analyze current law and numerous potential policy changes and predict the change in after-tax income for taxpayers across the income distribution and by age, marital status, and presence of children. Those distributions do not incorporate behavioral responses to policy changes.

The TPC model’s primary data source is the public-use file produced by the Statistics of Income division of the Internal Revenue Service. The public-use file contains detailed information about taxpayers’ income, deductions, exemptions, taxes, and credits, as well as their characteristics and those of their dependents, as reported on individual income tax returns. The data are drawn from a weighted sample of over 140,000 individual income tax returns.

To capture characteristics that are not reported on tax returns (such as certain demographic characteristics, nontaxable income, and wealth) or by people who do not file returns, those administrative data are augmented by other types of administrative and survey data. The Current Population Survey is a primary source for the TPC model, but it does not contain information on the value of assets and debts. Instead, TPC uses the SCF to develop imputations for 18 categories of assets and debt. Because the SCF, by design, excludes the 400 wealthiest individuals—the Forbes 400—their wealth is imputed using published information from *Forbes* magazine and other public sources. Finally, to extend the database to more recent and future years, the data are “aged” using information from published tax data as well as projections from various sources.

Because tax returns do not contain race and ethnicity, TPC began imputing those characteristics onto the tax model in 2022 (Khitatrakun et al. 2023). This strategy takes the existing TPC tax model as given but replicates every tax unit into several units, with each of the copies representing a different race or ethnicity but otherwise remaining identical to the original unit. The current version of TPC’s model uses the 2019 SCF’s four categories of race and ethnicity: White Non-

Hispanic, Black Non-Hispanic, Hispanic, and Other (the latter includes people identifying with more than one race). For simplicity, we refer to the TPC categories as White, Black, Hispanic, and other.

Weights were then estimated for the resulting tax units such that the weighted totals of selected demographic, income, tax deduction, and wealth variables in the TPC tax model by race and ethnicity closely matched comparable totals derived from relevant surveys, and the weight across races and ethnicities for each replicated tax unit equalled the TPC tax model weight for the original tax unit.<sup>12</sup> The enhanced model can be used to estimate tax policy impacts by race and ethnicity.

This paper is the first to analyze tax policy options using the new race and ethnicity imputations in the TPC enhanced model (and to our knowledge, the first study to do this type of analysis using a tax microsimulation model with race and ethnicity imputations).<sup>13</sup> Because the race and ethnicity imputations are still being refined, we limited our quantitative analysis to relatively simple options that could be estimated using variables that are aligned with population targets for each race and ethnic group. Another restriction was the year of analysis. Currently, TPC's analysis of the impact of tax policy, by race and ethnicity, is limited to 2019, the base year for the imputation targets. Estimating policy impacts for future years will require an assumption about how racial and ethnic differences in the factors determining tax liability will evolve over time.

TPC classifies tax units by an income concept we call "expanded cash income" for the purpose of distributional analysis. Expanded cash income was constructed to be a broad measure of pretax income, and we use it both to rank tax units in our distribution tables and to calculate effective tax rates.<sup>14</sup>

## **DISTRIBUTION OF CAPITAL INCOME IN 2019**

The racial wealth gap, both amounts and portfolio allocations, is mirrored in the model's estimates of the amounts and sources of capital income. Just as White families more frequently owned stock in 2019 than Black and Hispanic families and the average values of their holdings were larger, a greater share of White families' income came from net capital gains and dividends (table 8). Self-employment income was a small share of families' income in each racial and ethnic group, but it was largest for Hispanic and White families. This finding is consistent with the findings that those groups are more likely to be business owners than Black families.

Black, Hispanic, and other families derived a larger share of their income from wages and salaries than White families, increasing the likelihood that a greater share of the total income of those three groups was taxed at a higher rate than White families' total income.

TABLE 8

Share of Positive Expanded Cash Income Derived from Selected Sources  
by Race and Ethnicity, 2019

Positive ECI (%)	Black Families	Hispanic Families	White Families	Other Families
Net Capital Gains	0.8	0.5	7.5	5.5
Taxable Dividends	2.2	4.0	3.6	2.8
Interest	0.4	0.3	0.9	0.6
Wages and Salaries	57.9	60.4	45.6	56.7
Self-employment income	2.2	4.0	3.6	2.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Note: ECI = expanded cash income.

TABLE 9

## Average Net Capital Gains among All Families, 2019



Expanded Cash Income (percentile)	Black Families	Hispanic Families	White Families	Other Families
Average Net Capital Gains (\$)				
Lowest Quintile	10	*	110	40
Second Quintile	30	*	360	140
Middle Quintile	150	130	1,060	310
Fourth Quintile	260	520	2,280	680
Top Quintile	6,260	3,700	45,540	33,290
80-90	810	740	4,480	2,890
90-95	1,500	1,410	9,130	5,940
95-100	31,640	18,340	167,100	113,510

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Note: \* Non-zero value rounded to zero.

The average amount of net capital gains rose with income (table 9). In every income group, White families realized more gains, on average, than Black, Hispanic, or other families. In the 80–90th and 90–95th percentiles, Black and Hispanic families realized, on average, similar amounts of gains. In the top 5 percent, however, Black families had substantially larger average gains than Hispanic families.

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 (table 10). Relative to Hispanic families, Black families' average dividends were larger, except in the 80–90th and 90–95th income percentile groups. But that pattern reversed in the top 5th percentile, with Black families receiving dividends, on average, that were larger than all but White families (\$24,320 and \$36,800, respectively).

TABLE 10

## Average Taxable Dividends among All Families, 2019



Expanded Cash Income (percentile)	Black Families	Hispanic Families	White Families	Other Families
Lowest Quintile	10	*	70	30
Second Quintile	90	20	310	170
Middle Quintile	220	110	810	410
Fourth Quintile	660	540	1,670	800
Top Quintile	4,890	3,520	11,500	6,150
80-90	680	1,030	2,570	1,870
90-95	1,390	1,900	4,680	2,400
95-100	24,320	15,430	36,800	17,330

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Note: \* Non-zero value rounded to zero.

As observed above, White families were more likely to have a mortgage than families in the other groups, except in the top quintile where mortgages were most prevalent among Black families. Similarly, White families were more likely to pay any home mortgage interest than the other groups in the bottom four quintiles, and Black families were the most likely to make mortgage interest payments at the top of the income distribution (table 11).

Among families that held home mortgages, Hispanic families paid, on average, more mortgage interest than White families in all income quintiles (table 12). Particularly in the middle quintiles, White families' payments were similar in size to those made by Black families, and both groups made smaller payments than other families above the first income quintile.

TABLE 11

## Share of Families with Home Mortgage Interest, 2019



Expanded Cash Income (percentile)	Black Families	Hispanic Families	White Families	Other Families
Lowest Quintile	5.3	3.2	5.4	3.9
Second Quintile	14.3	11.7	19.6	13.8
Middle Quintile	30.5	28.5	42.7	29.4
Fourth Quintile	55.3	55.2	61.1	51.8
Top Quintile	79.4	71.9	74.4	75.7
80-90	77.5	71.2	73.0	72.5
90-95	79.1	73.8	76.3	78.7
95-100	86.5	72.0	75.5	78.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

TABLE 12

## Average Home Mortgage Interest among Those with Mortgage Interest, 2019



Expanded Cash Income (percentile)	Black Families	Hispanic Families	White Families	Other Families
	Average Home Mortgage Interest (\$)			
Lowest Quintile	2,120	4,040	2,890	2,780
Second Quintile	3,030	4,620	2,910	3,460
Middle Quintile	3,610	4,760	3,760	4,970
Fourth Quintile	5,520	6,270	5,650	6,760
Top Quintile	9,690	11,010	10,400	12,150
80-90	8,230	9,450	8,170	9,300
90-95	8,830	12,290	10,120	12,040
95-100	15,330	15,210	15,110	16,820

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

## OPTIONS TO CHANGE TAXATION OF CAPITAL INCOME

In recent years, President Biden and some members of Congress have proposed changes to the tax treatment of capital and capital income to improve equity within and between income groups and to promote economic efficiency. For example, President Biden and other lawmakers have proposed increases in the tax rates on long-term capital gains and certain types of dividends. In addition, the expiration by the end of 2025 of the individual income tax provisions in the Tax Cuts and Jobs Act will affect the tax value of homeownership and privately held businesses and provide an opportunity for lawmakers to consider alternative policies.

Until now, it has not been possible to consider in those discussions any analysis of the ramifications of policy changes for different racial and ethnic groups. Yet, our preliminary analysis of data from the SCF and tax data suggests that the tax treatment of capital may place Black and Hispanic families at a disadvantage relative to White families.

In this section, we examine the impact, by race and ethnicity, of several options to change the tax treatment of capital income. After a discussion of the development and use of a disproportionality index (DI), we consider options that would reduce the preferential treatment of capital income by increasing the tax rates on long-term capital gains and qualifying dividends.<sup>15</sup> We then turn to options that would shift a portion of the tax preference for home mortgage interest income from higher-income families to those with moderate incomes.

### *Disproportionality Index*

The standard TPC distribution tables show the impact of a change in tax burden for all families and also families by income group. The income groups are presented by either dollar groupings or quintile categories (with more detailed groupings also provided for households in the top quintile). The tables thus provide insight into how the tax burden in an income group compares to the average across all families, as well as how the tax burden varies across income groups.

For example, table A.1 in the appendix presents a standard TPC distribution table of an option to tax long-term capital gains and qualified dividends at the same rates as ordinary income. Under that option, families in the middle quintile would bear 2 percent of the additional tax burden, while over 90 percent of the burden would accrue to the families in the top quintile. The average federal tax increase would be \$90 for families in the middle quintile and \$6,100 among families in the top quintile. The conclusion is clear: families in the top quintile would be disproportionately burdened by the tax increase.

Tables A.2 through A.5 show the same option for Black, Hispanic, White, and other families, respectively. In table A.2, we observe that among all Black families, those in the middle quintile would bear about 5 percent of the tax burden (an average tax increase of \$30) compared to 86 percent (\$1,350, on average) for the top quintile. Thus, our observation about the relative tax burden among all families is also true within Black families alone.

We were interested in how the relative shares of the total tax burden would be distributed among Black, Hispanic, White, and other families by income grouping. For example, Black families would be liable for 4 percent of the total revenue from the option. But from that information alone, we could not conclude whether Black families' share would be disproportionate to their representation in the population. To do so, we had to make an adjustment for the number of Black, Hispanic, White, and other families in each group.

We addressed this issue through the use of a DI given by this basic calculation:

$$DI_{gj} = \frac{T_{gj}/T_j}{N_{gj}/N_j} = \frac{\bar{T}_{gj}}{\bar{T}_j}$$

where  $T_{gj}$  is the change in the tax burden for race  $g$  in income group  $j$ ;  $T_j$  is the change in tax burden for income group  $j$ ;  $N_{gj}$  is the number of taxpayers of race  $g$  in income group  $j$ ;  $N_j$  is the number of taxpayers in income group  $j$ ; and the bars represent averages. The DI divides a racial or ethnic group's share of the tax burden by its share of the population.

The DI equation above can be collapsed to the ratio of the average change for that group to the overall average change, allowing it to be calculated from standard TPC distribution tables. A DI of 1 indicates that the racial or ethnic group would have experienced a change that is proportional to its representation in the income group. A value greater than 1 indicates that the group would have experienced a disproportionately large change, and a value less than 1 indicates that it would have experienced a disproportionately small change. We used a negative number if a group would have experienced a decrease in taxes, and a positive number if that group would have experienced an increase in taxes.

In the previous example, Black families in the middle-income quintile would have seen a \$30 average increase in taxes, compared to a \$90 increase for all families in the middle-income quintile. The DI for Black families in the middle-income quintile is therefore \$30/\$90, or 1/3. It should be noted that if some groups would have received tax increases and other groups would have received roughly offsetting tax cuts, the result could be that some groups have very high positive index values, while other have very high negative index values.

Note that we calculate DIs using rounded values found in the Average Federal Tax Change columns in the distribution tables found in the appendix. Using unrounded values, if one group has a DI less than 1 (or -1), then another group must have a DI greater than 1 (or -1). This relationship does not necessarily hold when the rounded values are used.

## ***Adjust the Preferential Rates on Long-Term Capital Gains and Qualified Dividends***

Policymakers periodically propose changes to the taxation of long-term capital gains and dividends, though they may differ on whether the rates should be cut or increased depending on their views about the impact of those taxes on the economy. For example, President Biden has included in his annual budget submissions a proposal to increase the top rate on long-term capital gains and most dividends to be the same rate applicable to ordinary income—but only for taxpayers with taxable income exceeding \$1 million.

Because the current maximum rate on long-term gains and dividends is already significantly lower than the top rates on other sources of income, we focus on options that would increase the rates on long-term capital gains and qualified dividends, including President Biden’s proposal.

### **ELIMINATE PREFERENTIAL TAX RATES ON ALL LONG-TERM CAPITAL GAINS AND DIVIDENDS**

The first option would remove the preferential tax rates on all long-term capital gains and qualified dividends. This option is similar to the provision in the Tax Reform Act of 1986, in which the gap was narrowed: the preferential treatment was eliminated and top rates on ordinary income were reduced. Since then, policy has seesawed. In 1991, the top rate on ordinary income was raised, and in 1997 the top rate on long-term capital gains was reduced. In this option, we simply eliminate the preferential treatment and leave the rates on ordinary income untouched.

TPC’s distribution tables generally do not reflect taxpayers’ responses to tax law changes. While this accurately describes the burden imposed on taxpayers, it is not intended to describe how much revenue would be collected from each group. Research, however, shows that the behavioral responses to changes in the capital gains tax rate may be substantial (Dowd and McClelland 2019; Dowd, McClelland, and Muthitacharoen 2015). If the rate were increased, taxpayers would likely defer asset sales temporarily, in the hope that the tax increase is repealed (as history suggests), or indefinitely, so that the asset may be passed to heirs without the imposition of any capital gains taxes. One well-known strategy is to “buy, borrow, die,” in which capital assets are purchased and unrealized gains that are accumulated are used as collateral to borrow funds used for consumption. The loan is paid off at death, and any remaining gains pass to heirs free of capital gains taxes.

If the preferential rates had been removed in 2019, nearly 13 percent of families would have experienced a tax increase, averaging \$910 across all families (table A.1). As income rises, the average tax increase also rises, both because higher-income families own more assets and because their income pushes them into higher tax brackets. The average tax increase would have been \$90 in the middle-income quintile, \$240 in the fourth quintile, and \$6,100 in the top quintile. Most of the total tax increase would have been paid by those in the top of the income distribution.

A similar pattern would have held for White families, with average tax increases ranging from \$130 in the middle quintile to \$7,090 in the top quintile (table A.4). In contrast, Black families would have seen their taxes, on average, rise from \$30 in the middle quintile to \$1,350 in the top quintile. Hispanic and other families also would have incurred smaller average tax increases than White taxpayers.



The resulting DIs, by race, ethnicity, and income, are shown in table 13. Because White families more frequently owned capital assets and possessed larger amounts on average than other families, their tax increase in 2019 would have been larger than their share of the population (as reflected by entries greater than one). In contrast, in all five quintiles, Black, Hispanic, and other families would have had disproportionately smaller reductions in after-tax income. These smaller reductions follow from the data in table 9, which show that Black families realize fewer capital gains than White families throughout the income distribution.

**TABLE 13**

**Disproportionality Index**

**Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income**



Expanded Cash Income Percentile	Black Families	Hispanic Families	White Families	Other Families
<b>Lowest Quintile</b>	**	**	**	**
<b>Second Quintile</b>	*	*	1.00	0.50
<b>Middle Quintile</b>	0.33	0.22	1.44	0.56
<b>Fourth Quintile</b>	0.25	0.33	1.25	0.42
<b>Top Quintile</b>	0.22	0.13	1.16	0.83
<b>All</b>	0.11	0.07	1.44	0.99
<b>80-90</b>	0.25	0.32	1.18	0.75
<b>90-95</b>	0.23	0.23	1.15	0.70
<b>Top 5 Percent</b>	0.30	0.18	1.12	0.75

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:** \* Non-zero value rounded to zero; \*\* Insufficient data or division by zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) Negative values indicate tax decreases, and positive values indicate tax increases. Members of an income group could have experienced a tax change substantially different from the overall change.

Eliminating the preferential tax treatment of long-term capital gains and qualified dividends would impose a burden on many families. But because capital gains are concentrated at the very top of the income distribution, most of the burden would have fallen on high-income taxpayers.

**LIMIT INCREASE TO FAMILIES IN TOP INCOME TAX BRACKETS**

Next, we considered raising the rate on long-term capital gains and qualified dividends for only those in the top ordinary income tax bracket. In 2019, taxpayers fell in the top bracket if their income was above \$510,301 for single filers and heads of households, \$612,351 for married taxpayers filing jointly or for qualified widows, and \$306,176 for married taxpayers filing separately.

Relative to the previous option, the percentage of all families experiencing a tax increase would have fallen from about 13 to 0.7 percent (table A.6). As expected, tax liabilities would not have changed for all families, regardless of race and ethnicity, below the 90th percentile of income (tables A.6 through A.10). Again, those in the top income percentiles would

have had substantial tax increases. Overall, about 22 percent of families in the 95th percentile would have been affected by the tax increase.

For simplicity, we limit the presentation of DIs to the overall group, the top income quintile, and the top 5 percent (table 14). Partly because of differences in the definitions of expanded cash income and taxable income, not all families in the 95th percentile were in the top tax bracket. As a consequence, the DIs differ somewhat from the option to raise the rates for all families (table 13). The DI falls from 0.11 to 0.09 for Black families and from 0.07 to 0.04 for Hispanic families. The DI increases from 0.99 to 1.07 for other families, but for White families, it remains roughly unchanged.

**TABLE 14**  
**Disproportionality Index**  
**Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income,**  
**for Taxpayers in the 37% Tax Bracket**



Expanded Cash Income Percentile	Black Families	Hispanic Families	White Families	Other Families
All	0.09	0.04	1.43	1.07
Top Quintile	0.21	0.11	1.16	0.88
Top 5 Percent	0.28	0.16	1.12	0.78

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:** (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for those in the 37% tax bracket.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) Negative values indicate tax decreases, and positive values indicate tax increases. Members of an income group could have experienced a tax change substantially different from the overall change.

#### LIMIT INCREASE TO TAXPAYERS WITH OVER \$1 MILLION OF INCOME

A third option would further reduce the number of families who would be subject to the tax increase on long-term capital gains and dividends. In 2021 and 2022, President Biden proposed to tax long-term gains and dividends at ordinary income rates, but only for families with more than \$1 million of taxable income.

As shown in tables A.11 through A.15 and table 15, this option would primarily affect families in the top 5 percent. The DIs for the top 5 percent are nearly identical to the previous case because almost everyone affected by the previous option would have been affected by this one and by similar amounts.

**TABLE 15**

**Disproportionality Index**

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers with More than \$1 Million in Taxable Income



Expanded Cash Income Percentile	Black Families	Hispanic Families	White Families	Other Families
All	0.08	0.03	1.44	1.14
Top Quintile	0.20	0.09	1.16	0.92
Top 5 Percent	0.28	0.13	1.12	0.81

**Source:** Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

**Notes:** (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers with more than \$1 million of taxable income.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) Negative values indicate tax decreases, and positive values indicate tax increases. Members of an income group could have experienced a tax change substantially different from the overall change.

Because realizing gains is voluntary, the large tax increases that the top 5 percent would have experienced would probably have led to a sharp decrease in the number and amounts of realizations. Dowd and McClelland (2019) found that millionaires responded sharply by increasing their capital gains realizations when tax rates dropped for assets held for one year. The buy, borrow, die strategy mentioned above may well have been employed by many of the affected taxpayers, leading to little revenue being collected and a large share of gains possibly escaping income taxes entirely when owners died and assets were passed on to their heirs.

**TAX CAPITAL GAINS AT DEATH**

The Biden administration’s proposal addressed concerns about taxpayers’ responses to higher tax rates by deeming the transfer of capital assets at death as a realization event—that is, equivalent to the sale of the asset. Tax on those gains would then be due on the decedent’s final tax return. Eliminating the incentive to hold gains until death would also reduce the incentive to continue to hold poorly performing assets rather than sell and realize a taxable gain. Taxpayers’ responses to that reduced incentive would partially depend on why people leave bequests.

The presence of a bequest motive could affect the response to deeming realizations at death. For people committed to leaving the largest possible amount to their heirs, paying taxes at death simply reduces the amount of the transfer. If people consider both current consumption and their heirs—and the buy, borrow, die strategy suggests that some taxpayers make those considerations—owing capital gains taxes at death would encourage taxpayers to realize them during life instead. But people who are not concerned about the future well-being of their heirs and are not engaged in estate planning would probably not change their behavior.

Although we cannot precisely estimate how deeming realizations at death will affect taxpayers of different racial and ethnic groups, table 4 provides some insight. In 2019, Black families in the top income quintile had, on average, \$1.4 million in net wealth, whereas Hispanic families with similar incomes had an average of \$1.5 million. Among White and other

families in that income range, net wealth was, on average, \$4.4 million and \$3.1 million, respectively. If families accrue unrealized capital gains roughly in proportion to their net wealth, White and other families in the top income quintile would bear a disproportionate share of the option to tax capital gains at death.

### ***Convert Home Mortgage Interest Deduction into a Nonrefundable Tax Credit***

The home mortgage interest deduction dates back to the beginning of the federal income tax system in 1913. Despite its long history and popularity, researchers have typically found that the deduction does not spur people to buy homes. Rather, it encourages people to get larger mortgages and buy more expensive homes (McClelland, Mucciolo, and Sayed 2022).

The deduction is usually considered to be regressive. For example, it is only available to taxpayers who have sufficient expenses to make it beneficial to itemize rather than claim the standard deduction. As described earlier, the deduction is more valuable to higher-income families, because its value is based on the amount of deductible interest and the taxpayer's tax bracket—the larger the interest payments and the tax rate, the greater is the deduction.

In this section, we examine options to replace the current deduction with a tax credit, which in several ways would be more progressive than the deduction.<sup>16</sup> A tax credit would extend the subsidy on mortgage interest to taxpayers who do not itemize and often have lower incomes than itemizers. In addition, tax credits have the same value to all taxpayers: a \$600 credit reduces taxes owed by no more than \$600, regardless of the taxpayer's bracket. As with the capital gains options, the distributional analysis does not account for behavioral responses to the replacement of the deduction with a credit.

### **REPLACE THE HOME MORTGAGE INTEREST DEDUCTION WITH A 12 PERCENT TAX CREDIT**

This option would replace the home mortgage interest deduction with a nonrefundable tax credit. The credit rate would be set at 12 percent, which is about the average marginal tax rate faced by taxpayers in 2019.<sup>17</sup> The current deduction's limits on the size of mortgages would apply to the credit. Because the credit would be nonrefundable, the amount could not exceed the taxpayer's income tax liability.

Under this policy, income taxes would fall for some families and rise for others. Taxpayers who do not itemize but have a mortgage would experience a tax cut. Taxes would also drop for mortgage holders who itemize but who are in the 10 percent rate bracket. In contrast, taxes would increase for itemizers who deduct home mortgage interest and are in a tax rate bracket above 12 percent. Some people would be unaffected, including people who claim the current deduction and are in the 12 percent rate bracket, and anyone without a mortgage.<sup>18</sup>

For affected mortgage holders, the amount of the decrease or increase in taxes would depend on the size of their mortgage. Among those with larger-than-average mortgages, those in the 10 percent tax bracket would receive larger-than-average tax cuts, and those in the 37 percent tax bracket would experience larger-than-average tax increases.<sup>19</sup>

It is a priori unclear how replacing the home mortgage interest deduction with a tax credit would affect taxpayers across the income distribution and how it might vary across racial and ethnic groups. Overall, the option would have

reduced taxes, on average, by \$60 in 2019 (table A.16). However, the credit would have cut individual income taxes, on average, by \$530 for nearly one in four families, while increasing taxes for 4 percent of families by an average of \$1,700.

To understand how this policy would affect different groups, it is helpful to consider the distribution of mortgage interest payments across the population (tables 11 and 12). In the bottom four quintiles of the income distribution, White families are more likely to make mortgage interest payments than other groups: in 2019, roughly one-third of White families in the bottom four quintiles paid mortgage interest, whereas only 17 to 22 percent of Black, Hispanic, and other families did. But in the top income quintile, Black families were more likely to pay mortgage interest (79 percent) than White families (74 percent), Hispanic families (72 percent), or other families (76 percent).

Those differences are consistent with the analysis of tax expenditures conducted by the Office of Tax Analysis at the Treasury Department. That analysis showed that the value of the home mortgage interest deduction at higher income levels is, on average, larger for Black and Hispanic families than for White families (Cronin, DeFilippes, and Fisher 2023).

We found that across all groups, substantially more families would have received a tax cut rather than be subject to a tax increase (tables A.16 through A.20). However, the share of the population with a tax reduction varied across racial and ethnic groups: income taxes would have fallen for about 28 percent of White families compared to 15 percent of Black families and 14 percent of Hispanic families. About 22 percent of other families would have experienced a reduction in taxes.

However, there was less variation in the size of the average cut. Black families would have seen the smallest cut (\$460), while the tax reduction would have been larger for other families (\$630). White families would have received a \$530 average tax cut.

Far fewer families would have received a tax increase. About 5 percent of White and other families would have faced a tax increase, compared to 3 percent of Black families and 2 percent of Hispanic families.

The difference in the frequency of tax cuts is reflected in the DIs. Hispanic and White families (with DIs of  $-1.0$ ) would have received tax cuts in proportion to their shares of the population (table 16). Conversely, an overall DI of  $-0.50$  for Black families and  $-0.66$  for other families indicate that those two groups would have received disproportionately smaller tax cuts.

TABLE 16

Disproportionality Index

Replace the Mortgage Interest Deduction with a 12 Percent Nonrefundable Tax Credit



Expanded Cash Income Percentile	Black Families	Hispanic Families	White Families	Other Families
Lowest Quintile	*	*	*	*
Second Quintile	-1.00	-1.00	-1.50	-1.00
Middle Quintile	-0.78	-0.89	-1.11	-1.00
Fourth Quintile	-0.86	-1.14	-1.00	-0.90
Top Quintile	6.00	-11.00	1.50	4.50
All	-0.50	-1.00	-1.00	-0.66
80-90	-0.69	-1.28	-1.00	-1.13
90-95	0.50	-1.72	-1.11	-0.89
Top 5 Percent	1.39	0.63	0.98	1.12

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

- (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 12% nonrefundable tax credit.
- (2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>
- (3) 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; and 95% \$347,700.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) Negative values indicate tax decreases, and positive values indicate tax increases. Members of an income group could have experienced a tax change substantially different from the overall change.

That relationship of tax cuts held in the bottom four income quintiles. Among Black and White families receiving a tax cut in the second through fourth income quintiles, the average amount of the tax cut would have been about the same. However, a larger share of White families would have received a tax cut, reflecting the greater prevalence of White families with mortgages. Similarly, in the second through fourth income quintiles, taxes would have declined for a greater share of White families than Hispanic families (although Hispanic families would have seen larger average tax cuts). The pattern of tax increases was similar for all race and ethnic groups: a small number would have seen tax increases, with that number increasing with income.

Table 16 shows that below the top income quintile, White families would have received at least proportionate average tax cuts, while Black families would have received at most proportionate average tax cuts. Hispanic and other families would have had roughly proportionate average cuts, and Hispanic families would have had DIs both above and below --1.

The story in the top income quintile is more nuanced. There, all racial and ethnic groups except Hispanic families would have experienced tax increases, but Black taxpayers would have had a highly disproportionate increase in their taxes, which would occur because the overall average increase in taxes would have been only \$20. Hispanic families, on average, would have received a \$220 tax cut, resulting in a large negative DI when divided by \$20. White families and other families would have received roughly offsetting average tax increases, resulting in large positive DIs.

Within the 90th–95th percentile, Black families would have experienced, on average, a tax increase, while taxes would have been cut, on average, for the other three groups. Families in each race or ethnic group in the top 5 percent of income would have faced tax increases under this policy, but again, the DI values indicate a disproportionate tax increase among Black families. This occurs because a larger share of Black families would have faced tax increases than families of other racial or ethnic groups.

Comparing this policy change to removing the preferential tax treatment of capital gains, we see that in both cases, White families tend to be disproportionately affected. Black families would likewise see disproportionately small changes. However, because so few Black families own capital assets, the DIs for removing the preferential treatment of capital gains are smaller in absolute magnitude than converting the mortgage interest deduction to a credit. Hispanic families tend to be disproportionately affected by the conversion of the mortgage interest deduction, but not for the removal of preferential tax treatment for capital gains. Other families tend to see disproportionately small tax increases to changing the tax treatment of capital gains.

#### **REPLACE THE HOME MORTGAGE INTEREST DEDUCTION WITH A 22 PERCENT TAX CREDIT**

Next, we considered an option to replace the home mortgage interest deduction with a nonrefundable credit at 22 percent, which is about the average marginal rate applied to a dollar of ordinary income. Those who itemize their mortgage interest and are in the 22 percent tax bracket would have seen little change in their taxes. Itemizers in lower tax brackets would have seen a larger reduction in their taxes than in the previous option, and those in higher tax brackets would see a smaller tax increase than in the previous case (tables A.21 through A.25).

Increasing the tax credit from 12 to 22 percent would have led to a slightly larger share of families receiving a tax cut, but the average reduction would have been nearly twice as large (table 17). In essence, the only taxpayers who would benefit in this second option, but not in the first, are the mortgage owners in the 12 percent bracket who itemize. The share that would have had a tax increase, on the other hand, is less than half as large. In the previous option taxes rose for families in the 22 percent rate bracket, but they remained the same when the credit rate increased to 22 percent. Because many taxpayers in that bracket itemized their deductions and had a mortgage, the share experiencing a tax increase would have been much smaller under the second proposal. Combined, the overall average tax cut increased from \$60 to \$230.

TABLE 17

## Disproportionality Index

Replace the Mortgage Interest Deduction with a 22 Percent Nonrefundable Tax Credit



Expanded Cash Income Percentile	Black Families	Hispanic Families	White Families	Other Families
Lowest Quintile	*	*	*	*
Second Quintile	-0.75	-0.75	-1.00	-0.75
Middle Quintile	-0.74	-0.84	-1.11	-0.95
Fourth Quintile	-0.88	-1.04	-1.02	-0.98
Top Quintile	-0.85	-1.34	-0.97	-1.08
All	-0.57	-0.70	-1.17	-1.13
80-90	-0.92	-1.16	-0.98	-1.12
90-95	-0.63	-1.26	-0.99	-1.13
Top 5 Percent	0.57	-3.21	-0.93	-1.14

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 22% nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) Negative values indicate tax decreases, and positive values indicate tax increases. Members of an income group could have experienced a tax change substantially different from the overall change.

Overall, the most marked change in the DI from the prior option is that Hispanic families would have received a tax cut disproportionately small relative to their share of the population (table 17). Offsetting that change is that White and other families would have received disproportionately large tax cuts with a 22 percent credit.

Within the quintiles, the changes in the DIs of the racial and ethnic groups generally followed the same pattern. In most cases, the DIs fell, making tax cuts generally disproportionately smaller relative to the 12 percent credit. The most significant changes occurred in the top quintile, in which the differences in DIs among the groups were no longer extreme, as the average change in taxes was much larger (and a reduction for every racial and ethnic group).

These two policy options demonstrate that the move to a tax credit system would immediately benefit most people who already own a home. The credit would lower the long-term costs of homeownership for potential buyers, too, but the benefits would not reduce the size of the down payment—the first hurdle for many families seeking to own a home. Because White families more frequently own homes than Black or Hispanic families, they benefit from proportionately larger tax cuts, even if the average reduction among all homeowners is of similar size. Other changes to the tax code could encourage people to buy their first home without subsidizing those who have already purchased homes.

#### PROVIDE FIRST-TIME HOMEOWNERS A TAX CREDIT

The home mortgage interest deduction and a nonrefundable tax credit would benefit current mortgage holders, but they would do little to help those who need help with a down payment. As described above, White households are more likely to



receive financial assistance from relatives than are other households. First-time homebuyers can withdraw some funds from individual retirement accounts and 401(k) plans for down payments, but those provisions are most advantageous to families with substantial retirement accounts.<sup>20</sup>

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

Although the federal government does not currently offer homebuyer credits, it has in the past. From 2008 through 2010, first-time homebuyers could receive a tax credit to assist in the purchase of a home. The provision was temporary, aimed at reinvigorating demand for real estate after the financial crisis in 2008. Initially, the credit was at most \$7,500, and buyers were required to repay the credit, making it more of a loan than a credit. In 2009, the maximum was raised to \$8,000 and no longer required repayment.

But first-time homeowner credits suffer from several potential problems. The credit would subsidize many households that do not need it and already intend to buy a home. Consequently, these credits can be very costly. In addition, unless the credits are refundable, they can only be fully utilized by households that owe in federal taxes at least as much as the credit. But full refundability would further increase their cost. In addition, some economists question whether the tax system should be subsidizing homeownership over other types of investments. One reason is that housing transactions take longer to complete than purchases and sales of financial assets, which can add to their risk when values are predicted to fall.

### ***Extend the Deduction for Certain Pass-Through Businesses***

A large tax benefit to owners of pass-through businesses is the 20 percent deduction on their qualified business income from those entities made available under Section 199A. From 2018 through 2022, the Section 199A deduction was the third-largest business tax expenditure (Sammartino and Toder 2019), but it is scheduled to expire in 2025.

Given data limitations, we cannot yet estimate DIs that reflect the expiration of Section 199A deduction. But in its analysis of the distribution of tax expenditures by race and ethnicity, the Treasury Department found that roughly 90 percent of the tax benefits of Section 199A go to White taxpayers, while only 5, 2, and 4 percent benefit Black, Hispanic, and other taxpayers, respectively (Cronin, DeFilippes, and Fisher 2023).

Several factors suggest that the associated tax benefits from an extension of Section 199A would largely accrue to White families. The benefits of the qualified business income deduction are highly skewed toward the top of the income distribution. First, the Joint Committee on Taxation estimates that in 2024, over half of the tax benefit will go to taxpayers with \$1 million or more of income (JCT 2018). Second, there is evidence that the self-employment rate among Black Americans has been relatively low since at least 1910 (Fairlie and Meyer 2000), and by the early 2000s, White individuals made up an overwhelming majority of entrepreneurs (Satterthwaite 2019). Moreover, among business owners, nonwhite and foreign-born entrepreneurs are 61 percent more likely than White entrepreneurs to keep their businesses organized as C corporations, even when they appear eligible to make an S corporation election (Satterthwaite 2019).

## AN ALTERNATIVE TO TAXING INCOME FROM CAPITAL: WEALTH TAXES

A wealth tax would apply directly to assets, rather than on the income derived from capital. Currently, the United States does not have a net wealth tax, though some types of assets are taxed by federal, state, and local governments. Property taxes, usually imposed only on real estate, are the largest source of revenues for local governments. At the federal level, estate and gift taxes are imposed on transfers of wealth, though a high threshold—\$12.92 million in 2023—ensures that relatively few estates are subject to the tax.

In recent years, some legislators (most notably, Senator Bernie Sanders and Senator Elizabeth Warren) and academics (particularly University of California, Berkeley economists Emmanuel Saez and Gabriel Zucman) have proposed wealth taxes (Saez and Zucman 2019). Typically, supporters view a wealth tax as a way to reduce wealth inequality, while also providing a means to pay for government services, chiefly those that assist lower- and middle-income taxpayers. But a wealth tax designed to reduce inequality could also impact the size of the racial tax gap, particularly if the revenues were used to fund programs that disproportionately benefit Black families.

Senator Sanders's proposal illustrates the potential of a wealth tax that exempts most of the population. In his plan, net wealth would be taxed, with rates increasing from 1 percent on net wealth above \$32 million to 8 percent above \$10 billion; the thresholds would be halved for single taxpayers. The base would include all assets.

Holtzblatt and Zwiefel (2021) estimated that Senator Sanders's proposal, had it been enacted in 2021, would have raised \$2.2 trillion over a decade—\$3 trillion in wealth taxes that would have been partially offset by a reduction in individual income tax collections.<sup>21</sup> Over 97 percent of the wealth tax would have been borne by households in the top 0.1 percent of the wealth distribution, or those with at least \$36.2 million in net worth in 2021. Only 1 percent of the tax burden would have fallen on Black families.

Holtzblatt and Zwiefel considered a thought experiment in which the 10-year gross proceeds of the wealth tax would be used to finance a reparations payment to all Black Americans (who would also receive a rebate for any wealth taxes paid).<sup>22</sup> The \$3 trillion of wealth tax receipts would be sufficient to finance a one-time, tax-free, lump-sum payment of about \$66,000 to each Black American alive today, including people who identify both as Black and another race.

Overall, the net wealth of Black Americans would have increased by 160 percent. The share of total net wealth held by Black households would have risen from 4 to 6.5 percent in 2021. The share would have increased the most among Black households with less than \$20,000 in assets before reparations, although they would still hold less than 1 percent of all total net assets owned by US households.

Both a wealth tax and reparations policy raise many challenging issues, including their scope, the amounts, the affected families, administrability, and constitutionality (Darity and Mullen 2022; Ford and Balu 2023; Hamilton and Darity 2010; Holtzblatt 2021; Ray and Perry 2020). For example, valuating privately held businesses presents challenges because they rarely are sold. As a result, some countries have excluded those businesses from the tax base or effectively applied lower rates to their value. Because privately held businesses generally have greater value for White families than for Black

families, preferential treatment would diminish the effect of wealth taxes on racial disparities. This option, however, illustrates the potential impact of a combination of a broad-based wealth tax and transfer policies on narrowing the racial wealth gap.

## SUMMARY AND CONCLUSIONS

In this paper, we present the first analysis of the impact of changes in tax policy using the new race and ethnicity imputations in the TPC microsimulation model. Using the enhanced model, we found that the preferential tax treatment of capital income can result in racial disparities. Those disparities arise because both across and within income groups, White families not only have greater wealth than Black and Hispanic families, but their investment portfolios are also more skewed toward tax-preferred assets.

Changes to the tax code could mitigate those disparities, though the effects may be less clear-cut than they appear on the surface. Raising the tax rates on long-term capital gains and dividends would increase the tax burden of White families disproportionately relative to other groups, but that impact might be diminished without also curbing taxpayers' ability to avoid paying taxes on gains. Other tax changes might have even less obvious effects. Replacing the home mortgage interest deduction with a nonrefundable 12 percent tax credit would be viewed as a progressive policy by reducing, on net, taxes for families in the first four income quintiles while increasing taxes for taxpayers in the top quintile. But White families in the first four quintiles would receive a disproportionate share of the tax cuts, while Black families in the top quintile would receive a larger share of the tax increases, in large part because a higher percentage of Black families have mortgages in the top quintile than White families do. Replacing the home mortgage interest deduction with a nonrefundable 22 percent credit would have cut taxes for families in all five quintiles.

Further refinements to the race and ethnicity imputations in the TPC microsimulation model will facilitate analysis of other options to reduce the impact of preferential tax treatment of capital income. Extending the imputations to years later than 2019 will enable TPC to estimate longer-term revenue effects by race and ethnicity, and data developments could potentially lead to finer-grained racial and ethnic groups. Enhancements to TPC's imputations for all households and households by racial group will allow analysis of the impact of proposals to tax capital gains at death or to provide a first-time homeowner credit. Other as yet unexplored issues include the tax treatment of capital losses, which have been capped since the late 1970s despite inflation. As Brown (2021) has pointed out, that cap may adversely and disproportionately affect Black homeowners who live in neighborhoods that are undervalued by realtors.

Importantly, our study shows that tax policies, despite the absence of explicit references to race and ethnicity in the tax code, are not always race neutral. This is an important first step to understanding which tax policies reinforce and perpetuate racial and ethnic disparities in the United States.



TABLE A.1

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Summary Table, All Races



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax	Tax Units (%)	Average Tax Change					
Lowest Quintile	0.0	0	0.5	240	*	0.0	*	*	2.9
Middle Quintile	0.0	0	12.0	790	-0.2	2.1	90	0.1	13.3
Fourth Quintile	0.0	0	21.5	1,100	-0.2	4.4	240	0.2	17.0
Top Quintile	0.0	0	41.8	14,580	-2.1	93.1	6,100	1.6	25.5
All	0.0	0	12.8	7,130	-1.1	100.0	910	0.9	19.7
<b>Addendum</b>									
80-90	0.0	0	29.9	1,480	-0.3	3.5	440	0.2	19.9
90-95	0.0	0	42.5	2,320	-0.4	3.8	990	0.3	22.2
Top 5 Percent	0.0	0	66.7	35,440	-3.7	85.9	23,650	2.7	29.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.2

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Black, Non-Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.1	110	*	*	*	0.0	0.9
Second Quintile	0.0	0	1.1	430	*	1.2	*	0.0	6.9
Middle Quintile	0.0	0	4.5	570	*	4.9	30	0.0	13.7
Fourth Quintile	0.0	0	9.0	710	-0.1	7.8	60	0.1	17.5
Top Quintile	0.0	0	21.3	6,330	-0.6	86.0	1,350	0.4	24.3
All	0.0	0	3.6	2,750	-0.2	100.0	100	0.2	15.9
<b>Addendum</b>									
80-90	0.0	0	15.9	670	-0.1	4.1	110	0.1	20.2
90-95	0.0	0	21.2	1,080	-0.1	3.4	230	0.1	22.9
Top 5 Percent	0.0	0	40.3	17,770	-1.3	78.6	7,160	0.9	28.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.3

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income

Baseline: Current Law  
Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0	140	•	0	•	0	3
Second Quintile	0.0	0	0	110	•	0	•	0	8
Middle Quintile	0.0	0	2.6	670	•	5.7	20	0.0	13.5
Fourth Quintile	0.0	0	8.5	300	-0.1	14.1	80	0.1	17.1
Top Quintile	0.0	0	24.1	3,390	-0.4	79.8	820	0.3	23.2
All	0.0	0	3.1	1,990	-0.1	100.0	60	0.1	15.3
<b>Addendum</b>									
80-90	0.0	0	17.4	820	-0.1	8.6	140	0.1	19.9
90-95	0.0	0	28.8	800	-0.1	5.1	230	0.1	22.4
Top 5 Percent	0.0	0	43.4	9,790	-0.8	66.2	4,240	0.6	27.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: • Non-zero value rounded to zero

- (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains.
- (2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) 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; and 95% \$347,700.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.
- (6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.4

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income

Baseline: Current Law  
Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
White, Non-Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.7	260	•	•	•	•	3.4
Second Quintile	0.0	0	5.5	450	-0.1	0.4	20	0.1	7.8
Middle Quintile	0.0	0	16.0	820	-0.2	2.1	130	0.2	13.0
Fourth Quintile	0.0	0	25.5	1,180	-0.3	4.4	300	0.2	16.8
Top Quintile	0.0	0	44.9	15,770	-2.4	93.1	7,090	1.8	25.8
All	0.0	0	17.3	7,600	-1.4	100.0	1,310	1.1	20.6
<b>Addendum</b>									
80-90	0.0	0	32.7	1,590	-0.3	3.4	520	0.3	19.7
90-95	0.0	0	45.0	2,540	-0.5	3.8	1,140	0.4	22.1
Top 5 Percent	0.0	0	69.8	38,000	-4.0	85.9	26,520	3.0	29.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: • Non-zero value rounded to zero

- (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains.
- (2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) 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; and 95% \$347,700.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.
- (6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.5

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Others



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.7	160	•	0.0	•	0.0	4.1
Second Quintile	0.0	0	3.1	430	•	0.3	10	0.0	8.6
Middle Quintile	0.0	0	9.4	530	-0.1	1.0	50	0.1	14.3
Fourth Quintile	0.0	0	18.5	520	-0.1	1.9	100	0.1	18.2
Top Quintile	0.0	0	43.3	11,770	-1.8	96.8	5,090	1.4	25.6
<b>All</b>	<b>0.0</b>	<b>0</b>	<b>13.1</b>	<b>6,830</b>	<b>-1.0</b>	<b>100.0</b>	<b>900</b>	<b>0.8</b>	<b>21.0</b>
<b>Addendum</b>									
80-90	0.0	0	29.8	1,120	-0.2	2.9	330	0.2	20.6
90-95	0.0	0	44.1	1,560	-0.3	3.6	630	0.2	22.7
<b>Top 5 Percent</b>	<b>0.0</b>	<b>0</b>	<b>65.3</b>	<b>27,010</b>	<b>-3.2</b>	<b>90.3</b>	<b>17,650</b>	<b>2.3</b>	<b>28.9</b>

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: • Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95%: \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.6

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers in the 37% Tax Bracket

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Summary Table, All Races



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	2.9
Second Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	7.7
Middle Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	13.1
Fourth Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	16.8
Top Quintile	0.0	0	5.4	90,570	-1.7	100.0	4,860	1.3	25.2
<b>All</b>	<b>0.0</b>	<b>0</b>	<b>0.7</b>	<b>90,580</b>	<b>-0.8</b>	<b>100.0</b>	<b>680</b>	<b>0.7</b>	<b>19.5</b>
<b>Addendum</b>									
80-90	0.0	0	0.0	0	0.0	0.0	0	0.0	19.6
90-95	0.0	0	0.0	3,750	0.0	0.0	0	0.0	21.9
<b>Top 5 Percent</b>	<b>0.0</b>	<b>0</b>	<b>22.5</b>	<b>90,730</b>	<b>-3.2</b>	<b>100.0</b>	<b>20,420</b>	<b>2.4</b>	<b>29.1</b>

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Note:

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers in the 37% tax bracket.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95%: \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.7

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers in the 37% Tax Bracket

Baseline: Current Law  
Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
Black, Non-Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (%)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	0.9
Second Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	6.9
Middle Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	13.6
Fourth Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	17.4
Top Quintile	0.0	0	2.1	48,000	-0.4	100.0	1,000	0.3	24.2
<b>All</b>	0.0	0	0.1	48,000	-0.1	100.0	60	0.1	15.8
<b>Addendum</b>									
80-90	0.0	0	0.0	0	0.0	0.0	0	0.0	20.1
90-95	0.0	0	0.0	620	0.0	0.0	*	0.0	22.8
<b>Top 5 Percent</b>	0.0	0	12.1	48,000	-1.0	100.0	5,810	0.6	28.3

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes:

- (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers in the 37% tax bracket.
- (2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.
- (3) 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; and 95%: \$347,700.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.
- (6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.8

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers in the 37% Tax Bracket

Baseline: Current Law  
Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (%)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	2.9
Second Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	7.8
Middle Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	13.4
Fourth Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	17.0
Top Quintile	0.0	0	2.3	22,710	-0.2	100.0	520	0.2	23.1
<b>All</b>	0.0	0	0.1	22,710	-0.1	100.0	30	0.1	15.3
<b>Addendum</b>									
80-90	0.0	0	0.0	0	0.0	0.0	0	0.0	19.8
90-95	0.0	0	0.0	340	0.0	0.0	*	0.0	22.3
<b>Top 5 Percent</b>	0.0	0	14.3	22,720	-0.6	100.0	3,250	0.5	26.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes:

- (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers in the 37% tax bracket.
- (2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.
- (3) 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; and 95%: \$347,700.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.
- (6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.





TABLE A.9

**Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers in the 37% Tax Bracket**

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

White, Non-Hispanic

Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.0	0	0.0	0	0.0	0	0.0	3.4	
<b>Second Quintile</b>	0.0	0	0.0	0	0.0	0	0.0	7.7	
<b>Middle Quintile</b>	0.0	0	0.0	0	0.0	0	0.0	12.8	
<b>Fourth Quintile</b>	0.0	0	0.0	0	0.0	0	0.0	16.6	
<b>Top Quintile</b>	0.0	0	5.9	95,200	-1.9	100.0	5,630	25.4	
<b>All</b>	0.0	0	1.0	95,200	-1.0	100.0	970	20.3	
<b>Addendum</b>									
<b>80-90</b>	0.0	0	0.0	0	0.0	0.0	0	19.5	
<b>90-95</b>	0.0	0	0.0	3,870	0.0	0.0	*	21.7	
<b>Top 5 Percent</b>	0.0	0	24.0	95,360	-3.5	100.0	22,850	29.2	

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero; \*\* Insufficient data

- (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers in the 37% tax bracket.
- (2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) 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%: \$31,600; 80%: \$165,900; 90%: \$244,500; and 95%: \$347,700.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.
- (6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.10

**Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers in the 37% Tax Bracket**

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Others



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.0	0	0.0	0	0.0	0	0.0	4.1	
<b>Second Quintile</b>	0.0	0	0.0	0	0.0	0	0.0	8.6	
<b>Middle Quintile</b>	0.0	0	0.0	0	0.0	0	0.0	14.3	
<b>Fourth Quintile</b>	0.0	0	0.0	0	0.0	0	0.0	18.1	
<b>Top Quintile</b>	0.0	0	5.3	81,110	-1.5	100.0	4,290	25.4	
<b>All</b>	0.0	0	0.9	81,110	-0.8	100.0	730	20.8	
<b>Addendum</b>									
<b>80-90</b>	0.0	0	0.0	0	0.0	0	0	20.4	
<b>90-95</b>	0.0	0	0.0	2,940	0.0	0.0	*	22.5	
<b>Top 5 Percent</b>	0.0	0	19.6	81,290	-2.9	100.0	15,950	28.7	

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes:

- (1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers in the 37% tax bracket.
- (2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
- (3) 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%: \$31,600; 80%: \$165,900; 90%: \$244,500; and 95%: \$347,700.
- (4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.
- (5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.
- (6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.
- (7) Negative values indicate tax decreases, and positive values indicate tax increases. Members of an income group could have experienced a tax change substantially different from the overall change.

# APPENDIX

**TABLE A.11**

## Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers with More Than \$1 Million in Taxable Income Baseline: Current Law



Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Percent Change in After-Tax Income <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Pct of Tax Units	Avg Tax Change (\$)	Pct of Tax Units	Avg Tax Change (\$)					
Lowest Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	2.9
Second Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	7.7
Middle Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	13.1
Fourth Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	16.8
Top Quintile	0.0	0	2.3	187,720	-1.5	100.0	4,240	1.1	25.0
All	0.0	0	0.3	187,720	-0.7	100.0	590	0.6	19.4
<b>Addendum</b>									
80-90	0.0	0	0.0	0	0.0	0.0	0	0.0	19.6
90-95	0.0	0	0.0	0	0.0	0.0	0	0.0	21.9
Top 5 Percent	0.0	0	9.5	187,720	-2.8	100.0	17,830	2.1	28.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

\* Non-zero value rounded to zero; \*\* Insufficient data

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers with more than \$1 million in taxable income.

(2) 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 <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) 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; 99.9% \$3,707,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

**TABLE A.12**

## Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers with More than \$1 Million in Taxable Income Baseline: Current Law



Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
Black, Non-Hispanic

Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	0.9
Second Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	6.9
Middle Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	13.6
Fourth Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	17.4
Top Quintile	0.0	0	0.8	103,570	-0.4	100.0	850	0.3	24.1
All	0.0	0	0.1	103,570	-0.1	100.0	50	0.1	15.8
<b>Addendum</b>									
80-90	0.0	0	0.0	0	0.0	0.0	0	0.0	20.1
90-95	0.0	0	0.0	0	0.0	0.0	0	0.0	22.8
Top 5 Percent	0.0	0	4.8	103,570	-0.9	100.0	4,950	0.6	28.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero; \*\* Insufficient data

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers with more than \$1 million of taxable income.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.



TABLE A.13

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers with More than \$1 Million in Taxable Income

Baseline: Current Law  
Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
Hispanic

Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (%)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	2.9
Second Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	7.8
Middle Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	13.4
Fourth Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	17.0
Top Quintile	0.0	0	1.0	38,530	-0.2	100.0	380	0.1	23.0
All	0.0	0	0.1	38,530	0.0	100.0	20	0.0	15.3
<b>Addendum</b>									
80-90	0.0	0	0.0	0	0.0	0.0	0	0.0	19.8
90-95	0.0	0	0.0	0	0.0	0.0	0	0.0	22.3
Top 5 Percent	0.0	0	6.2	38,530	-0.5	100.0	2,380	0.3	26.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero; \*\* Insufficient data

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers with more than \$1 million of taxable income.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95%: \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.14

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers with More than \$1 Million in Taxable Income

Baseline: Current Law  
Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
White, Non-Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (%)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	3.4
Second Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	7.7
Middle Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	12.8
Fourth Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	16.6
Top Quintile	0.0	0	2.5	133,490	-1.6	100.0	4,910	1.3	25.2
All	0.0	0	0.4	133,490	-0.9	100.0	850	0.7	20.2
<b>Addendum</b>									
80-90	0.0	0	0.0	0	0.0	0.0	0	0.0	19.5
90-95	0.0	0	0.0	0	0.0	0.0	0	0.0	21.7
Top 5 Percent	0.0	0	10.3	133,490	-3.0	100.0	19,910	2.2	28.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes:

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers with more than \$1 million of income.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95%: \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.15

Taxing Long-Term Capital Gains and Qualified Dividends at the Same Rate as Ordinary Income, for Taxpayers with More than \$1 Million in Taxable Income

Baseline: Current Law  
Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
Others



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (%) Points	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	4.1
Second Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	8.6
Middle Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	14.3
Fourth Quintile	0.0	0	0.0	0	0.0	0.0	0	0.0	18.1
Top Quintile	0.0	0	1.9	206,100	-1.4	100.0	3,900	1.0	25.3
All	0.0	0	0.3	206,100	-0.8	100.0	670	0.6	20.8
<b>Addendum</b>									
80-90	0.0	0	0.0	0	0.0	0.0	0	0.0	20.4
90-95	0.0	0	0.0	0	0.0	0.0	0	0.0	22.5
Top 5 Percent	0.0	0	7.0	206,100	-2.6	100.0	14,500	1.9	28.5

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero; \*\* Insufficient data

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would eliminate the preferential treatment of long-term capital gains for taxpayers with more than \$1 million of taxable income.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.

(3) 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; and 95%: \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.16

Replace the Mortgage Interest Deduction with a 12 percent Nonrefundable Tax Credit

Baseline: Current Law  
Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
Summary Table, All Races



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (%) Points	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.7	-200	0.0	0	0.0	0.6	*	0.0	2.9
Second Quintile	7.8	-280	0.1	270	0.1	8.2	-20	-0.1	7.6
Middle Quintile	28.9	-350	1.5	500	0.2	33.6	-90	-0.1	13.0
Fourth Quintile	49.0	-520	5.9	770	0.2	62.4	-210	-0.2	16.6
Top Quintile	53.7	-760	19.6	2,180	0.0	-4.8	20	0.0	23.9
All	23.5	-530	4.0	1,700	0.1	100.0	-60	-0.1	18.8
<b>Addendum</b>									
80-90	60.3	-740	11.5	1,090	0.2	40.3	-320	-0.2	19.5
90-95	57.0	-800	18.2	1,510	0.1	11.2	-180	-0.1	21.8
Top 5 Percent	36.2	-770	38.5	3,230	-0.2	-56.3	970	0.1	26.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 12 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.

(3) 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; and 95%: \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.17

Replace the Mortgage Interest Deduction with a 12 percent Nonrefundable Tax Credit  
 Baseline: Current Law  
 Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
 Black, Non-Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.7	-160	0.0	0	•	1.3	•	0.0	0.9
<b>Second Quintile</b>	6.2	-260	0.1	210	•	12.2	-20	0.0	6.9
<b>Middle Quintile</b>	23.3	-330	1.2	500	0.1	41.9	-70	-0.1	13.5
<b>Fourth Quintile</b>	45.0	-500	6.2	700	0.2	68.7	-180	-0.2	17.3
<b>Top Quintile</b>	52.0	-700	26.1	1,870	-0.1	-24.1	120	0.0	23.9
<b>All</b>	15.1	-460	2.7	1,410	0.1	100.0	-30	-0.1	15.7
<b>Addendum</b>									
<b>80-90</b>	58.3	-700	18.1	1,040	0.1	25.8	-220	-0.1	20.0
<b>90-95</b>	47.7	-700	29.7	1,430	•	-4.0	90	0.0	22.9
<b>Top 5 Percent</b>	35.6	-750	48.9	3,300	-0.2	-45.8	1,350	0.2	27.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: • Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 12 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.

(3) 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; and 95%: \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.18

Replace the Mortgage Interest Deduction with a 12 percent Nonrefundable Tax Credit  
 Baseline: Current Law  
 Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
 Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.5	-280	0.0	0	•	0.8	•	0.0	2.9
<b>Second Quintile</b>	4.8	-340	0.2	300	•	7.1	-20	0.0	7.8
<b>Middle Quintile</b>	20.0	-420	0.9	450	0.1	26.1	-80	-0.1	13.3
<b>Fourth Quintile</b>	46.2	-580	4.3	720	0.2	44.2	-240	-0.2	16.8
<b>Top Quintile</b>	58.1	-820	12.8	1,970	0.1	21.9	-220	-0.1	22.8
<b>All</b>	14.2	-570	1.5	1,320	0.1	100.0	-60	-0.1	15.1
<b>Addendum</b>									
<b>80-90</b>	62.6	-800	7.6	1,240	0.3	24.5	-410	-0.2	19.6
<b>90-95</b>	59.3	-880	13.4	1,540	0.1	6.9	-310	-0.1	22.2
<b>Top 5 Percent</b>	39.0	-820	32.2	2,880	-0.1	-9.5	610	0.1	26.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: • Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 12 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.

(3) 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; and 95%: \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.



TABLE A.19

Replace the Mortgage Interest Deduction with a 12 percent Nonrefundable Tax Credit  
 Baseline: Current Law  
 Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
 White, Non-Hispanic

Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.8	-190	0.0	0	0.0	0.5	*	0.0	3.4
Second Quintile	9.6	-270	0.1	260	0.1	8.0	-30	-0.1	7.7
Middle Quintile	32.8	-330	1.7	510	0.2	33.9	-100	-0.1	12.7
Fourth Quintile	50.8	-510	6.0	770	0.2	64.6	-210	-0.2	16.4
Top Quintile	53.4	-750	19.6	2,190	0.0	-7.0	30	0.0	23.9
All	28.0	-530	4.9	1,730	0.1	100.0	-60	-0.1	19.4
<b>Addendum</b>									
80-90	60.1	-730	11.5	1,070	0.2	43.5	-320	-0.2	19.3
90-95	57.4	-800	17.6	1,480	0.1	13.4	-200	-0.1	21.6
Top 5 Percent	35.9	-760	38.0	3,210	-0.1	-63.9	950	0.1	26.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 12 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.20

Replace the Mortgage Interest Deduction with a 12 percent Nonrefundable Tax Credit  
 Baseline: Current Law  
 Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
 Others



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
Lowest Quintile	0.6	-180	0.0	0	*	0.7	*	0.0	4.1
Second Quintile	6.5	-300	0.1	390	0.1	9.3	-20	-0.1	8.5
Middle Quintile	22.6	-420	1.4	500	0.2	42.0	-90	-0.1	14.1
Fourth Quintile	41.6	-590	6.4	820	0.2	84.6	-190	-0.2	17.9
Top Quintile	53.8	-810	20.8	2,500	0.0	-36.7	90	0.0	24.3
All	22.0	-630	4.9	2,010	0.0	100.0	-40	0.0	20.1
<b>Addendum</b>									
80-90	61.3	-790	10.3	1,210	0.2	70.6	-360	-0.2	20.2
90-95	58.1	-850	18.9	1,780	0.1	18.4	-160	-0.1	22.4
Top 5 Percent	36.7	-790	40.5	3,400	-0.2	-125.6	1,090	0.1	26.8

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 12 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.21

Replace the Mortgage Interest Deduction with a 22 percent Nonrefundable Tax Credit

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Summary Table, All Races



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Rate <sup>6</sup>		
	With Tax Cut		With Tax Increase				Average Federal Tax Change (\$)	Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.7	-250	0.0	0	*	0.2	*	*	2.9
<b>Second Quintile</b>	7.9	-470	0.1	280	0.1	3.5	-40	-0.1	7.6
<b>Middle Quintile</b>	30.1	-640	0.5	530	0.3	16.6	-190	-0.3	12.9
<b>Fourth Quintile</b>	53.1	-960	1.5	570	0.5	36.1	-500	-0.4	16.4
<b>Top Quintile</b>	61.4	-1,470	10.4	1,650	0.3	43.7	-730	-0.2	23.7
<b>All</b>	25.6	-1,010	1.8	1,430	0.3	100.0	-230	-0.2	18.6
<b>Addendum</b>									
<b>80-90</b>	66.2	-1,410	3.7	710	0.6	27.6	-900	-0.5	19.2
<b>90-95</b>	64.8	-1,590	8.8	990	0.4	14.0	-940	-0.3	21.5
<b>Top 5 Percent</b>	47.6	-1,510	26.6	2,170	0.0	2.0	-140	0.0	26.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 22 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.22

Replace the Mortgage Interest Deduction with a 22 percent Nonrefundable Tax Credit

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Black, Non-Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Rate <sup>6</sup>		
	With Tax Cut		With Tax Increase				Average Federal Tax Change (\$)	Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.7	-220	0.0	0	*	0.4	*	*	0.9
<b>Second Quintile</b>	6.3	-440	0.1	210	0.1	5.4	-30	-0.1	6.8
<b>Middle Quintile</b>	24.2	-600	0.4	540	0.2	21.4	-140	-0.2	13.4
<b>Fourth Quintile</b>	48.8	-920	1.6	510	0.4	42.1	-440	-0.4	17.0
<b>Top Quintile</b>	60.8	-1,330	13.7	1,400	0.3	30.6	-620	-0.2	23.6
<b>All</b>	16.3	-870	1.2	1,170	0.2	100.0	-130	-0.2	15.5
<b>Addendum</b>									
<b>80-90</b>	66.5	-1,300	6.1	540	0.5	24.7	-830	-0.4	19.7
<b>90-95</b>	55.8	-1,330	16.9	930	0.3	6.7	-590	-0.2	22.6
<b>Top 5 Percent</b>	47.3	-1,490	35.9	2,190	0.0	-0.7	80	0.0	27.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 22 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModelIncome.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.23

Replace the Mortgage Interest Deduction with a 22 percent Nonrefundable Tax Credit

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (%)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.5	-320	0.0	0	*	0.3	*	*	2.9
<b>Second Quintile</b>	4.8	-560	0.2	300	0.1	4.6	-30	-0.1	7.8
<b>Middle Quintile</b>	20.6	-770	0.4	400	0.3	19.9	-160	-0.2	13.2
<b>Fourth Quintile</b>	49.5	-1,060	1.2	610	0.5	37.7	-520	-0.4	16.6
<b>Top Quintile</b>	65.0	-1,630	5.7	1,460	0.4	37.4	-980	-0.3	22.6
<b>All</b>	15.1	-1,080	0.6	1,040	0.3	100.0	-160	-0.3	15.0
<b>Addendum</b>									
<b>80-90</b>	67.5	-1,570	2.4	720	0.7	24.6	-1,040	-0.5	19.3
<b>90-95</b>	67.6	-1,810	4.9	970	0.5	10.1	-1,180	-0.4	21.9
<b>Top 5 Percent</b>	51.6	-1,630	19.6	1,980	0.1	2.8	-450	-0.1	26.4

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 22 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

TABLE A.24

Replace the Mortgage Interest Deduction with a 22 percent Nonrefundable Tax Credit

Baseline: Current Law

Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>

White, Non-Hispanic



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (%)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.8	-250	0.0	0	*	0.2	*	*	3.4
<b>Second Quintile</b>	9.7	-460	0.1	280	0.1	3.2	-40	-0.1	7.6
<b>Middle Quintile</b>	34.3	-610	0.5	560	0.3	16.1	-210	-0.3	12.5
<b>Fourth Quintile</b>	55.1	-940	1.6	580	0.5	35.6	-510	-0.4	16.2
<b>Top Quintile</b>	61.0	-1,450	10.5	1,670	0.2	45.0	-710	-0.2	23.8
<b>All</b>	30.4	-1,000	2.2	1,460	0.3	100.0	-270	-0.2	19.3
<b>Addendum</b>									
<b>80-90</b>	65.9	-1,380	3.7	750	0.6	28.0	-880	-0.4	19.0
<b>90-95</b>	64.9	-1,570	8.5	980	0.4	14.8	-930	-0.3	21.3
<b>Top 5 Percent</b>	47.1	-1,500	26.4	2,160	0.0	2.1	-130	0.0	26.7

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0721-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 22 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.



TABLE A.25

Replace the Mortgage Interest Deduction with a 22 percent Nonrefundable Tax Credit  
 Baseline: Current Law  
 Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2019 <sup>1</sup>  
 Others



Expanded Cash Income Percentile <sup>2,3</sup>	Tax Units with Tax Increase or Cut <sup>4</sup>				Change in After-Tax Income (%) <sup>5</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>6</sup>	
	With Tax Cut		With Tax Increase					Change (% Points)	Under the Proposal
	Tax Units (%)	Average Tax Change (\$)	Tax Units (%)	Average Tax Change (\$)					
<b>Lowest Quintile</b>	0.6	-220	0.0	0	*	0.1	*	*	4.1
<b>Second Quintile</b>	6.6	-500	0.1	390	0.1	2.4	-30	-0.1	8.5
<b>Middle Quintile</b>	23.5	-760	0.4	500	0.3	12.8	-180	-0.3	14.0
<b>Fourth Quintile</b>	46.1	-1,090	1.4	460	0.5	32.8	-490	-0.4	17.7
<b>Top Quintile</b>	62.2	-1,600	11.4	1,800	0.3	51.8	-790	-0.2	24.0
<b>All</b>	24.5	-1,220	2.3	1,600	0.3	100.0	-260	-0.2	19.9
<b>Addendum</b>									
<b>80-90</b>	66.7	-1,540	3.6	590	0.6	30.3	-1,010	-0.5	19.9
<b>90-95</b>	67.1	-1,720	8.6	1,110	0.5	18.8	-1,060	-0.4	22.1
<b>Top 5 Percent</b>	49.8	-1,580	27.3	2,290	0.0	2.8	-160	0.0	26.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version U/21-2).

Notes: \* Non-zero value rounded to zero

(1) Calendar Year. Baseline is the law currently in place before passage of the Inflation Reduction Act. This provision would replace the home mortgage interest deduction with a 22 percent nonrefundable tax credit.

(2) 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. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.

(3) 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; and 95% \$347,700.

(4) Includes tax units with a change in federal tax burden of \$10 or more in absolute value.

(5) After-tax income is expanded cash income less individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); estate tax; and excise taxes.

(6) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, the estate tax, and excise taxes) as a percentage of average expanded cash income.

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- <sup>1</sup> The Treasury Department’s Office of Tax Analysis is also engaged in a multiyear effort to add race and equity imputations to its microsimulation model (Cronin, DeFilippes, and Fisher 2023; Fisher 2023). Rather than impute race and ethnicity to tax microsimulation models, some researchers have created tax units from household survey data that include the respondents’ answers to questions about their race and ethnicity and then computed tax liabilities by using TAXSIM, the National Bureau of Economic Research’s tax calculator (Alm et al. forthcoming; Holtzblatt et al. 2023).
- <sup>2</sup> Pensions are another large component of net wealth. However, the Survey of Consumer Finances understates families’ retirement assets because it lacks data on the value of defined benefit plans, the traditional pension plan offered by employers. Bricker and colleagues (2020) estimated the value of defined benefit plans to be about \$19 trillion. Although many employers have replaced defined benefit plans with defined contribution plans (such as 401k plans), the traditional plans remain common in the public sector, which has a relatively high concentration of Black workers (Thompson and Volz 2021).
- <sup>3</sup> The Federal Reserve Board’s Survey of Consumer Finances is conducted every three years and contains more detailed information on family wealth than other household surveys. However, information on race is only available for the respondent in the primary economic unit (i.e., the respondent, the respondent’s spouse or cohabitating partner, and their dependents). Moreover, the Survey of Consumer Finances’s counts of Black and White respondents exclude people who identify as more than one race. Those families are included in the “other” category along with people who report their race as Asian, American Indian or Alaska Native, Native Hawaiian or Pacific Islander, or another grouping. For simplicity, we refer to non-Hispanic Black and non-Hispanic White families as “Black” and “White” families in this paper. The estimates of the racial wealth gap would increase if the Survey of Consumer Finances included the holdings of billionaires listed in the Forbes 400 (excluded because of privacy concerns) and would decrease if the values of defined benefit plans were added to the data (Thompson and Volz 2021).
- <sup>4</sup> Stock holdings include those held directly by families as well as in mutual funds and combination funds. Privately held businesses include those in which the owner either actively or passively participates in the company’s operations. When discussing business assets, we refer to gross values; the total net wealth estimates reflect the net value of those companies.
- <sup>5</sup> The unit of analysis in TPC’s tax model is the tax unit, consisting of the taxpayer (and spouse, if married) and dependents. In this paper, we refer to the tax unit as a family.
- <sup>6</sup> Small sample sizes preclude us from showing average values, by income quintile, for stock holdings and privately held businesses.
- <sup>7</sup> Generally, qualified dividends are 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.
- <sup>8</sup> Those financial assets include put and call options; futures contracts; mutual funds; some types of partnership, S corporation, and estate or trust interests; pass-through gains and losses; involuntary conversions; and capital gains distributions.
- <sup>9</sup> Since 2018, the tax brackets for long-term capital gains and qualified dividends have also deviated from those used for other types of income.
- <sup>10</sup> 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 Tax Cuts and Jobs Act of 2017, mortgages taken out after December 16, 2017, must be smaller than \$750,000 for the interest to be deductible. With the expiration of the act at the end of 2025, the mortgage limit will revert to \$1 million after December 31, 2025.
- <sup>11</sup> For more information, see “Brief Description of the Tax Model” (<https://www.taxpolicycenter.org/resources/brief-description-tax-model>).
- <sup>12</sup> For example, consider a household record with an original weight of 10. Given four racial categories, we can think of the process as initially splitting this household record into four records, each with a weight of 2.5. Given the targets from the survey data, the reweighting algorithm might settle on final weights of 6 for Black, 2 for White, 1 for Hispanic, and 1 for other. Thus, the weights still sum to 10, so the total across all racial categories would be unchanged. However, the individual race and ethnicity weights would reflect the algorithm’s decision that this tax unit is most consistent with the income, demographics, wealth, and tax deduction pattern exhibited by households classified as Black in the original survey data.

- <sup>13</sup> An alternative approach is to apply a tax calculator, such as the National Bureau of Economic Research's TAXSIM, to household survey data containing respondents' answers to questions about race and ethnicity. That approach was used by Alm and colleagues (forthcoming) and Holtzblatt and colleagues (2023) to estimate racial disparities in the tax treatment of marriage. Alm and colleagues used the Current Population Survey, whereas Holtzblatt and colleagues relied on the SCF.
- <sup>14</sup> Expanded cash income is adjusted gross income plus above-the-line adjustments (e.g., individual retirement account deductions, student loan interest, self-employed health insurance deduction), employer-paid health insurance and other nontaxable fringe benefits, employee and employer contributions to tax-deferred retirement savings plans, tax-exempt interest, nontaxable Social Security benefits, nontaxable pension and retirement income, accruals within defined benefit pension plans, inside buildup within defined contribution retirement accounts, cash and cash-like transfer income (e.g., Supplemental Nutrition Assistance Program benefits), employer's share of payroll taxes, and imputed corporate income tax liability.
- <sup>15</sup> Disproportionality indexes are more commonly used in public health and public welfare contexts. See, for example, [https://secureapp.dhs.state.ia.us/PublicROMReports/report\\_help/default.htm#!Documents/rd2through7disproportionalityindexdi.htm](https://secureapp.dhs.state.ia.us/PublicROMReports/report_help/default.htm#!Documents/rd2through7disproportionalityindexdi.htm).
- <sup>16</sup> See Lu, Rosenberg, and Toder (2015) for analyses of additional options, although they do not distribute tax changes among racial or ethnic groups.
- <sup>17</sup> This is the average of marginal tax rates faced by taxpayers in 2019, as calculated from Statistics of Income data, <https://www.irs.gov/pub/irs-soi/19in34tr.xls>.
- <sup>18</sup> Some families could have lowered their taxes by switching to the standard deduction, but the change in taxable income might have moved some families into a lower tax bracket.
- <sup>19</sup> Because high-income taxpayers own more financial assets, they have a greater ability to mitigate the tax increase by liquidating assets and paying down their mortgage. The distribution analysis does not account for this type of behavioral adjustment. See Lu and colleagues (2020) for more information.
- <sup>20</sup> First-time homebuyers with individual retirement accounts can make up to \$10,000 in penalty-free withdrawals to purchase a home. There are several restrictions, and the amount is the maximum that can be withdrawn over the course of a lifetime. Those with 401k plans can borrow without penalty the lesser of \$50,000 and 50 percent of the amount vested in the account.
- <sup>21</sup> Janet Holtzblatt and Noah Zwiefel, "How Could the United States Pay for Reparations?" TaxVox (blog), Urban-Brookings Tax Policy Center, February 3, 2021, <https://www.taxpolicycenter.org/taxvox/how-could-united-states-pay-reparations>. Holtzblatt and Zwiefel assume that some people would adopt aggressive strategies to legally avoid the wealth tax or evade the tax by hiding assets. Income tax revenue would fall because some wealthy taxpayers, hiding assets to avoid the wealth tax, would also underreport the capital income attributable to those hidden assets.
- <sup>22</sup> Holtzblatt and Zwiefel, "How Could the United States Pay for Reparations?"

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## ABOUT THE AUTHORS

**Janet Holtzblatt** is a senior fellow at the Urban-Brookings Tax Policy Center. Over a three-decade career in the federal government, she worked on a broad range of tax policy issues, with emphasis on the tax treatment of families and workers, health reform, the administration of the tax code, and tax simplification.

Holtzblatt's research has focused on the earned income tax credit, marriage penalties and bonuses in the income tax system, the administration of health reform through the tax system, labor market effects of health reform, and the impact of Internal Revenue Service resources on revenues. She has also directed studies on the tax treatment of multinationals, corporate tax rates, pass-through entities, marginal tax rates, and federal assistance for higher education. Holtzblatt has served on the board of directors for the National Tax Association. In 2017, she received the Referee of the Year Award from the National Tax Journal. She was the recipient of the 2020 Davie-Davis Public Service Award, which is bestowed annually by the National Tax Association.

Before joining Urban, Holtzblatt was the unit chief for tax policy studies in the Tax Analysis Division of the Congressional Budget Office. Before that, she was deputy director of the Individual Taxation Division in the US Treasury Office of Tax Analysis and a senior analyst on the Senate Budget Committee. She earned her bachelor's degree in economics and history from the University of Illinois and a doctoral degree in economics from the University of Wisconsin.

**Laura Kawano** is a nonresident fellow with the Urban-Brookings Tax Policy Center and research affiliate with the Office of Tax Policy Research at the University of Michigan. Her work focuses on using administrative data to understand how individuals and firms respond to tax policies. She also examines the effects of financial aid for higher education, unemployment insurance benefits, and natural disasters. Her work has been published in several scholarly journals, including the *American Economic Review*, *American Economic Journal: Economic Policy*, *American Economic Journal: Applied Economics*, and *Journal of Public Economics*.

Before joining the Office of Tax Policy Research, Kawano was an economist at the US Department of Treasury's Office of Tax Analysis and a visiting professor at the Wharton School of the University of Pennsylvania. She serves as the Forum Editor at the National Tax Journal and as the treasurer for the National Tax Association. She earned her BA in economics from Occidental College and a doctoral degree in economics from the University of Michigan.

**Robert McClelland** is a senior fellow in the Urban-Brookings Tax Policy Center. Previously, he worked in the tax analysis division of the Congressional Budget Office (CBO), where he examined the impact of federal tax policy on charitable giving and bequests, the realization of capital gains, labor supply, and small businesses. He worked for the CBO from 1999 to 2005 and from 2011 to 2016, and in between, he directed the division of price and index number research at the Bureau of Labor Statistics.

## ABOUT THE AUTHORS

McClelland has published articles in journals such as the *American Economic Review*, *Journal of Applied Econometrics*, *Journal of Public Economics*, *National Tax Journal*, and *Review of Income and Statistics*. He and John Greenlees wrote an article in the *Monthly Labor Review* that addressed some of the misconceptions surrounding the Consumer Price Index, and in 2015, he, Tim Dowd, and Athipat Muthitacharoen won the Richard Musgrave Prize for the outstanding article in the *National Tax Journal*.

McClelland is a member of the Conference on Research in Income and Wealth. He has taught econometrics at Johns Hopkins University, where he won an Excellence in Teaching award in 2006.

McClelland received a BA in economics and environmental studies from the University of California, Santa Cruz, and a PhD in economics from the University of California, Davis.

**Gabriella Garriga** is a research assistant in the Urban-Brookings Tax Policy Center where she helps to create data-driven analyses of federal, state, and local tax codes. She graduated magna cum laude from Trinity University and holds a BA in economics and sociology.





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