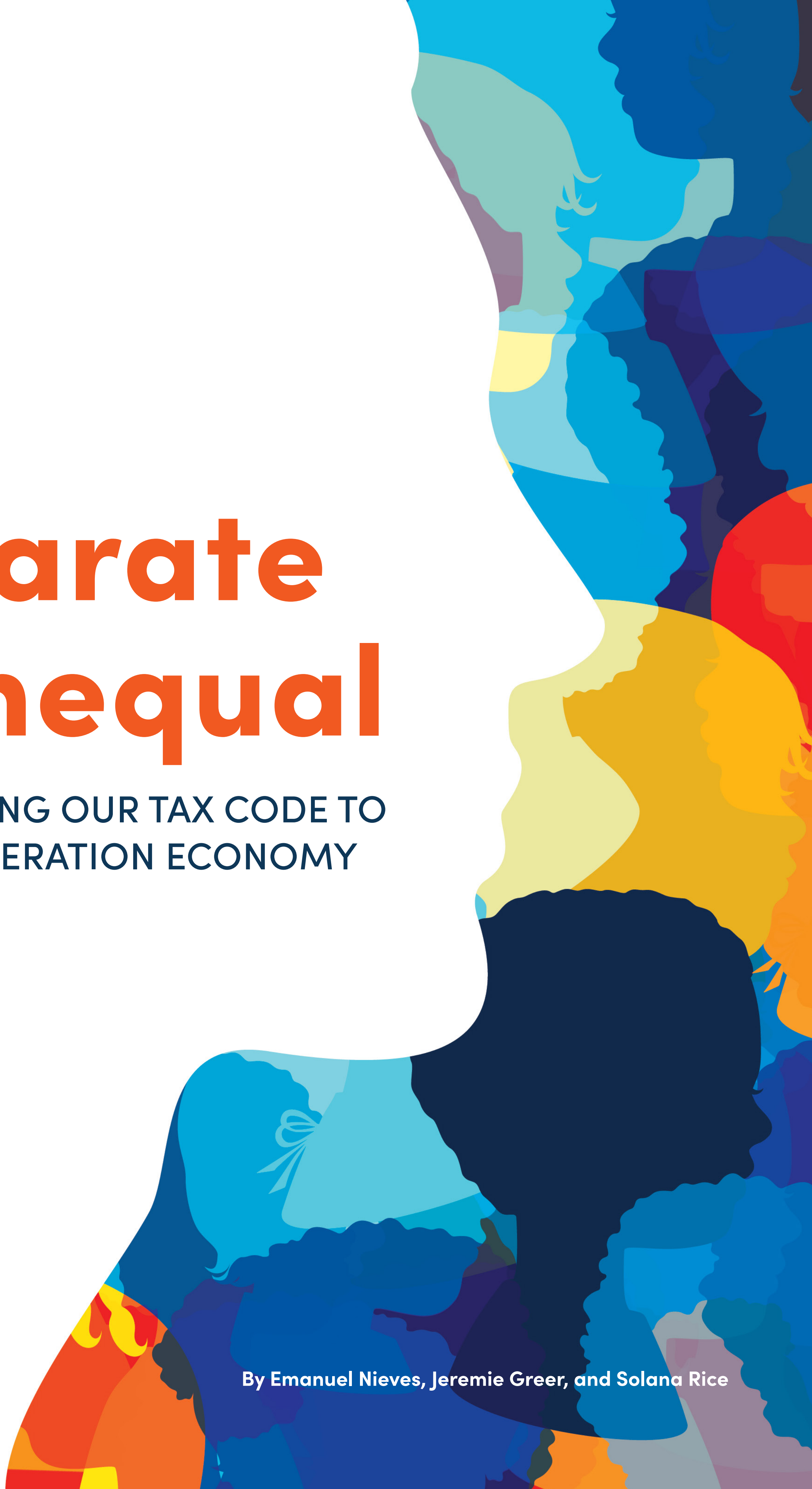
Separate & Unequal

TRANSFORMING OUR TAX CODE TO DELIVER A LIBERATION ECONOMY



LIBERATION IN A GENERATION

By Emanuel Nieves, Jeremie Greer, and Solana Rice

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ABOUT LIBERATION IN A GENERATION

Liberation in a Generation is a national movement support organization building the power of people of color to totally transform the economy—who controls it, how it works, and most importantly, for whom. We bring together advocates, community organizers, economists, and other proven and emerging leaders of color across the country to build a Liberation Economy, within one generation.

ACKNOWLEDGMENTS

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We also would like to extend our appreciation to the Robert Wood Johnson Foundation for their generous support, which made this report possible.

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CHAPTER 1

Introduction

At the time of writing this report in late winter of 2024, two realities are hitting at once.

First, many advocates and organizers are eagerly waiting and urging the U.S. Senate to take action on a bipartisan $35 billion proposal passed by the U.S. House of Representatives in early 2024 to expand the ***Child Tax Credit (CTC)***.[i] Although opponents to the expanded credit warn that this could discourage work or could be prohibitively costly to the government,[1] implementing the proposal would lift as many as 400,000 children from poverty and would lessen the severity of poverty experienced by an additional 3 million children.[2] Overall, an estimated 16 million children in families with low incomes would benefit from expanding the CTC.[3]

Second, we are in the midst of unprecedented wealth transfer in which Millennials and Gen Xers will receive $84 trillion in inheritance from their Silent and Baby Boomer generation parents and relatives by the mid 2040s.[4] To put this into context, this ongoing $84 trillion wealth transfer is more than three times the size of the current $27 trillion U.S. economy.[5] This transfer of more than half of the nation's $140 trillion in family wealth[6] is predicted to be the largest transfer of wealth in *history*. However, the top 10 percent of wealthy, mostly white, households stand to be the primary beneficiaries of this "great wealth transfer".[7] Without intervention, this monumental shift in wealth is set to further cement and expand the racial wealth gap.

Although these two realities seem unrelated, they are, in fact, connected through federal wealth-building policies, which are the primary way that most households in the United States build and maintain wealth. Recent research from Bank of America underscores this point,[8] noting that this great wealth transfer is the *direct* result of government policies and that government policies alone have been responsible for boosting the wealth of Boomers and older generations by $129 trillion.[9]

At the core of both the promising tax proposal and disparities described above is the nation's largest wealth-building apparatus: the U.S. tax code. The ***tax exclusions***, ***exemptions***, ***deductions***, and ***credits***[ii] in the code aimed at encouraging certain behaviors in the economy and helping individuals and families build economic security, provided $1.8 trillion in support to individuals and businesses in 2023.[10] Although the U.S. tax code was intended to more evenly collect and distribute the aggregate resources of our nation to care for all,[11] over the course of its 111-year existence, this system has been molded by wealthy, largely white, elites and our policymakers into a wealth-hoarding mechanism for the nation's most privileged people seeking to amass obscene levels of wealth. As a result, this perversion of purpose has further fueled our nation's never-ending pursuit of ***individual wealth*** (wealth held by a single individual or family). This pursuit of wealth is, in turn, a

i See the **Appendices 1** and **3** for brief explanations of key tax terms and an overview of all analyzed tax expenditures in this report.

ii See the **Appendix 3** for brief descriptions of key terms.

driving force behind the creation of the **Oppression Economy**, where theft, exclusion, and exploitation of people of color[iii] has made racism profitable, leaving us to face an endless cycle of oppression that depresses our economic, social, and political vitality.

More broadly, this perversion of the purpose of taxation toward individual wealth-building has choked our nation's ability to accumulate enough ***collective wealth*** (wealth controlled by the public through government budgets and monetary policy) to care for all of our people. This perversion not only debilitates economic justice, but also is a disservice to everyone—in particular, children and families of color—because it unnecessarily starves our nation of resources that can demonstrably care for and improve our collective well-being.

Picture our tax code as a greenhouse that, in principle, is supposed to grow and protect our collective resources for the common good. However, in practice, it almost solely functions to protect and cultivate individual and family wealth. Rather than warming and watering our collective plants of resources at all times, particularly during the cold winters of economic downturns, the elite have moved us to the outside. By overtaking and diverting our systems of wealth-building for the common good toward individual wealth, the now-architects of this greenhouse are fertilizing, sheltering, and nourishing their already rich soils with more nutrients. This diversion has allowed white wealth to bloom, and our collective prosperity and public investments to die on the vine.

Even if the racial wealth gap suddenly closed, extractive elements of our economy centered on individual wealth-building (such as shareholder primacy that prioritizes the wealth of stockholders) would re-establish the gap in a relatively short period of time.

At a time when our nation is so starved for resources to support programs that have and can materially and demonstrably improve the lives of millions of people, our tax code needs to return to its original intention: a tool for balancing the scales between the elite and everyone else in service of building our collective wealth and resources. To do that, we must not only demand more of those in the country with so much individual and family wealth, but also pair those demands with large-scale investments that usher in a **Liberation Economy** where people of color can thrive, find safety and security, and are valued. Absent this, even if our current tax code were to grow the individual wealth of people of color, we are doomed to perpetuate our current Oppression Economy since its obsession with individual wealth is the reason people of color lag in nearly every economic indicator. To this point, recent research has found that even if the racial wealth gap suddenly closed, extractive elements of our economy centered on individual wealth-building (such as shareholder primacy that prioritizes the wealth of stockholders) would re-establish the gap in a relatively short period of time.[12]

iii Throughout this document, we use the terms "people of color," "communities of color," "workers of color," and other similar phrases to refer to Black, Indigenous, Latine, Arab, Middle Eastern, Asian, and Pacific Islander people. We use these terms not to erase the experience of any group but to demonstrate the shared impact that systemic racism and white supremacy have had on us.

To achieve a Liberation Economy, the primary purpose of public policy—particularly our tax policies—cannot be to advance individual wealth; rather, tax policies must prioritize the development and maintenance of collective wealth. In particular, it must do so in service of our future generations. This service means not only caring for the youngest among us, but also supporting those who care for the young. As younger generations include more children and families of color than ever, willful disinvestment in the education, healthcare, childcare, housing resources, and other collective supports for our communities will only serve to perpetuate a racist Oppression Economy for many more generations to come. And, while many of our nation's programs, supports, and investments clearly recognize children and their families warrant our support, far too many children are living with caregivers and families or are in institutions that neither have access to nor provide necessary resources.

The Moment to Reclaim the Country's Most Important Wealth-Building Tool

We are at a decision point. Vast parts of the ***2017 Tax Cuts and Jobs Act*** (also known as the Trump/Ryan tax cuts) are set to expire in 2026, and there's already movement within Congress to extend and make these expiring tax cuts permanent.[13] If history shows us anything, it is that the next administration will need to be pushed to redefine our tax code toward caring for the youngest among us and those who care for them.

This paper describes how the U.S. tax code upholds the Oppression Economy and argues that in order to achieve a Liberation Economy that supports people of color, it must transition from a system that creates "individual wealth" to one that creates "collective wealth." We first argue that a tax code that seeks to expand individual wealth is doomed to grow the racial wealth gap. In contrast, government investment (spending) efforts, which combined with our taxation policies form the basis of our nation's ***fiscal policy***, that seeks to create investments that build "collective wealth" is the surest path toward building a Liberation Economy.

We then provide an analysis of the 12 largest and most prominent wealth-building tax provisions in our current tax code,[iv] and put forward bold changes to shift our tax code toward creating collective wealth and paving the way for long-term efforts to usher in **guarantees for liberation**. Anchored by seven fundamental guarantees to **jobs**, **income**, **healthcare**, **debt-free college**, **housing**, **family care**, and **inheritance**, these liberation guarantees offer a vision for new government investment that could be propelled further by changes in the tax code that grow the nation's collective wealth.

iv See the **Appendix 1** for descriptions of all analyzed tax expenditures in this report.

CHAPTER 2

The Tax Code Is Doomed to Grow the Oppression Economy

Darrick Hamilton, a professor at the New School and a founding academic of a group of scholars examining the racial wealth gap, often reminds us that "wealth begets more wealth,"[14] meaning that we not only need some wealth to accumulate wealth, but that the more wealth you have, the faster it will grow over time. Contrarily, without any wealth, it is close to impossible for most of us to build wealth. Individual wealth usually accumulates from various sources, including liquid assets (e.g., cash), corporate ownership (e.g., stocks), and property (e.g., real estate, automobiles, livestock), and it is often passed on to the wealth holder's heirs at death—this is how *individual wealth* is created and sustained by those privileged enough to possess it.

Aiding these efforts to accumulate and sustain infinite levels of wealth from generation to generation has been the government-sponsored practice of individual wealth hoarding, which has become a defining feature of our nation's fiscal policy. This practice, which has been marked by a long series of wealth-building policy "boosts"[15]—from the Homestead Acts to New Deal programs, the GI Bill, and even recent pandemic stimulus efforts[16]—has not only moved us further away from the common good over time, but also largely served to bolster the wealth of white households. Unfortunately, all too often people of color have also had to deal with a long list of wealth-building policy "blocks"[17]—from the Indian Removal Act, to the Chinese Exclusion Act, Jim Crow laws, redlining, and the Bracero program—that not only prevented people of color from creating individual wealth, but also exploited their exclusion. This legacy of "boosts" and "blocks" creates the racial wealth gap and is a lynchpin upholding our Oppression Economy. Today, the tax code continues this legacy by enabling families to build on and protect the wealth created, in large part, by the public policy "boosts" of previous generations.

Established in 1913, the U.S. tax code was intended to serve as a vehicle to fund the government so it could better and more equitably care for the collective physical and financial well-being of people who occupied the United States. The foundation of the code was built on a ***progressive income tax*** meant to tax the wealthy more than the middle, working class and the poor. However, while the tax code is still somewhat progressive, Congress and many presidential administrations have chipped away at higher tax rates and ushered in more exemptions and loopholes for the elite. For example, between 1944 and 1960 the top marginal tax rate that applied to the richest individuals in the country was over 90%.[18] Incidentally, this era marked a time of significant government investment, collective prosperity and growth for America and many of its families, especially those in white and suburban communities.

However, starting in the mid 1960s, the Johnson Administration and those that followed began to cut the top rate paid by the wealthiest until it reached 38.5% during the middle of the 1980s, when the Reagan Administration significantly reformed the income tax code for the first time in its history. In doing so, this reform lessened the tax burden paid by wealthy elites and fundamentally transformed the tax code into what it largely is today. Today, following the second significant reform of the tax code in its history in 2017 by the Trump Administration, the top marginal tax rate now stands at 37%.[19]

As a result of these and other reforms and provisions in the tax code, the tax code overwhelmingly serves to protect and build the wealth of wealthy, largely white people at nearly every turn. For example, our tax code allows households claiming the ***Mortgage Interest Deduction (MID)*** to deduct up to $750,000 for couples ($375,000 for individuals) of mortgage interest payments on their first or second home. This of course largely benefits wealthy, white households who are more likely to be homeowners, while excluding millions of families of color, particularly Black families, from support due to our nation's ongoing history of discriminatory mortgage lending practices.[20] Further, our tax code provides preferential treatment to incomes generated passively from the profits of assets, like stocks, through lower income tax rates on ***capital gains***—in 2023, the top capital gains tax rate was 20%, compared to a top rate of 37% for ordinary income. The tax code also provides preferential treatment to massive wealth holders through a whole host of ways, including by exempting many estates from being taxed—in 2023, the first $12.92 million of an estate was exempted from being taxed.

In both of these cases, wealthy, white households greatly benefit because they are more likely than people of color to hold assets that generate passive income,[21] and they are more likely to hold massive fortunes to pass on to their heirs.[22] However, because this is how individual wealth is often created and sustained in our country, our tax code is constantly upholding our nation's inequities no matter what people of color do or even how successful we may become. For example, even among people of color who have reached the top 1% of income ("one-percenters"), the 2017 Tax Cuts and Jobs Act was less generous to these families than it was to their white counterparts, having provided Black and Latine one-percenters with about half as much support ($19,920 and $19,850, respectively) as it did to white one-percenters ($52,400).[23] Overall, 80% of the 2017 tax law's estimated $300 million in individual tax breaks went to support white individuals and households,[24] and a mere 12% went to Black and Latine individuals and families.[25]

Disheartening inequities like these are the consequences of a system that not only has long been rooted in historical and systemic disparities—going back to our government's acceptance that enslaved Black men, women, and children were 3/5th of a person[26]—but also has been predominantly shaped by wealthy, mostly white, men in Congress since the tax code was established in 1913. At the same time, these disparities are maintained by the nation's elite individuals and corporations, including corporate tax preparation companies, who have been relentless in their pursuit of ensuring that accessing tax benefits remains unnecessarily opaque and complicated for our families.[27] Aided by their fortunes and armies of tax lobbyists, these and countless other elites have worked tirelessly to architect a tax code that works in their favor by exploiting and pushing for loopholes, laws, and regulations—including from within government[28]—that serve their interests and those of their clients and shareholders. So far, those efforts have served the nation's elite well. For example, in 2020, 55 of the largest corporations in America paid zero federal taxes by exploiting loopholes and other schemes to avoid $8.5 billion in tax payments that year.[29] Instead, they got $3.5 billion in tax rebates.[30]

Ultimately, even though we live in an abundance of resources (recall that $84 trillion from earlier), the tax code's emphasis on encouraging and rewarding individual wealth-building dooms it to grow the Oppression Economy. Absent reforms to redirect our nation's fiscal policies to care for our collective physical and financial well-being, the Oppression Economy we have currently will indefinitely continue to manufacture scarcity and relegate people of color—Black, Indigenous, Latine, Arab, Middle Eastern, Asian, and Pacific Islander people—to occupy a permanent economic underclass that remains in a vicious cycle of economic crisis.

CHAPTER 3

The Tax Code Is a Disservice to Children and Families of Color

Although it is clear from much of our public rhetoric and policies that children and families are populations that merit our support, with few exceptions—notably the CTC and the ***Earned Income Tax Credit (EITC)***—our tax code does not serve the needs of these groups. In fact, even when parts of the tax code are structured to support the lives and aspirations of families and children of color, the actions of policymakers, administrators, and the nation's elite institutions often exacerbate, whether intentionally or carelessly, the tenuous positions so many of our communities find themselves in.

For example, in 2017 as part of the Tax Cuts and Jobs Act, policymakers increased both the maximum credit for the CTC from $1,000 to $2,000 per child under the age of 17 and the number of eligible families.[31] Meanwhile, they also disqualified at least 675,000 children with ***Individual Tax Identification Numbers (ITINs)*** from support.[32] Additionally, their changes to the CTC also left more than one-fourth (27%) of children under age 17—about 19 million children—with little, if any, support from the CTC because their families lack earnings or earned too little income.[33] [v] The majority of these children–58%–were Latine (6.5 million) and Black (4.2 million) kids.[34] Yet, because of the changes to the CTC, children from families with incomes as high as $400,000 are now more likely to receive the full support of the CTC.[35]

Income restraints, such as making too little or too much, not having a tax liability, and being reimbursed for past expenses, are just a few of the structural barriers to delivering benefits to children and families. For example, the CTC and the EITC, along with many other tax programs, are subject to ***phase-in and phase-out rates*** and ***income caps***, which can unnecessarily exclude or significantly limit support to children and families. Similarly, ***non-refundable tax credits*** (like the partially refundable CTC) can only be used to reduce a family's tax liability and cannot be returned in the form of a refund when a family has zero tax liability. Further, programs like the CTC and others in our tax code aimed at helping low- and moderate-income families–such as the ***Child and Dependent***

v According to 2021 estimates produced by the **Center on Budget and Policy Priorities** and the **People's Policy Project**, between 4 and 7 million children were in low-income families that do not file a tax return, and thus unable to access the CTC. Partly, this is because many of these families are not required to file federal income tax returns.

Care Tax Credit (CDCTC), the ***American Opportunity Tax Credit (AOTC)***, the ***Lifetime Learning Credit (LLC)***–often ask families, many of whom are struggling to make ends meet, to front load certain expenses, like higher education and other child-related costs, and wait until the next year to receive after-purchase support.[36] In addition to issues like these, specific immigrant groups, including undocumented families who pay federal taxes and children with ITINs, are often ineligible for support from many of our tax programs.

More structurally, many benefits of the tax code are only accessible if one opts to ***itemize deductions***,[37] which many do not do—as of 2019, only about 14% of all taxpayers were estimated to itemize their deductions.[38] Instead, many tax filers opt instead for the ***standard deduction*** of $13,850 for single filers or $27,700 for joint filers.[39] This choice, while practical for a majority of individuals and households, effectively blocks many of our communities from accessing a whole host of high-value tax provisions. Among these provisions is the MID, through which the government funnels nearly $25 billion in housing support.[40] Thus, homeowners of color paying mortgage interest but choosing the standard deduction are excluded from accessing the MID's housing support.

Other structural tax issues facing children and families of color include Internal Revenue Service (IRS) audit and enforcement practices that disproportionately target low-income communities,[41] which is especially harmful to Black taxpayers, who are three to five times more likely to be audited than other taxpayers.[42] Furthermore, the level of support our tax code provides us with is a function of our tax rate. In practice, this means that while a high-income family may be taxed at a higher rate (before exclusions, exceptions, deductions, and credits), that higher tax rate also means these families, who are more likely to be white, receive greater support from tax programs than a family in a lower tax bracket.[43] Adding to this, the more assets a family has, and the higher in value those assets are, the more our tax code helps them out[44]—an issue that overlooks countless families of color who hold relatively few assets.[45] Finally, children and families of color also face an endless and unnecessary series of complex rules and regulations to simply access benefits that support our communities, like those that govern how much time a parent needs to support their child to be eligible for EITC support[46] or the multi-week delay EITC filers face while the IRS applies greater scrutiny to their return to prevent fraud.[47]

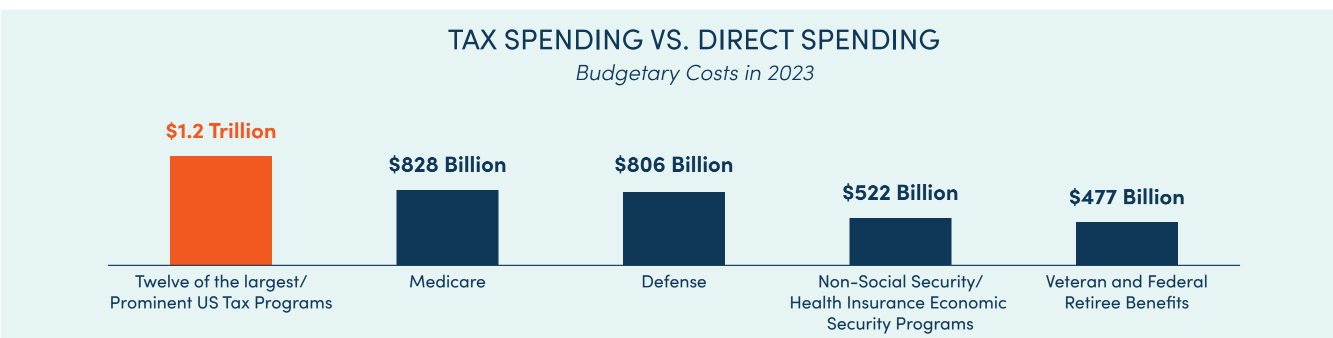
In the end, these and other issues like them have led our tax code to benefit high-income, high-wealth people, who are more likely to be white, which further cements long-standing barriers to economic security that children and families of color face.

CHAPTER 4

How Vast Parts of Our Tax Code Leave Most of Us Behind

The previous sections outlined how our tax code exacerbates our Oppression Economy and the challenges it poses to children and families of color; next, we present a distributional analysis of key elements of our tax code, drawing on data from the Urban-Brookings Tax Policy Center (TPC),[vi] Congressional Budget Office (CBO), and Joint Committee on Taxation (JCT), and the U.S. Treasury Department, to examine who benefits from 12 of the largest and most prominent tax breaks in our tax code under current law by income and race.

Detailed below, these programs are Intended to help individuals and families build, secure, and enhance their incomes, healthcare, education, housing, family care, inheritance, and jobs. **In total, these 12 tax breaks accounted for over $1.2 trillion of the nearly $2 trillion in expenditures through the tax code in 2023.**[vii] For context, this is more than the federal government spent on Medicare ($828 billion), defense ($806 billion), non-Social Security and health insurance economic security programs ($522 billion), and veteran and federal retiree benefits ($477 billion) in 2023.[48]



Sources: 2023. "**Estimates Of Federal Tax Expenditures For Fiscal Years 2023-2027**." The Joint Committee on Taxation. Congress of the United States and 2023. "**Policy Basics: Where Do Our Federal Tax Dollars Go?**" Center on Budget and Policy Priorities.

vi Because publicly accessible estimates for 2023 were not available from the TPC for all 12 tax provisions analyzed in this report, we based our analysis on TPC's 2022 current law data. To maintain consistency and relevance, we adjusted TPC's 2022 estimates to 2023 dollar values, which allows us to offer an approximation of how these funds were distributed in 2023. See **Appendix 4** for a listing of the data tables that were used for this analysis.

vii Federal law defines "tax expenditures" as "revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." Further, the federal government also notes "(t)hese exceptions are often viewed as alternatives to other policy instruments, such as spending or regulatory programs." In other words, by promoting certain behaviors and policy goals through forgone revenue, tax expenditures are effectively another form of federal spending.

Twelve of the Largest & Most Prominent Tax Breaks in the U.S. Code

Issue Area	Tax Break	Cost in FY2023 (Billions)
Income	Reduced Tax Rates on Long-Term Capital Gains and Qualified Dividends	$265.1
Income	State and Local Tax Deduction	$21.1
Income	Earned Income Tax Credit	$71.2
Income	Exclusion for Pensions and Retirement Savings Accounts*	$369.0
Income	Exclusion of Social Security and Railroad Retirement Benefits	$45.3
Healthcare	Exclusion for Employment-Based Health Insurance	$202.1
Education	Higher Education Tax Credits**	$14.2
Housing	Mortgage Interest Deduction	$24.7
Family Care	Child Tax Credit	$122.2
Family Care	Child and Dependent Care Tax Credit***	$5.1
Inheritance	Exclusion of Capital Gains on Assets Transferred at Death	$57.9
Jobs	20-Percent Pass-Through Deduction for Qualified Business Income (Section 199A)	$55.7
TOTAL		**$1,254**

*Exclusion for pensions and retirement savings accounts includes plans for the self-employed (Keogh plans), defined-benefit (pension) plans, individual retirement accounts (IRAs), and Roth individual retirement accounts (Roth IRAs).

**Higher education tax credits include the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC).

***Includes a smaller provision, the exclusion of employer-provided child care ($760 million in FY2023, according to recent estimates from the White House Office of Management and Budget).

Source: 2023. "**Estimates of Federal Tax Expenditures For Fiscal Years 2023-2027**." The Joint Committee on Taxation. Congress of the United States.

Despite the sizable investment, our analysis shows that these provisions too often leave marginalized communities behind, underserved by a powerful system that should be more equitable. For example, when excluding the capital gains exclusion at death,[viii] we find that more than half of the resources provided by these tax breaks–$674 billion–goes to the highest 20% of households by income[ix], who have average disposable incomes of more than $342,000,[x] and who make up only 14% of all taxpayers, or about 25 million tax units.[xi] On average, these households receive over $21,000 from these tax provisions.

viii Due to the unavailability of publicly accessible distributional estimates for the Exclusion of Capital Gains at Death from TPC's microsimulation mode, we omitted this tax provision from the overall analysis in this subsection. This decision was made to maintain the integrity and uniformity of our analysis as we relied on 2019 distributional estimates generated by the CBO in a report published in 2021 (See: "The Distribution of Major Tax Expenditures in 2019"), which features methodologies and underlying data sources to estimate the dispersion of major tax expenditures that differ from those used in TPC's model.

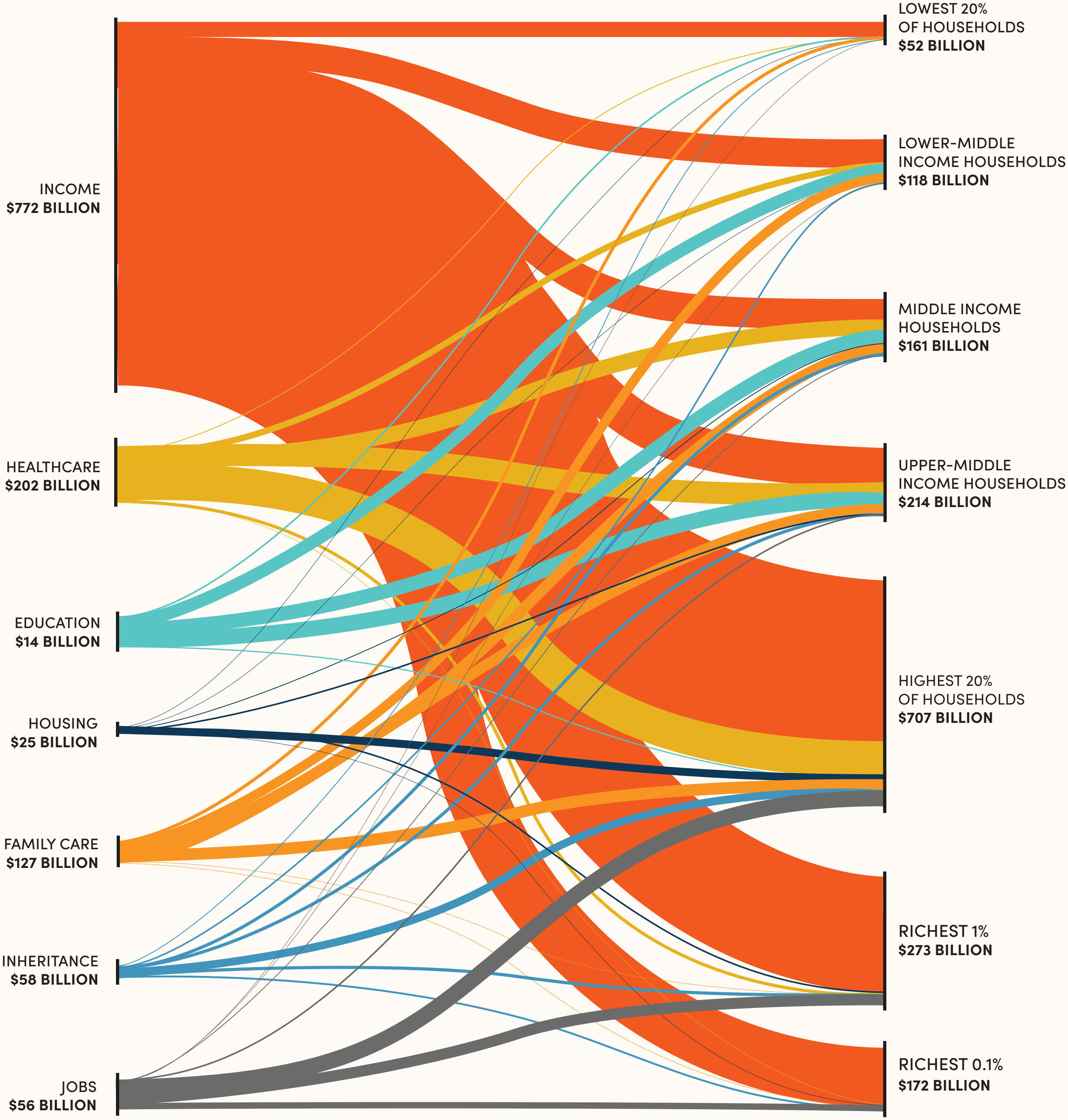
ix Throughout this report, we use the terms "earners," "households," "families," and "richest" interchangeably to refer to families within a - particular income group.

x Unless otherwise noted, all figures throughout the remainder of this brief have been adjusted to be in 2023 dollars.

xi For the purposes of this report, when referring to the distribution of tax benefits, we use the terms "tax units," "households," and "families" interchangeably. However, it should be noted that TPC's microsimulation model considers a tax unit to be "an individual or a married couple that files a tax return, or would file a tax return if their income were high enough, along with all dependents of that individual or married couple."

Who Benefits from Twelve of the Largest & Most Prominent Tax Breaks in the U.S. Code

FY2023



Note: Income tax breaks include reduced tax rates on long-term capital gains and qualified dividends, state and local tax deduction, Earned Income Tax Credit, exclusion for pensions and retirement savings accounts, and exclusion of Social Security and Railroad Retirement benefits. Healthcare tax breaks include the exclusion for employment-based health insurance. Education tax breaks include higher education tax credits. Housing tax breaks include the mortgage interest deduction. Family care tax breaks include the Child Tax Credit and the Child and Dependent Care Tax Credit. Inheritance tax breaks include the exclusion of capital gains on assets transferred at death. Jobs tax breaks include the 20-percent pass-through deduction for qualified business income (Section 199A).

Note: The terms "households" and "richest" refer to families within particular income group.

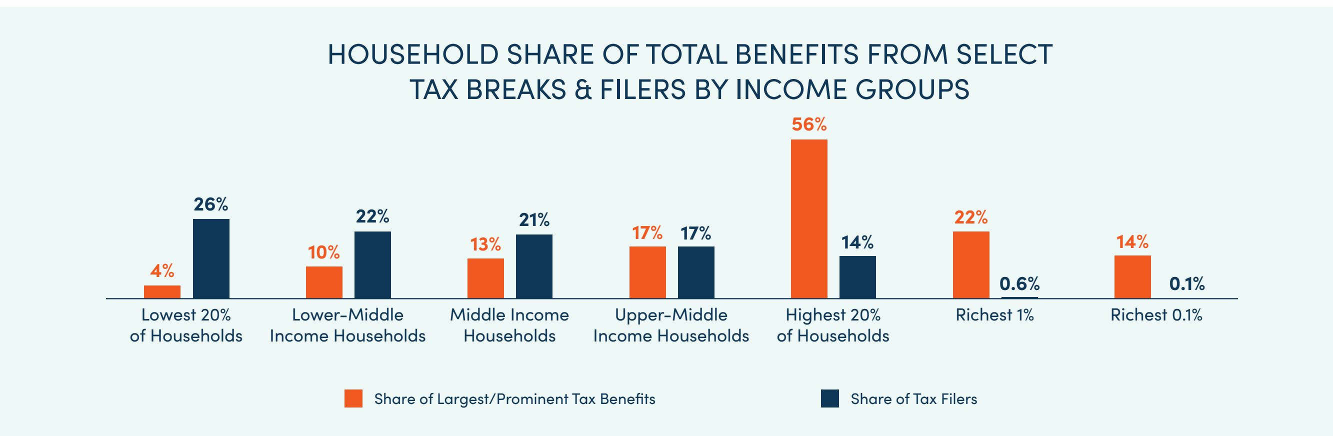
Household Income Ranges & Average Disposable Incomes

	Lowest 20% of Households	Lower-Middle Income Households	Middle Income Households	Upper-Middle Income Households	Highest 20% of Households	Richest 1%	Richest 0.1%
Income Range	$0-$31,006	$31,007-$60,461	$60,462-$107,280	$107,281-$195,542	$195,543+	$1,015,539-$4,588,214	$4,588,215+
Average Disposable Income	$17,187	$40,628	$70,083	$118,473	$342,788	$2,156,783	$10,208,916

Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**. Figures adjusted to 2023 dollars.

Note: Throughout this report, we use the terms "earners," "households," "families," and "richest" interchangeably to refer to families within a particular income group.

In contrast, the households in the middle 20% by income, with average annual disposable incomes of just over $70,000, receive just 13% of these resources, totaling about $151 billion. This group represents 21% of all taxpayers, or about 37 million tax units. The lowest 20% of earning families, making up 26% of taxpayers, or about 48 million tax units, and with disposable incomes just over $17,000, receive only 4% or $51 billion of these funds. Overall, in 2023, the households with the highest 20% of incomes received over six times more support than middle income families ($3,380) and 22 times more than those with the lowest 20% of income ($951).[xii]

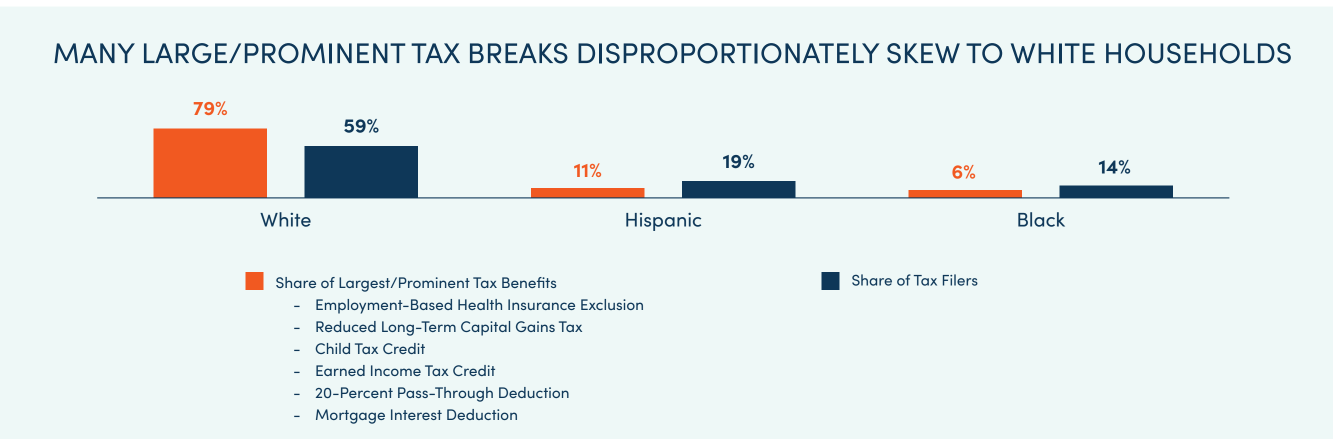


Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

xii Throughout the rest of this report, the average distributional figures we present include all households within a particular quintile, not just those that directly claimed or benefited from a specific provision. It's important to note that the TPC model estimates we used for this report do not provide data on the average benefit for households, or tax units, that directly claimed or benefited from a particular provision. However, the data we present generally aligns with estimates published by TPC regarding tax units that have directly claimed or benefited from many of these programs. For some examples of this alignment, readers can refer to the EITC and CTC data presented in "Key Elements of the U.S. Tax System" section in the **Tax Policy Center Briefing Book**.

This disparity highlights the tax code's inherent unfairness. However, higher up the income ladder, the inequities in this enormous wealth-building system become even more clear. For example, the richest 1% and 0.01%, with average households incomes over $2 million and $4.5 million respectively, comprise less than 2% of all taxpayers (about 1.3 million tax units) and receive on average $191,000 and $1.1 million[xiii] in support from these programs. These are dollars that could vastly transform the lives of children and families of color struggling to get a foothold in the economy.

As previously mentioned, when examined by race, many tax provisions overwhelmingly benefit white households. For example, research from the U.S. Treasury Department's Office of Tax Analysis shows that in 2023, nearly 80% of the benefits from six of the 12 major tax breaks went to white households,[49] exceeding their nearly 60% proportion in the U.S. population.[50] Among these breaks are exclusions for employment-based health insurance, reduced rates on long-term capital gains and qualified dividends, the CTC, the EITC, the 20% deduction for qualified business income, and the MID. Conversely, Hispanic[xiv] and Black households received about 11% and 6% of these benefits,[51] respectively, much less than their population share. Except for the CTC and the EITC, white households received 80% or more of the benefits from many of these programs in 2023.



Sources: Cronin, Julie-Anne. 2023. "**Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation**." U.S. Treasury Department.

Overall, the Treasury Department's research found that in 2023, white households received $506 billion from these six tax breaks, while Hispanic and Black households received $73 billion and $38 billion, respectively. Consequently, white households averaged over $4,000 each in benefits from these programs, with Hispanic and Black households receiving around $2,500 and $1,900, respectively.

This overall picture demonstrates how vast parts of our tax code leave most of us behind. The following sections provide a deeper analysis of each issue area followed by recommended policy reforms to shift our nation toward a more equitable tax code on the path to a Liberation Economy.

xiii Due to unavailability of data, the average benefit for the richest 0.01% excludes the exclusion of capital gains at death.

xiv When referencing the Treasury Department's data on "**Tax Expenditures by Race and Hispanic Ethnicity**," we use the term "Hispanic" for individuals of Hispanic or Latino origin, rather than "Latine," to align with the source's categorization of racial groups, which include white, Hispanic, Black, Asian, Native, some other race alone, or multiple race.

Income Tax Breaks

Photo Credit: iStockPhoto.com

Income Tax Breaks

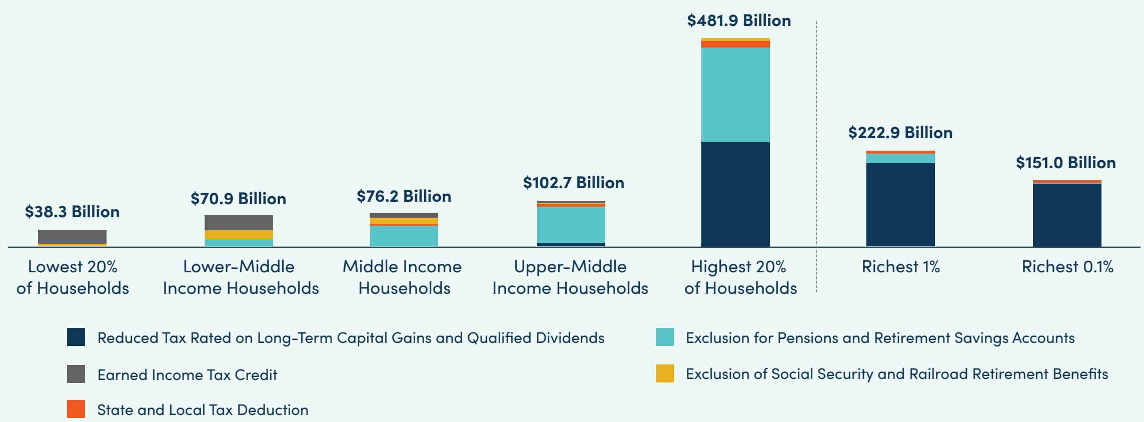
Ensuring that all people of color have access to and are provided with a livable income is critical to building a Liberation Economy where people of color can thrive. Although today's economy falls short of providing what people of color need to thrive, our tax code recognizes the importance of building and maintaining sustainable incomes. Among the 12 largest and most significant programs within the tax code that we analyzed, five focus on enhancing family incomes, amounting to almost $772 billion in tax breaks.

Issue Area	Tax Break	Cost in FY2023 (Billions)
Income	Reduced Tax Rates on Long-Term Capital Gains and Qualified Dividends	$265.1
Income	State and Local Tax Deduction	$21.1
Income	Earned Income Tax Credit	$71.2
Income	Exclusion for Pensions and Retirement Savings Accounts*	$369.0
Income	Exclusion of Social Security and Railroad Retirement Benefits	$45.3
Total		**$771.7**

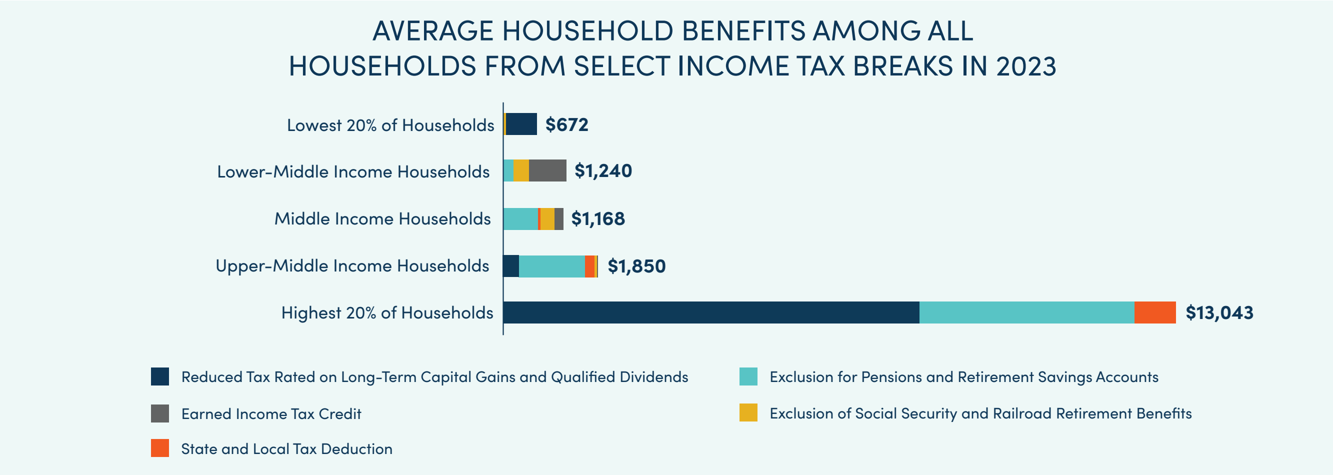
*Exclusion for pensions and retirement savings accounts includes plans for the self-employed (Keogh plans), defined-benefit (pension) plans, individual retirement accounts (IRAs), and Roth individual retirement accounts (Roth IRAs).

Overall, the households with the highest 20% of income received almost $482 billion in support from these income tax programs in 2023. This means that just one-fifth of U.S. households captured over three-fifths of the benefits that flowed from some of the largest income tax expenditures in our tax code last year, averaging about $13,000 per household. In contrast, the lowest-to-middle income households that make up the lower 60% of households, with average disposable incomes between roughly $17,000 and $70,000, got roughly a quarter of what households with the highest 20% of income received from these tax breaks, totaling $185 billion or a total average benefit of $3,080. Strikingly, the 20% of families with the lowest incomes received an average of just $672 each from approximately $38 billion that was directed to them from these income-support programs.

HOUSEHOLD SHARE OF TOTAL BENEFITS FROM SELECT INCOME TAX BREAKS IN 2023

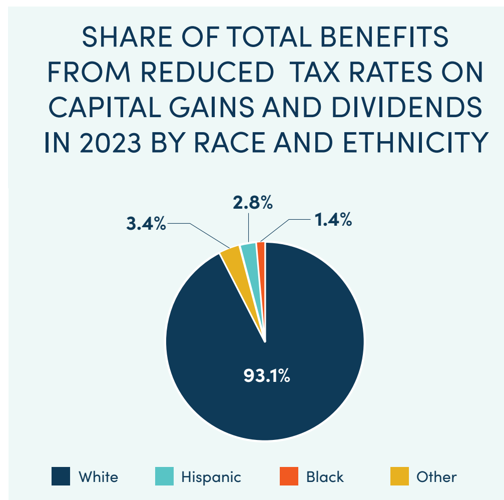


Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.



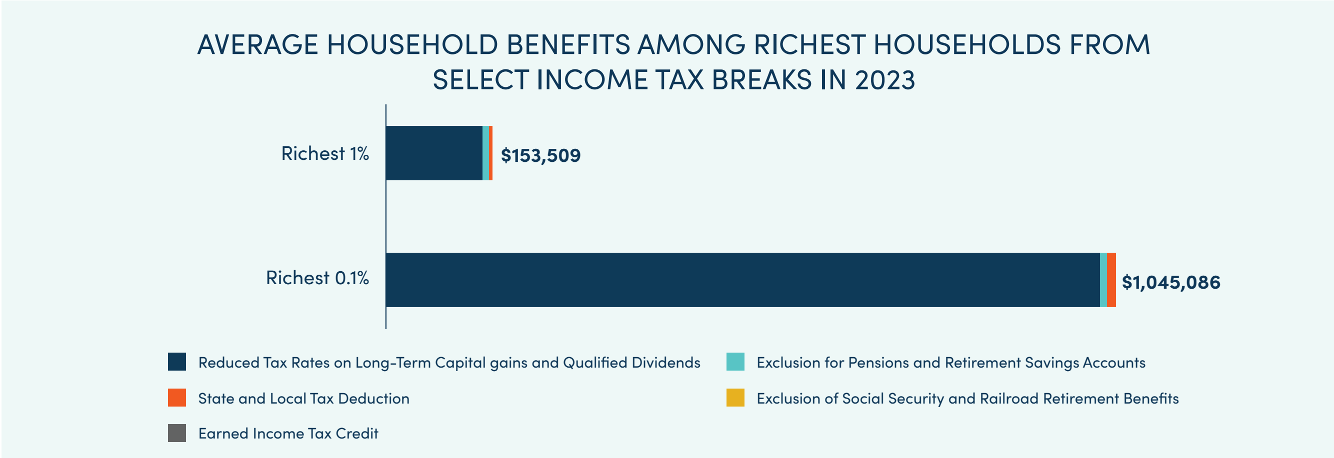
Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

These disparities are mainly the result of two major income tax provisions that disproportionately favor the wealthiest: ***reduced tax rates on long-term capital gains and qualified dividends*** and ***exclusion for pensions and retirement savings accounts***, which in 2023 cost the government $634 billion. For example, 92% of the $265 billion spent to provide lower capital gain tax rates on investment-generated income benefits top-income households, with nearly 75% ($195 billion) going to the richest 1% of families. Far from needing help, this is a group that has incomes between $1 million and $4.5 million a year. Here again, the Treasury Department found that this tax break overwhelmingly goes to white households, with about 93% of its resources going to this group in 2023 alone.[52] The remaining 7% was split among Black, Hispanic and other people of color.[53]



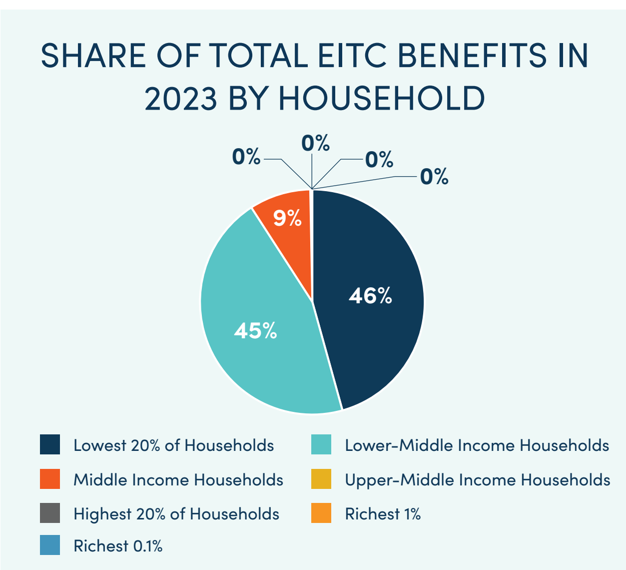
Cronin, Julie-Anne. 2023. "**Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation**." U.S. Treasury Department.

Further, over 60% ($220 billion) of the $369 billion spent each year to encourage and boost retirement savings goes to households with the highest 20% of income, with about 10% of that ($24 billion) going to the richest 1% of families. In contrast, the bulk of the support provided through the ***exclusion of Social Security and railroad retirement benefits***—84%—goes to lower-middle and middle income families. Adding to this, an endless list of loopholes and complexities in the tax system have allowed a small, wealthy group to exploit retirement tax programs—particularly our ***individual retirement accounts (IRAs)*** systems—to create de facto onshore tax shelters, leading just 156 Americans to hold more than $15 billion in these accounts as of 2021.[54] Overall, the richest 1% and 0.1% respectively received an average of about $153,000 and $1 million in support from this small group of income tax breaks in 2023.

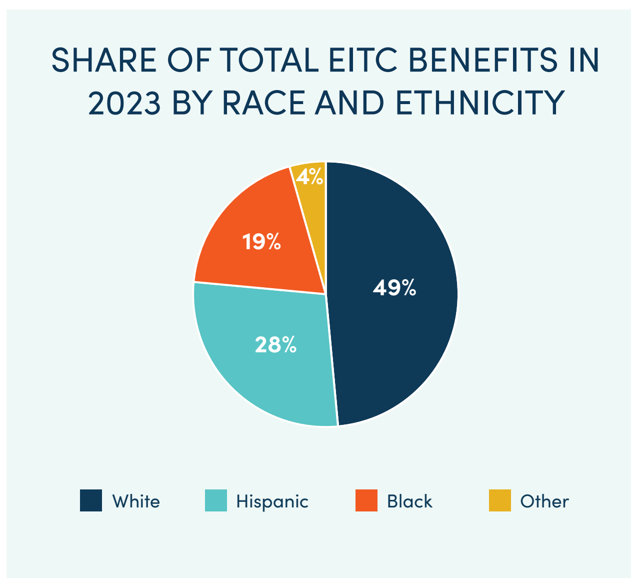


Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

Standing in contrast to these two previous provisions is the ***EITC***, the nation's largest and most successful antipoverty program. Each year, the EITC successfully lifts 3 million children out of poverty and significantly reduces the severity of poverty for millions more.[55] The success of the EITC lies in its targeted support for those in need and that it is fully a ***refundable tax credit***, meaning that any amount of the credit that exceeds a family's tax liability can be returned to them in form of a refund. In 2023, 92% of the $71 billion spent on the EITC went to the lowest earning 40% of households, with average disposable incomes between $17,000 and $41,000. Further, the U.S. Treasury Department has found that the majority of the EITC's support—52%—goes to people of color.[56] As a result, in 2023, its research showed that Black and Hispanic households received over $660, on average, in support from the EITC.[57]



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.



Source: Cronin, Julie-Anne. 2023. "**Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation**." U.S. Treasury Department.

Ultimately, when we compare provisions aimed at high-income households earning passively, like reduced capital gains tax rates, against those for active labor-earning households, such as the EITC, the bias in our tax code toward rewarding wealth becomes clear. In 2023, for example, the highest earning 20% of households received on average six times more income support from reduced taxes on capital gains ($8,113) than what the lowest 40% of families received collectively from the EITC for their labor ($1,323).[xiv] In other words, rather than doing more to lift and support the millions of children and families who are living in or near poverty, each year the government spends hundreds of billions of dollars to effectively subsidize the passively generated incomes of the elite.

Income Tax Reforms

- **Raise top income tax rates.** To foster a Liberation Economy, Congress must take action to correct the many imbalances in our tax code. Chief among these actions is increasing the top income tax rate from the current 37% rate to at least 39.6%, which is the level that was in place prior to the passage of the 2017 Tax Cuts and Jobs Act. More aggressively, Congress must move to restore the top ordinary income tax rate to 50%, the pre-1986 Tax Reform Act level.
- **Eliminate income subsidies for the elite.** As part of any tax reform, Congress must abolish unfair income subsidies for the elite, such as the reduced tax rates on long-term capital gains and qualified dividends, and equalize tax rates across all forms of income.
- **Limit state and local tax deductions.** Rather than repealing the cap for ***state and local tax deductions*** of $10,000 set during the 2017 tax law, which would largely benefit the wealthy,[58] Congress must maintain or lower this cap to further limit the amount of support the deduction has historically provided the nation's elite. One such approach Congress should consider is to limit the deduction to households below a certain income threshold,[59] rather than to make it available to all regardless of income.
- **Expand the EITC for individual working adults.** To ensure all low-income people are best supported by the tax code, Congress should reinforce and make permanent the American Rescue Plan Act's (ARPA) expansion of the EITC for individual working adults, which tripled the maximum credit for this group of workers (from $500 to $1,500), and raised the income limits by about $4,000, to nearly $21,000 for individuals (about $27,000 for married couples).[60]
- **End loopholes that allow the wealthy to build onshore tax shelters.** To ensure that the government's vast resources to support retirement savings go to those who need help saving for their golden years, Congress should move to close loopholes in our IRA system that allow the wealthy to unfairly game the system in their favor. This should include limiting contributions for individuals with over $10 million in their accounts and eliminating "backdoor" Roth conversions and other tax avoidance tactics.[61]
- **Eliminate the Social Security tax cap.** To further ensure that all families have the resources they need to comfortably cover basic needs during retirement, Congress should move to eliminate the regressive Social Security tax cap of $160,200 a year. Doing so would ensure high-income households contribute their fair share to Social Security, so that all families can meet their basic needs in retirement without hardship.

xiv This average applies to all households within these income quintiles, regardless of whether they claimed the credit or not. However, according to data presented by the Tax Policy Center in their **Tax Policy Center Briefing Book**, the average EITC for the 40% of families with the lowest incomes that claimed the credit in 2021 under current law was approximately over $4,000.

Healthcare Tax Breaks

Photo Credit: Terence Faircloth, Flickr.com

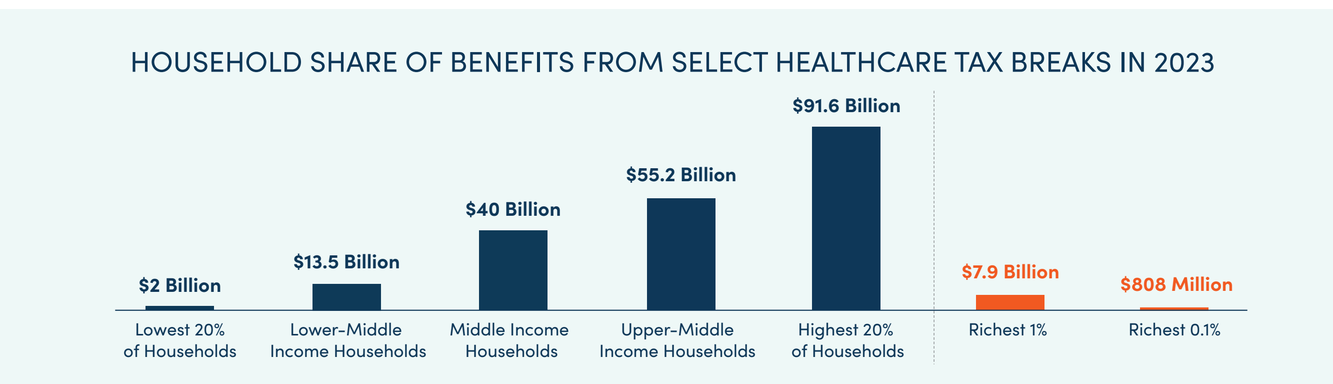
Healthcare Tax Breaks

To realize a Liberation Economy, we need access to healthcare that is comprehensive, accessible, and affordable. Though far from the ideals we aspire for, the tax code partially supports this vision through the ***exclusion of employment-based health insurance***. This provision ensures that employee contributions toward healthcare premiums are excluded from taxable income, while allowing employer contributions to be deducted as a business expense. In 2023, the government spent over $202 billion on this tax break.

Issue Area	Tax Provision	Cost in FY2023 (Billions)
Healthcare	Exclusion for Employment-Based Health Insurance	$202.1

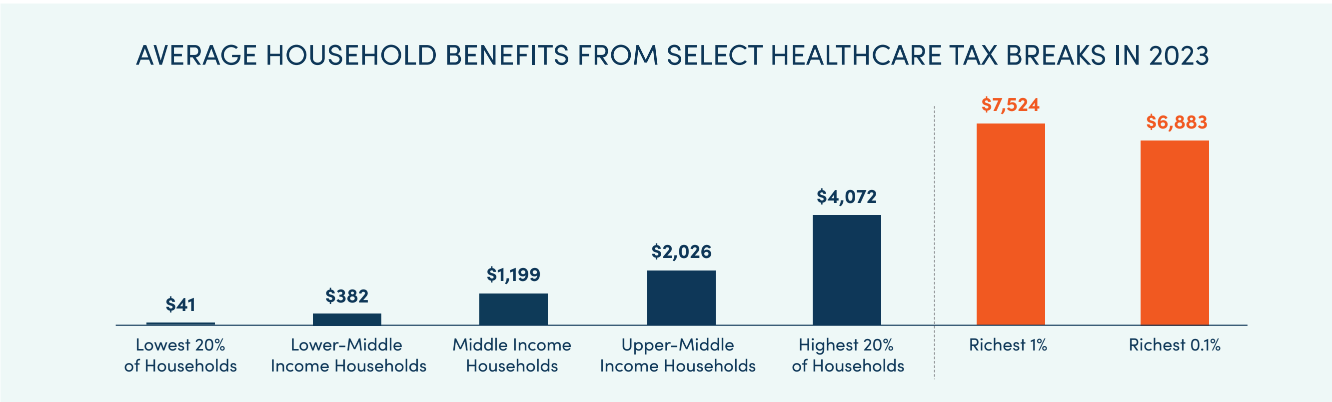
However, this tax break tends to favor higher-income households due to its nature of reducing taxable income, which significantly benefits those in higher tax brackets.[62] Moreover, high-income individuals and families are more likely to have jobs that provide health insurance, and are more likely to participate in offered plans, which further boosts the value of this exemption for them compared to low-income households.[63]

Unfortunately, this approach is not effectively targeted to help those most in need of healthcare coverage. For example, nearly half of the government's spending on this tax break—$91.6 billion—benefits households with the highest 20% of income. In contrast, middle income groups receive about $40 billion, while the lowest 40% of households get around $15.6 billion.



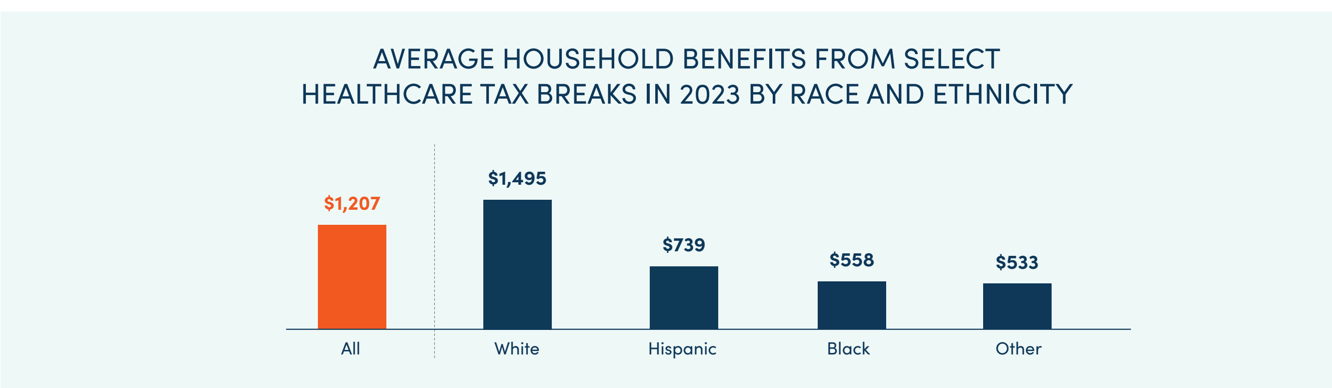
Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

On average, the highest 20%-income households receive about $4,000 in healthcare subsidies, while the next 40% of households (middle income and upper-middle income households) receive significantly less ($2,026 for upper-middle income households and $1,199 for the middle income households). Further down the income ladder, the support diminishes even more, with the lower-middle income households receiving only $382. Strikingly, the lowest 20% of earning households, which are more likely to be part of the 27.6 million Americans (about 8.4% of the population) who had no health insurance in 2022,[64] receive just $41 on average in healthcare support from this provision.



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

By and large, white households overwhelmingly benefit from this provision. In 2023, the Treasury Department found that 82% of the benefits from this healthcare provision went to white households, providing an average benefit of about $1,500.[65] In contrast, Black and Hispanic households received about 5% and 10%, respectively, of this program's resources, amounting to average benefits of about $560 and $740.[66]



Source: Cronin, Julie-Anne. 2023. "**Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation**." U.S. Treasury Department.

Healthcare Tax Reforms

- **Make permanent the American Rescue Plan Act's improvements to the Affordable Care Act supports.** To help more of our communities better afford and access healthcare, Congress should permanently reinstate and extend the ARPA's now-expired enhancements to the Affordable Care Act (ACA) subsidies, which expanded eligibility for the ACA marketplace premium subsidies to those with incomes above 400% of the federal poverty level ($52,000 for an individual to $106,000 for a family of four in 2021).[67]

Education Tax Breaks

Photo Credit: iStockPhoto.com

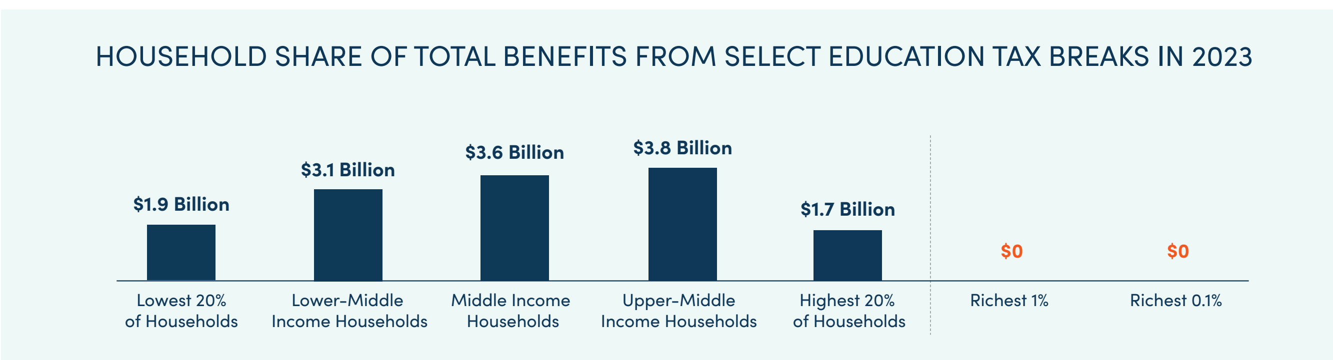
Education Tax Breaks

If we are to create a Liberation Economy, then we need to ensure that we all can access higher education without taking on crippling debt. While the bulk of the federal government's higher education supports come in the form of grants (e.g., Pell grants), work-study programs, public loans, and other forms of direct assistance, the tax code also offers some higher education supports. Key among these are the ***higher education tax credits***—made up of the AOTC and the LLC—which provide about $14 billion in government support to help students and families better afford a higher education. Additionally, tax-preferred educational savings accounts (such as 529 plans and Coverdell Education Savings Accounts), represent further support, with the government spending around $5 billion each year on these higher education tax vehicles.[68]

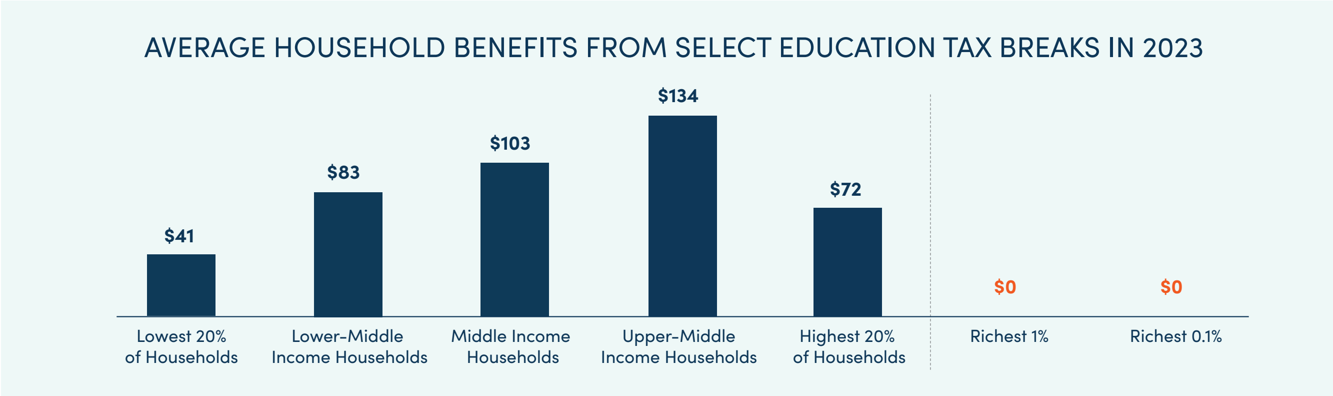
Issue Area	Tax Provision	Cost in FY2023 (Billions)
Education	Higher Education Tax Credits*	$14.2

*Higher education tax credits include the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC).

Notably, about 74% of these higher education tax credits, or $10.5 billion, benefits the middle 60% of earning households, which have average disposable incomes between $40,600 and $118,500, with families higher up the income ladder receiving more of these resources. However, despite being more equitable than other tax provisions, these benefits provide far less support to the lowest income families. In 2023, those with the lowest 20% of household incomes who have average disposable income of no more than $17,200, received $1.9 billion in support from these programs—slightly more than what the highest 20% of households received ($1.7 billion), which have average disposable incomes over $342,000.



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

Further, because programs like these provide after-purchased support for qualified purchases, they can overburden low-income students and families who may not have the means to float a costly higher education expense for a few months or a year after those purchases are made. Still, even with these and other limitations, such as the AOTC's partially refundability (only $1,000 of the $2,500 credit is refundable) and the LLC's non-refundability, tax credits like these serve to harness the power of the tax code to support those who need the greatest levels of support in many of our communities. This stands in stark contrast to supports provided through educational tax-preferred savings accounts, which the Government Accountability Office[69] and other researchers[70] have found to largely benefit wealthy, overwhelmingly white, families.

Education Tax Reforms

- **Eliminate the AOTC's lifetime ban for students with felony drug convictions.** To ensure that all students pursuing a higher education are treated fairly and are fully supported in their efforts, Congress should eliminate the AOTC's felony drug conviction ban,[71] which has been in place since the AOTC's predecessor, the Hope Scholarship Tax Credit, was enacted in 1997.

Housing Tax Breaks

Photo Credit: Sebnem Gulfidan, Flickr.com

Housing Tax Breaks

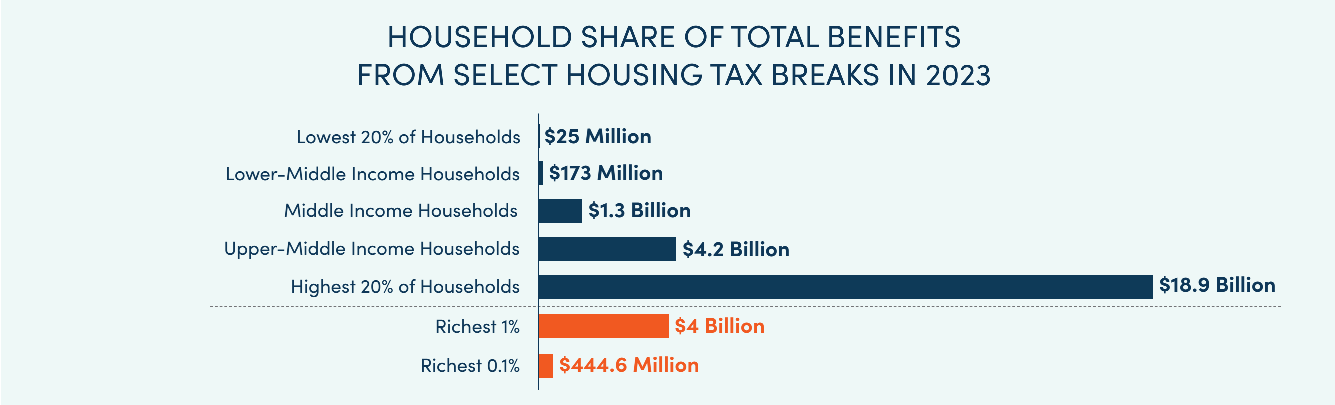
Quality, safe, healthy, and affordable housing is essential for a Liberation Economy, serving as a foundation for stable and thriving lives. As with many of the other issues we have described, the tax code recognizes the significance of housing through various programs. In fact, today the largest affordable housing production program in the country—***the Low-Income Housing Tax Credit (LIHTC)***[72]—is run through the tax code.

However, despite the government spending over $10 billion each year to spur and subsidize private-sector investment in affordable housing,[73] the LIHTC adds only about 100,000 to 150,000 housing units each year.[74] While this is meaningful, it represents only a fraction of the homes needed to close the shortage of 7.3 million affordable homes facing low-income renters throughout the country.[75] Moreover, LIHTC properties are concentrated often in high-poverty, racially segregated areas, limiting access to opportunities.[76] The program also struggles to effectively serve renters earning less than 30% of the area median income.[77] For example, recent research has found that the majority of low-income renters end up paying more than 30% of their income to afford a LIHTC-financed unit or turn to some form of rental assistance to afford their rents in these units.[78]

Despite its limitations, the LIHTC is a relatively more effective mechanism for increasing access to affordable housing when compared to the tax code's other prominent housing tax program, the ***MID***.

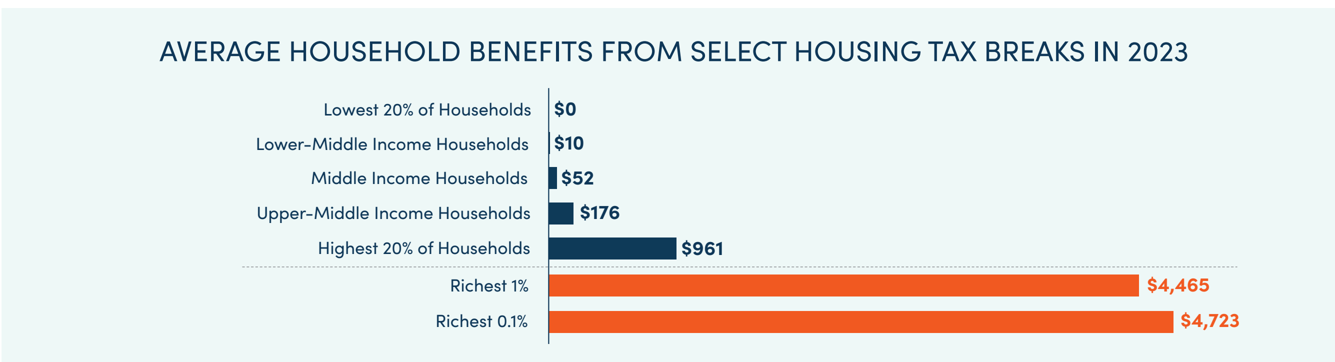
Issue Area	Expenditure	Cost in FY2023 (Billions)
Housing	Mortgage Interest Deduction	$24.7

Available only to homeowners who choose to itemize their deductions—which, as of 2019, was estimated to only be about 14% of all taxpayers[79]—most of the nearly $25 billion that is provided through the MID goes, once again, to those who are at the very top of the economy. In 2023, a staggering 77% of the $24.7 billion spent through this program went to the highest 20% of earning households, with a fifth of this amount—$4 billion—benefiting the richest 1% alone. This support is about as much as what upper-middle income earning households (those earning between $107,281 and $195,542) received at $4.2 billion, and far exceeds the $1.5 billion collectively received by the lowest 60% of earning households (with incomes up to $107,280).



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

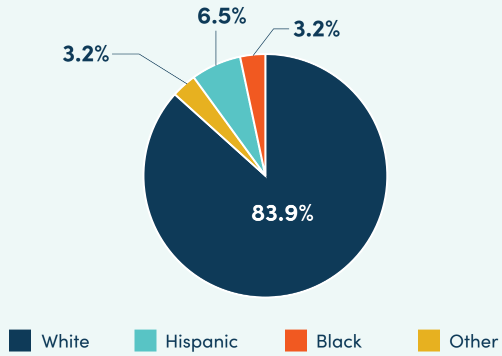
On average, the richest 1% and richest 0.01% of households received over $4,000 from the MID in 2023, while the lower 80% of households collectively received an average support of just $238 from this program. Notably, the bulk of this little support went to upper-middle income households, at an average of $176, with the middle income and lower-middle income households receiving an average of $52 and $10, respectively, and the lowest income households receiving nothing.



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

Overall, as groups like the National Low-Income Housing Coalition have noted,[80] the government spends more to subsidize the housing of 14 million of the highest 20% of households than it does to support the 77 million families that make up the lower 60% of households. However, putting a finer point on this, the government spends an enormous amount to subsidize the homes of white families, rather than helping families of color, many of which over generations have been locked out of homeownership, achieve greater housing stability. According to the Treasury Department, in 2023, 83% of the MID's support went to white households, while less than 10% went to Black and Hispanic households.[81]

SHARE OF TOTAL BENEFITS FROM MORTGAGE INTEREST DEDUCTION IN 2023 BY RACE AND ETHNICITY



Source: Cronin, Julie-Anne. 2023. "**Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation**." U.S. Treasury Department.

In the end, the tax code's approach to housing support essentially serves as a boon for the elite, as it unnecessarily gives a break to wealthy, largely white, homeowners to deduct up to $750,000 in interest payments on their first or second home. Meanwhile, as homeownership continues to slip further away for many and rents continue to rise, the tax code leaves too many of us without any meaningful help in what has become an ever-challenging, and at times predatory, housing market.

Housing Tax Reforms

- **Restrict the MID further and reinvest savings into broad homeownership and renter-support tax programs.** Rather than subsidizing the cost of the wealthy's first or second homes, Congress should further limit the reach of the MID by lowering the cap from $750,000 to $500,000. This would bring the cap in line with proposals Republican leaders had sought in 2017,[82] as well as closer in alignment with median home sale prices in 2023 of just over $425,000.[83] In conjunction, Congress should move to use the hundreds of billions in resources generated from lowering the MID's cap to provide all homeowners with a tax credit that is available regardless of whether they itemize to offset some of the costs of affording their homes.[84] Additionally, Congress should use some of these newly generated resources to establish a renter's tax credit to help low-income renters better afford their ever-rising rents.

Family Care Tax Breaks

Photo Credit: iStockPhoto.com

Family Care Tax Breaks

Creating a Liberation Economy requires providing all children and families, especially those of color, with access to affordable and essential family care systems. Unfortunately, today, a patchwork of under-resourced federal family care programs has left countless families unable to access the kinds of care they need to survive and thrive. Despite this, the tax code offers some meaningful support in this area. Among the largest and most prominent of these supports are the ***CTC***[85] and the ***CDCTC***,[86] which are designed to help families offset some of the costs of raising children, including childcare expenses. In total, both of these programs provided children and families with $127.3 billion in support in 2023, with the bulk of that provided by the CTC.

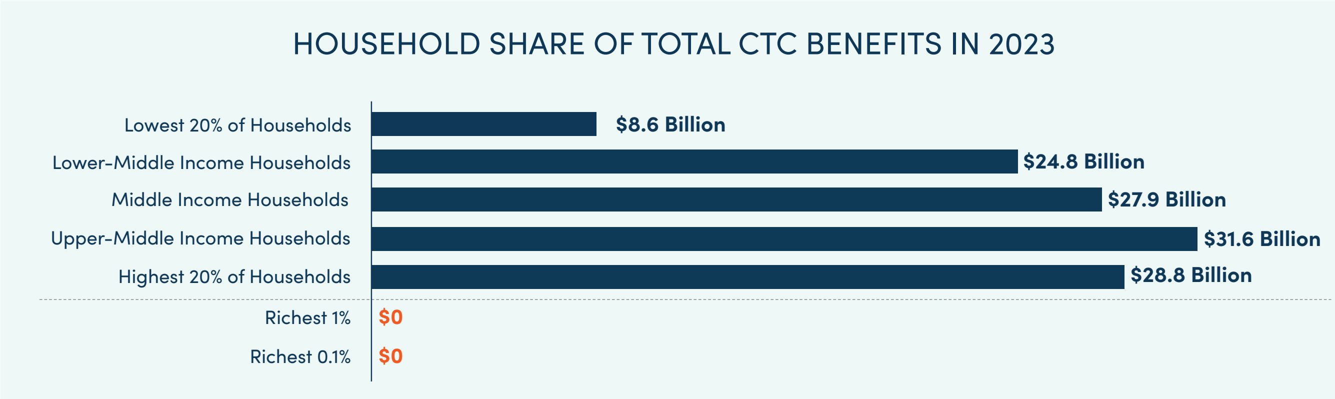
Issue Area	Expenditure	Cost in FY 2023 (Billions)
Family Care	Child Tax Credit	$122.2
Family Care	Child and Dependent Care Tax Credit*	$5.1
Total		**$127.3**

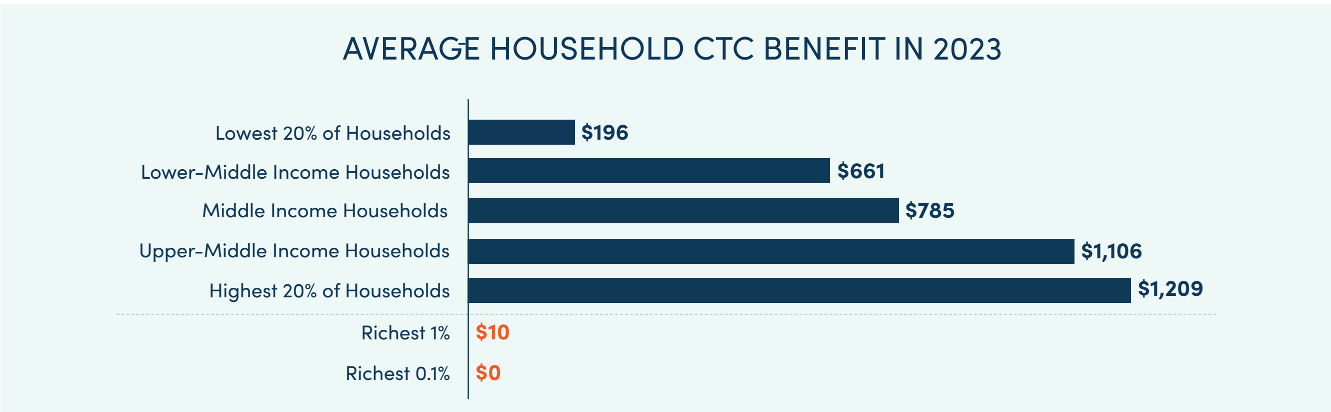
*Includes a smaller provision, the exclusion of employer-provided child care ($760 million in FY2023, according to recent estimates from the White House Office of Management and Budget)

Much like the EITC, the CTC is among our most effective programs the country has for reducing poverty, lifting over 2 million children out of poverty and lessening its severity for another 5.8 million children.[87] However, unlike the EITC, which is targeted to support working individuals and families, particularly those with children at the lowest end of the income distribution, the CTC generally provides almost equal aggregate support to households across the income spectrum. Although in many ways this is a recognition by the government that all children and families are worthy of support, there is one glaring exception: our poorest families receive far less in overall support from the program than wealthy families.

In 2023, families at the lowest end of the income spectrum, with average disposable incomes around $17,000, received 65% to 72% less of the CTC's funding—totaling about $8.7 billion—compared to the $113.3 billion received by those in the upper 80% of households. Consequently, while families that make up the upper 80% of households benefited from an average CTC support of $661 to $1,209, the lowest income families in the country only received an average of $196 from the CTC.[xv] Here, again, white families benefited more than families of color. In fact, according to the Treasury Department, in 2023, 66% of the CTC resources went to support white families.[88] Black and Hispanic households respectively received a little over 20% and 8% of the CTC's resources during this year. Despite this, Hispanic households received an average benefit of $867, while the amount received by white ($605) and Black ($491) households was somewhat comparable to each other.[89]

xv This average applies to all households within this income quintile, regardless of whether they claimed the credit or not. However, according to data presented by the Tax Policy Center in their **Tax Policy Center Briefing Book**, while the average CTC for families with children who claimed the credit in 2021 was about $4,380, the average credit for the lowest-income families who claimed it that year was the smallest among all groups, at just over $1,000.





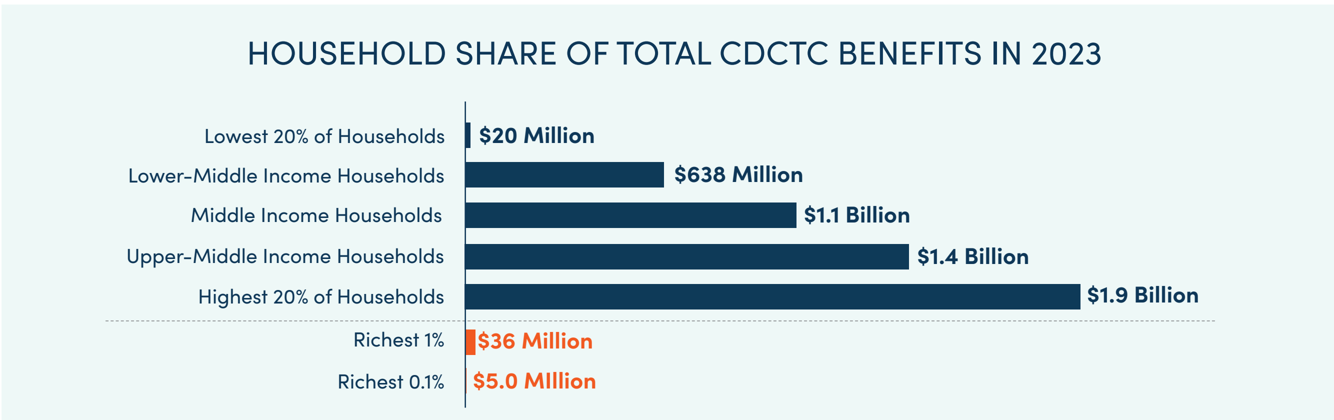
Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

While the CTC has proven to be effective at tackling poverty facing children and families, disparities like these are the result of policy and political choices that unnecessarily limit the amount of support a family in need can receive. In the case of the CTC, for example, the credit provides no support to families earning less than $2,500 and even then, it only scales up at a rate of 15 cents for every dollar earned, regardless of the number of children in a household.[90] Further, the credit is partially refundable, with only $1,600 of the $2,000 able to be returned to families with little or no tax liability in the form of a refund.[91] As a result of these features, a single parent earning $15,000 a year with two children can only have a maximum CTC of $1,875, whereas a married couple earning $400,000 a year also with two children is eligible for a maximum CTC of $4,000.[92]

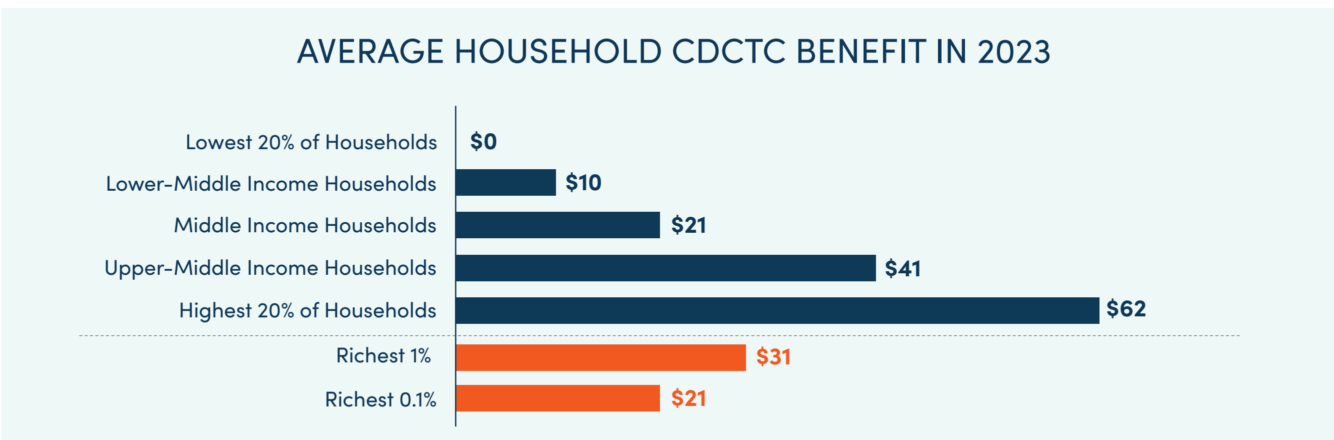
Similarly, the CDCTC also largely benefits families further up the income ladder,[xvi] both on an overall and average basis. For example, in 2023, from the $5.1 billion provided largely through the CDCTC, $4.4 billion went to middle ($1.1 billion), upper-middle ($1.4 billion), and highest-income families ($1.9 billion). That's about 87% of the CDCTC's resources that year. In contrast, about 12% of the funding directed through the CDCTC in 2023 went to lower-middle income families ($638 million), and less than 1% ($20 million) went to support our lowest earning families.

xvi TPC's model does not include any potential interactions with Dependent Care Flexible Arrangements, a subset of the exclusion of employer-provided child care.

Distributions like these are partly a reflection of limiting features in the CDCTC and other credits like it. For the CDCTC, this includes a cap of 35% for eligible work-related child and dependent care expenses (valued up to $3,000 for one child or $6,000 for two or more children) and its non-refundability.[93] As a result, despite potential credits worth up to $1,050 for a family with one child or $2,100 for those with two children or more, low-income families often receive far less, especially if they have little or no tax liability at all.[94]



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

Ultimately, disparities like these are a reflection of what our tax code prioritizes. For example, including the EITC, which significantly helps workers with children, we conservatively estimate that in 2023, the government spent around $224 billion across 9 programs specifically focused on helping children and families.[xvii] While that is a sizable figure by most metrics, it still falls short of the $265 billion the government spent in 2023 on one program that largely subsidizes the passively generated incomes of the wealthy. For a country that places a high value on children and families, this is a glaring problem that should not be ignored, even as the government spends hundreds of billions through the CTC, EITC, and CDCTC each year to help low-income children and families.

Family Care Tax Reforms

- **Reinstate and make permanent the enhanced Child and Dependent Care Tax Credit and the Child Tax Credit to better support families raising children.** To further support children and families, Congress should reinstate and make permanent the ARPA improvements to the CTC[95] and CDCTC[96] that expanded the credits and made them more accessible to the nation's poorest families and children.

xvii These provisions include exclusion of scholarship and fellowship income; tax credits for post-secondary education expenses; qualified tuition programs; credit for child and dependent care and exclusion of employer-provided child care; adoption credit and employee adoption benefits exclusion; exclusion of certain foster care payments, credit for family and sick leave taken by self-employed individuals; Child Tax Credit; and the Earned Income Tax Credit.

Inheritance Tax Breaks

Photo Credit: iStockPhoto.com

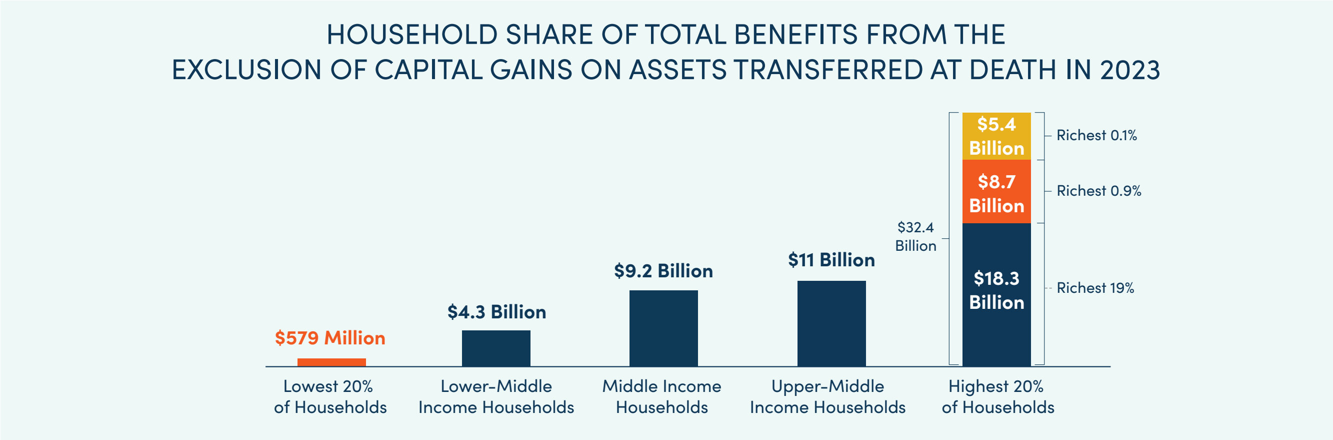
Inheritance Tax Breaks

Ensuring that we all are able to build, hold, and pass along generational wealth that gives us choice and freedom to pursue opportunities, take risks, and invest in our own and our families' futures is critically important for fostering a Liberation Economy. And, while the importance of building and maintaining wealth is firmly cemented in the tax code, the code's protection of individual wealth above all else has come at a great cost to us all. For example, under current law, the increased value of assets that are unsold, or ***unrealized capital gains***, not only are excluded from taxation during the life of an asset holder, but also can be passed on at death to an heir tax-free. At that point, the value of the asset is "***stepped-up in basis***" for the inheriting heir, meaning that its assumed purchase price (the "basis") is adjusted ("stepped-up") to reflect its current value.[97] This is effectively a loophole, meaning that if the receiving heir decides to sell the asset at some point, they would only be taxed on the increase in the asset's value since the time it was passed down.[98] If unsold or passed along again, the inherited asset would continue to go untaxed.

In 2023, the federal government spent $57.9 billion on the ***exclusion of capital gains at death*** to allow wealthy individuals and families to exclude inheritances from taxation at death. This is nearly as much as it spent to support working individuals and families through the EITC ($71 billion), and about half as much as it provided to help children and families through the CTC ($122 billion) and CDCTC ($5 billion).

Issue Area	Expenditure	Cost in FY2023 (Billions)
Inheritance	Exclusion of Capital Gains on Assets Transferred at Death	$57.9

Using a recent Congressional Budget Office analysis of 2019's major tax expenditures,[99] we conservatively estimate that in 2023, 56% of the nearly $60 billion spent by the government on the inheritance exclusion—totaling $32.4 billion—benefited the highest 20% of earning households. These are households that held an average disposable income exceeding $342,000 in 2023 and an average net worth of $7.7 million the year before.[100] Unsurprisingly, a significant portion of this tax benefit—24% or $14.1 billion—went to the richest 1%. While legally permissible, this provision underscores the various methods the elite use to amass and retain wealth, including tax tactics that cost the government an estimated $1 trillion in lost revenue annually.[101]



Sources: 2023. "**Estimates Of Federal Tax Expenditures For Fiscal Years 2023-2027**." The Joint Committee on Taxation. Congress of the United States and 2021. "**The Distribution of Major Tax Expenditures in 2019**." Congressional Budget Office.

Another major way that the government engages on the issue of inheritances and generational wealth through the tax code is through the ***estate tax***, which in 2023 generated $24.2 billion in revenue.[102] While significant, this represents a fraction of the size of 3,850 taxable estates in the country, which, in 2023, held a total gross value of $169 billion, at an average of about $43 million per estate.[103] Despite their massive sizes, on average, these taxable estates held an average tax liability of just over $6 million dollars, which amounts to an average tax rate of 13.8% (as a percentage of the average gross estate). To put this into perspective, this rate is comparable to the average income tax rate in 2020, which was 13.6%.[104]

While estate-planning tactics used by the wealthy to avoid paying taxes on their fortunes is part of the story with these glaring disparities, the 2017 Tax Cuts and Jobs Act also plays a key role here: the law doubled the estate tax exemption from $5.6 million to $11.2 million for single filers and from $11.2 million to $22.4 million for couples.[105] And, while the law kept the top estate tax rate at 40% in place, it indexed the exemptions to inflation.[106] As a result, today, individual estates valued under $13.6 million and joint estates under $27.2 million are exempt from the estate tax altogether.

Ultimately, disparities in inheritance support provided through our tax code largely benefit white households, who are 2.5 times more likely to receive an inheritance than Black households.[107] Even when Black households do receive an inheritance, on average it's about half as much ($154,260) as white households receive ($303,100).[108]

Inheritance Tax Reforms

- **Institute a wealth tax.** To ensure that the wealthiest among us contribute their fair share to the common good, Congress should enact a wealth tax of at least 2% on households with a net worth and trusts between $50 million and $1 billion, along with an annual 1% surtax on households whose net worth and trusts exceed $1 billion.[109]

- **Eliminate the inheritance exclusion for the wealthy.** To prevent the elite from passing down fortunes tax-free across generations, and in the process building dynastic wealth, Congress should move to tax all unrealized capital gains at death.[110] At a minimum, Congress should close the "step-up in basis" loophole that allows heirs to avoid paying their fair share of taxes on the inheritances they receive from the previous generation.[111]

- **Expand the reach and power of the estate tax.** To limit the dynastic concentration of wealth in the hands of so few, Congress should allow the 2017 tax law's changes to the estate tax to expire. At the same time, Congress should also move to expand the reach and power of this important tax provision by restoring the tax regime in place during the early 1980s that saw all estates paying modest amount in taxes, with the largest estates (those valued at $20 million or more) paying an average of 20% (the top estate tax rate then was between 65% and 70%).[112] [113]

Job Tax Breaks

Photo Credit: iStockphoto.com

Job Tax Breaks

Ensuring that everyone who wants and is able to work has a job available to them is a core element of a Liberation Economy. Today, while our tax code does not presently provide resources to support such a goal, it does offer a number of individual employment-specific supports beyond the EITC,[xviii] which is intended to encourage work among low- and moderate-income working families and individuals.[114] Among these jobs-specific tax supports are deductions for business meals and lodging, and miscellaneous fringe benefits, which in 2023 totaled $19.5 billion.[115] However, the largest of these supports comes from the ***20-percent pass-through deduction for qualified business income*** (Section 199A).

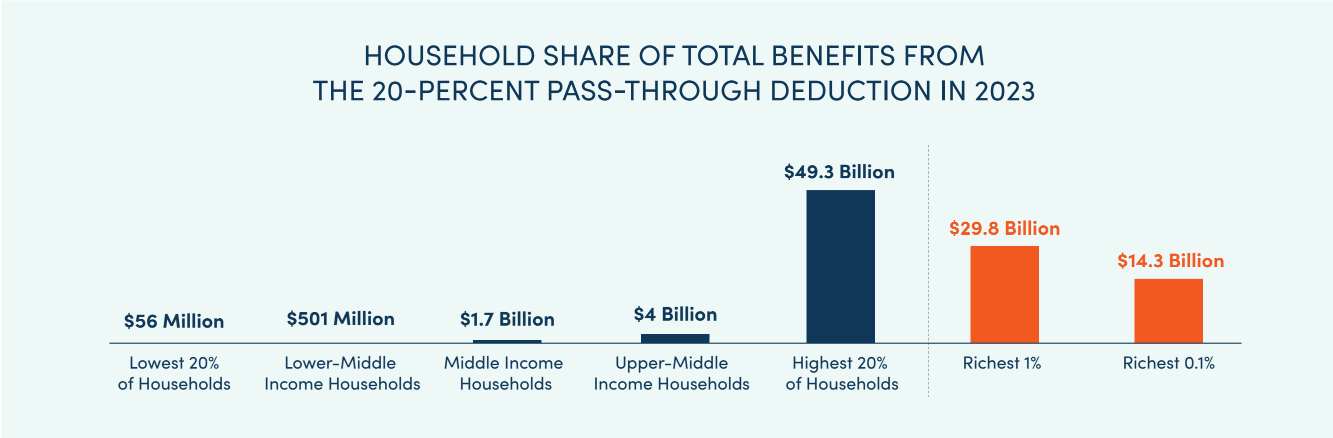
Often cited by supporters as a tool for creating jobs and boosting economic growth,[116] [117] the 20% ***pass-through income*** deduction was enacted as part of the 2017 Tax Cuts and Jobs Act. This pass-through deduction was meant to ostensibly level the tax field further between smaller businesses and larger corporations, which had seen their corporate tax rate drop from 35% to 21% during the passage of the law.

Issue Area	Expenditure	Cost in FY2023 (Billions)
Jobs	20-Percent Pass-Through Deduction for Qualified Business Income (Section 199A)	$55.7

Despite over $50 billion being spent on this 20% pass-through deduction—surpassing the budget of several federal agencies in FY2023—research from the Treasury Department, the Federal Reserve, and Dartmouth College has found little evidence that this deduction led impacted businesses to increase jobs, wages, or business investment.[118] Separately, research from economists from the Treasury Department, Princeton University, University of California, Berkeley, and the University of Chicago has found that an overwhelming number of the richest 1% (69%) and 0.1% (84%) earn some pass-through income.[119] Their research also found that instead of the idealized small businesses that occupy our main streets, these pass-through incomes are derived from large legal service providers, wealth and investment services, professional and technical services, physician offices, car dealerships and other entities that exemplify millionaire-owned pass-through businesses.[120]

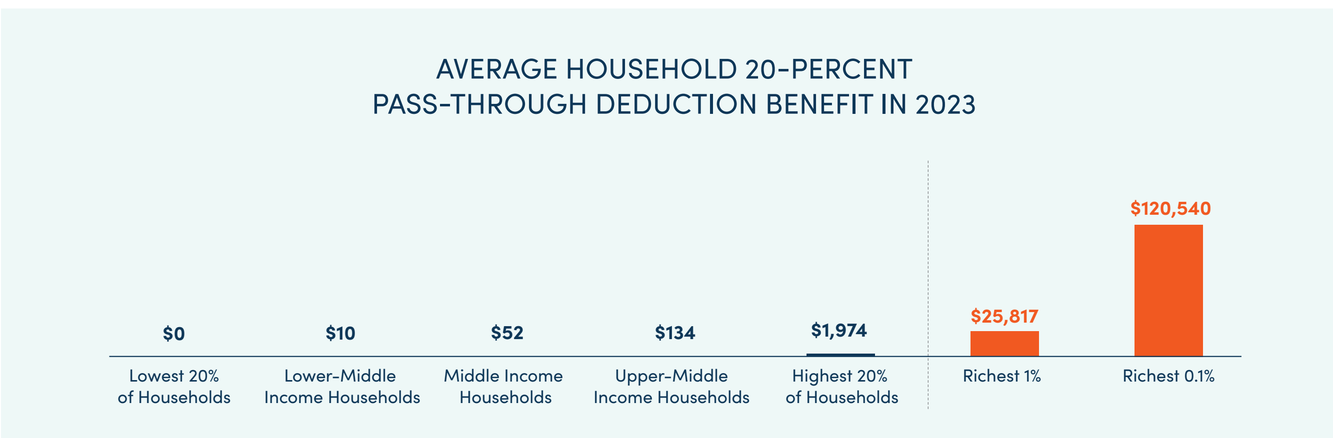
Ultimately, this provision has been a boon to business owners in the highest 20% of the income spectrum, with 88% ($49.3 billion) of its benefits going to this group in 2023, and over 60% ($29.8 billion) reaching millionaires in the top 1%. Collectively, the lower 80% of earning households received about $6 billion in support from this program.

xvii Both the Joint Committee on Taxation and the Treasury Department do not categorize the EITC as an employment tax expenditure.



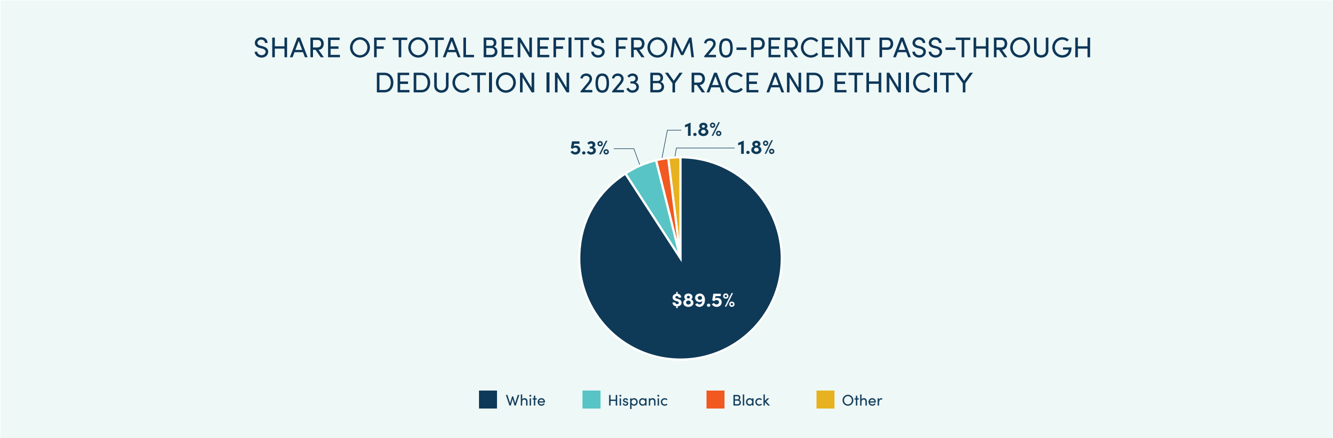
Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

On average, the richest 1% and 0.1% received almost $26,000 and about $120,000, respectively, from this provision last year. In contrast, the highest 20% of earning households received an average of nearly $2,000, while significantly less was received by upper-middle ($134), middle ($52), lower-middle ($10) and lowest income households ($0) from this provision in 2023. Ultimately, rather than resources to boost the lives and livelihoods of everyday workers and true small businesses, the government has provided yet another (relatively new) way to subsidize the vast wealth of the elite at all of our expenses.



Source: Urban-Brookings Tax Policy Center microsimulation **model estimates**.

Unfortunately, once again, white families benefited more than families of color from this tax break. In fact, according to the Treasury Department, in 2023, about 90% of the pass-through deduction resources went to support white families.[121] Black and other households of color respectively received only about 2% of this deduction's resources during this year, while Hispanic households received about 5%.



Source: Cronin, Julie-Anne. 2023. "**Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation**." U.S. Treasury Department.

Job Tax Reforms

- **Allow the pass-through deduction to expire and use the savings to invest in workers.** Rather than subsidizing the incomes of millionaire business owners,[122] Congress should allow the 20% pass-through business income deduction to expire as scheduled in 2026.

CHAPTER 5

Building Collective Wealth Through Public Policy Is the Only Way to Usher in a Liberation Economy

Nearing the end of the Great Depression, President Franklin Delano Roosevelt (FDR) used part of his second inaugural address to highlight the severe challenges facing American democracy at the time. He spoke of millions who were denied most of what was needed to meet their basic needs and the opportunities to better their lives and those of their families; those who were earning incomes that constantly left them on the brink of ruin, struggling to access goods and services, enduring appalling living conditions, and facing bouts of poverty that limited their ability to fully participate in the economy. Poignantly, FDR described seeing "one-third of a nation ill-housed, ill-clad, ill-nourished,"[123] while also emphasizing to the nation "(t)he test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little."[124] Decades later, FDR's reflection on the struggles faced by so many and the moral imperative facing the nation remain profoundly relevant.

With its extensive size, scope and reach, the U.S. tax code represents one of the best tools the federal government has at its disposal to meet FDR's national litmus test. However, in an era of widening economic inequality—underscored, in part, by the nation's 400 richest people increasing their net worth to $4.5 trillion,[125] $2.5 trillion more than just a decade ago[126]—relying solely on the tax code to foster a Liberation Economy will not be enough. Alongside piecemeal and broad reforms of our tax code that move it toward bolstering our collective wealth, it's critical that we also leverage the federal government's considerable spending power. Doing so would enable us to effectively leverage the nation's fiscal policy to care for the needs in our society.

Combined, the nation's revenue collections (i.e. taxes, fines, and fees), and spending priorities are at the foundation of our fiscal policy, which in 2023 translated into a $6.1 trillion budget.[127] As the country's statement of priorities, our budget, and the tax and the spending priorities that underpin it, dictates what we value as society and determines the share of the economy that is to be reinvested in the care of its people. Unfortunately, today, this statement of priorities largely tells us that the nation values wealthy elite and big corporations over all others. At the same time, it often tells us that our advancement as a society depends more on consumerism than governmental support—an emphasis made evident by the fact that 68% of the $27.94 trillion U.S. gross domestic product (as of the 4th quarter of 2023)[128] is the product of private (personal) sector consumption (e.g., household spending on goods and services). This stands in stark contrast to countries like Norway and Sweden, which feature robust social programs that leverage their collective wealth, where 38%[129] and 44%[130] of their respective gross domestic products are consumed in the private (personal) sector.

To create a Liberation Economy, we believe our fiscal policy must set a new course that de-emphasizes individual wealth, and focuses instead on the creation of collective wealth that is owned by and benefits all of us. Although this report is focused on our tax system, securing an economy where all people of color can thrive requires more than just reforming our tax code to ensure that the elite and large corporations contribute their fair share to our collective prosperity. Creating this change demands that the government invest in a slate of economic guarantees designed not only to radically change the outcomes of people of color, but also to redirect the trajectory of the nation toward a future that uplifts everyone. Among this slate of investments must be seven fundamental guarantees we believe are necessary to reshape the way we live, work, and thrive:

- **Guaranteed income** to offer all the ability to possess an assured right to a livable income through recurring, unrestricted, and direct cash payments that not only cover basic needs but also shield against the threat of plunging into poverty.[131]
- **Guaranteed healthcare** fostered through a public system grounded in fully meeting people's needs rather than from profit-centric motives, which offers comprehensive coverage for essential health services—including prescription drugs, doctor visits, and behavioral and mental healthcare—without premiums and with little to no cost-sharing.[132]
- **Guaranteed debt-free college** made possible through a paradigm shift in our education system that moves it toward a debt-free model centering its attention and resources around fully supporting students with both tuition and non-tuition costs.[133]
- **Guaranteed housing** anchored in the establishment of publicly funded and community-controlled social housing and a tenants bill of rights, which ensure that all people will have a right to safe, dignified, and secure housing, free from economic exploitation.[134]
- **Guaranteed family care** propelled into reality through the creation of national programs to provide universal and adequate paid family and medical leave, early childcare and education, and long-term services for the elderly and people with disabilities.[135]
- **Guaranteed jobs** to assert employment as a fundamental right, providing public jobs with living wages, full benefits, and full worker rights to anyone who wants to and can work.[136]
- **Guaranteed inheritance** rooted in comprehensive approaches to create a national reparations program and Baby Bonds program to restore the wealth of Black and Indigenous communities and to guarantee that all people of color can thrive and preserve abundance for future generations.[137]

Although these are ambitious measures that face extensive political obstacles and realities in Washington, DC, and elsewhere in the country, the challenges faced by people of color are at such a scale that they can only be solved by bold and transformative measures. Anything less will fall far short of what is needed to foster a Liberation Economy. For example, in 2018 research published by a group of economists, researchers, and advocates,[138] including William “Sandy” Darity Jr., Darrick Hamilton, and Anne Price, found that addressing wealth disparities faced by Black households by investing in an often standard set of “silver bullet” individually focused solutions—including efforts to increase education, homeownership, and saving rates and boost financial literacy—would only marginally address the wide gap in wealth between white and Black households. In contrast, if the government enacted a $14 trillion reparations proposal in the form proposed by Sandy Darity and folklorist Kirsten Mullen to provide about $840,000 to each eligible Black household who are descendants of enslaved people, the Black-white wealth gap at the mean would be entirely closed.[139]

Recent research led by economist Ellora Derenoncourt, however, reminds us that even an effort at this scale to close the wealth gap would be temporary without addressing other underlying disparities in our economy, such as the vast differences in capital gains between Black and white households.[140] As we noted earlier, these disparities are made worse by the tax code’s preference for this form of passive income. In other words, if we’re ever to achieve a Liberation Economy, then we need to leverage our nation’s tax powers to curb and eliminate extractive elements of our economy, while also harnessing our spending capacities to fundamentally invest in our collective needs.

CHAPTER 6

Conclusion

Despite our tax system's tendency to prioritize wealthy individuals, often at the expense of communities of color, particularly our children and families, it is a key channel through which our government invests, incentivizes, and rewards individuals across our economy to better themselves, their families, and others. And, while the path to making the tax code work better for people of color will not come easily—both because the beliefs of wealthy, largely white, members of Congress who have shaped the code and because the nation's elite often spare no expense to shape the tax code in their favor—there are and will always be ample opportunities to change the tax code in ways that better elevate the economic prospects of Black, Indigenous, Latine, Arab, Middle Eastern, Asian, and Pacific Islander communities.

One of these opportunities is the expiration of the 2017 Tax Cuts and Jobs Act in 2026, which presents another rare opportunity for full-scale tax reform that could be leveraged to make our economy fairer. We hope what we have offered here provides grassroots leaders and others with valuable insights into why the tax code is how it is, how it fails to serve our communities, and the kinds of steps we can begin to push for now as debates about what to do with the 2017 tax law begin to unfold and intensify. These steps will set the stage for a Liberation Economy where all people of color can thrive.

APPENDICES

APPENDIX 1

Description of Analyzed Expenditures

INCOME

- **Reduced Tax Rates on Long-Term Capital Gains and Qualified Dividends:** A series of reduced incomes tax rates (0%, 15%, or 20%, based on the filer's income) that apply to the profits from the sale of stocks, mutual funds, or other capital assets held for more than a year (long-term capital gains), and certain IRS-qualified dividends.

- **State and Local Tax Deductions:** An itemized deduction that allows tax filers who itemize their deductions to deduct up to $10,000 in property, sales, or income taxes paid to state and local governments.

- **Earned Income Tax Credit:** A fully refundable credit targeting low-income workers, which increases with earned income, number of children, and marital status, up to a maximum amount, before phasing out as income exceeds certain threshold amounts.

- **Exclusion for Pensions and Retirement Savings Accounts**: An exclusion that allows for income saved or earned in specific pension plans and retirement accounts to be exempt from taxation until withdrawals occur, typically during retirement.

- **Exclusion of Social Security and Railroad Retirement Benefits:** An exclusion that fully or partially excludes from taxation Social Security and railroad retirement benefits if a beneficiary's income is below certain threshold amounts.

HEALTHCARE

- **Exclusion for Employment-Based Health Insurance:** An exclusion that exempts employee contributions toward healthcare premiums from taxable income, and allows employer contributions toward healthcare premiums to be deducted as a business expense.

EDUCATION

- **Higher Education Tax Credits:** A set of refundable and non-refundable credits to help students and families offset certain post-secondary education expenses.
    - **American Opportunity Tax Credit:** A partially refundable $2,500 credit (up to $1,000 can be refunded) available for the first four years of undergraduate education for certain qualified education expenses, including tuition, required enrollment fees, and course materials needed for a course.
    - **Lifetime Learning Credit:** A non-refundable credit of up to $2,000, available for undergraduate, graduate, or professional education without a limit on the years it can be claimed, for certain qualified education expenses, including tuition, required enrollment fees, and course materials needed for a course.

HOUSING

- **Mortgage Interest Deduction:** An itemized deduction that allows tax filers who itemize their deduction to deduct up to $375,000 for individuals or $750,000 for couples of mortgage interest payments on their first or second home.

FAMILY CARE

- **Child Tax Credit:** A $2,000 partially refundable credit (up to $1,400 can be refunded) for tax filers with children under the age of 17 years.
- **Child and Dependent Care Tax Credit:** A non-refundable credit up to $3,000 for one child or $6,000 for two or more children to help parents or caregivers cover the cost of qualified care expenses necessary to work, seek work, or attend school, for those who care for children under 13, a spouse or parent unable to care for themselves, or another dependent living with the family for most of the year.

INHERITANCE

- **Exclusion of Capital Gains on Assets Transferred at Death:** An exclusion that exempts the increased value of unsold assets (unrealized capital gains) from taxation when transferred to an heir after the original holder's death. Once inherited, the asset's value is then "stepped-up in basis" to its market value at the time of inheritance, making any prior increases in the asset's value also exempted from taxation.

JOBS

- **20-Percent Pass-Through Deduction for Qualified Business Income (Section 199A):** A deduction that allows owners of sole proprietorships, partnerships, and S corporations to deduct 20% of their pass-through qualified business income.

APPENDIX 2

Abbreviations

ACA	Affordable Care Act
AOTC	American Opportunity Tax Credit
ARPA	American Rescue Plan Act
CBO	Congressional Budget Office
CDCTC	Child and Dependent Care Tax Credit
CTC	Child Tax Credit
EITC	Earned Income Tax Credit
IRA	Individual Retirement Account
IRS	Internal Revenue Service
ITIN	Individual Tax Identification Number
LIHTC	Low-Income Housing Tax Credit
LLC	Lifetime Learning Credit
MID	Mortgage Interest Deduction
TPC	Tax Policy Center

APPENDIX 3

Key Terms

2017 Tax Cuts and Jobs Act: Tax reform law passed by the 115th U.S. Congress and enacted into law by President Trump in 2017 that significantly reformed U.S. tax code by changing several elements of individual and corporate taxes.

For individuals, the 2017 tax law lowered the top marginal tax rate from 39.6% to 37%, adjusted tax-bracket income thresholds, doubled the standard deduction, eliminated personal exemptions, limited certain itemized deductions like the state and local tax deduction and the mortgage interest deduction, doubled the estate tax exemption, and expanded the size and reach of the Child Tax Credit, among other changes. These and most other individual changes from the 2017 tax law are scheduled to expire on December 31, 2025.

For corporations, the 2017 tax law cut the corporate tax rate from 35% to 21%, introduced a 20% deduction on qualified business income for pass-through entities, temporarily allowed full and immediate expensing for certain assets, eliminated the corporate alternative minimum tax, and created the Opportunity Zones program to encourage investment in designated areas nationally by offering to temporarily defer taxes on capital gains that are reinvested in a Qualified Opportunity Fund. Except for the Opportunity Zones, most corporate tax changes from the 2017 tax law are permanent.

Capital gains: The increase in value of stocks, mutual funds, or other capital assets from their original purchase price.

Collective wealth: Wealth controlled by the public through government budgets and monetary policy.

Estate tax: A tax on the fair market value of assets, including cash, securities, real estate, insurance, trusts, annuities, business interests, and other assets, transferred from deceased individuals to their heirs.

Fiscal policy: The use of government spending and taxation policies to influence the macroeconomic condition, including economic growth, demand for goods and services, federal investment, inflation, reductions in poverty, work incentives, and savings.

Individual retirement accounts: Tax-advantaged personal retirement savings account.

Individual Tax Identification Numbers: An IRS-issued tax processing number for individuals who do not have or cannot obtain a Social Security number (SSN) from the Social Security Administration (SSA) that allows them to file U.S. taxes.

Individual wealth: Wealth held by a single individual or family.

Itemized deductions: Claimed in lieu of the standard deduction, itemized deductions are specific expenses that individuals and joint filers can subtract from their taxable income, dollar for dollar, which can potentially reduce a filer's tax liability.

Marginal tax rate: The rate you pay on your highest or last dollar of taxable income.

Non-refundable tax credit: A credit that can only be used to reduce a tax filer's tax liability up to zero, but no further; thus, part or all of the credit cannot be returned to a filer in the form of a refund.

Pass-through income: Business income from sole proprietorships, partnerships, and S corporations that is "passed through" to the owners and reported on their individual income tax returns.

Phase-in and phase-out rates: The rate at which a tax provision gradually increases or decreases between minimum and maximum income threshold amounts.

Income caps: The maximum income at which a filer remains eligible for a tax benefit.

Low-Income Housing Tax Credit: A credit that subsidizes the acquisition, construction, and rehabilitation of affordable rental housing for low- and moderate-income tenants.

Progressive income tax: A tax where the tax rate increases as taxable income increases.

Refundable tax credit: A credit that can be partially or fully returned to a filer in the form of a refund even they do not have any tax liability.

Standard deduction: A fixed-dollar amount that reduces the income on which individual and joint filers are taxed that is available to all taxpayers regardless of their expenses.

Stepped-up in basis: The process through which an inherited asset's assumed, or original, purchase price is adjusted to reflect its current value.

Tax credits: Credits that reduce the amount of taxes owed by filers.

Tax deductions: Deductions that allow filers to subtract expenses from their taxable income.

Tax exclusions: Exclusions that exempt specific income and assets from taxation.

Tax exemptions: Exemptions that allow certain types of income to be untaxed.

Unrealized capital gains: The increased value of assets that are unsold.

APPENDIX 4

Data Tables

Table 1. Household Income Ranges and Average Disposable Incomes, 2023

	Lowest 20% of Households	Lower-Middle Income Households	Middle Income Households	Upper-Middle Income Households	Highest 20% of Households	Richest 1%	Richest 0.1%
Income Range	$0 – $31,006	$31,007 – $60,461	$60,462 – $107,280	$107,281 – $195,542	$195,543+	$1,015,539 – $4,588,214	$4,588,215+
Average Disposable Income	$17,187	$40,628	$70,083	$118,473	$342,788	$2,156,783	$10,208,916

Table 2. Household Share of Total Tax Benefit from Select Tax Programs, FY2023*

Issue Area	Tax Break	Lowest 20% of Households	Lower-Middle Income Households	Middle Income Households	Upper-Middle Income Households	Highest 20% of Households	Richest 1%	Richest 0.1%
Income	Reduced Tax Rates on Long-Term Capital Gains and Qualified Dividends (TPC T22-0230)	0.1%	0.5%	2.1%	4.3%	92.7%	73.6%	55.5%
Income	State and Local Tax Deduction (TPC T22-0210)	0.1%	0.9%	6.8%	19.2%	73.0%	18.1%	6.1%
Income	Earned Income Tax Credit (TPC T22-0250)	45.5%	45.0%	8.8%	0.3%	0.0%	0.0%	0.0%
Income	Exclusion for Pensions and Retirement Savings Accounts (TPC T22-0264)	0.4%	4.6%	12.3%	22.8%	59.8%	6.5%	0.7%
Income	Exclusion of Social Security and Railroad Retirement Benefits (TPC T22-0264)	9.3%	45.1%	38.8%	6.5%	0.2%	0.0%	0.0%

Table 2. Household Share of Total Tax Benefit from Select Tax Programs, FY2023* (cont'd)

Issue Area	Tax Break	Lowest 20% of Households	Lower-Middle Income Households	Middle Income Households	Upper-Middle Income Households	Highest 20% of Households	Richest 1%	Richest 0.1%
Healthcare	Exclusion for Employment-Based Health Insurance (**TPC T22-0202**)	1.0%	6.7%	19.8%	27.3%	45.3%	3.9%	0.4%
Education	Higher Education Tax Credits (**TPC T22-0258**)	13.6%	22.0%	25.1%	27.1%	12.1%	0.0%	0.0%
Housing	Mortgage Interest Deduction (**TPC T22-0218**)	0.1%	0.7%	5.5%	17.2%	76.5%	16.3%	1.8%
Family Care	Child Tax Credit (**TPC T22-0242)**	7.1%	20.3%	22.9%	25.9%	23.6%	0.0%	0.0%
Family Care	Child and Dependent Care Tax Credit (**TPC T22-0246**)	0.4%	12.5%	20.8%	27.8%	38.5%	0.7%	0.1%
Jobs	20-Percent Pass-Through Deduction for Qualified Business Income (Section 199A) (**TPC T22-0262**)	0.1%	0.9%	3.1%	7.2%	88.6%	53.5%	25.7%

* Due to the unavailability of publicly accessible distributional estimates for the Exclusion of Capital Gains at Death from TPC's microsimulation model, we omitted this expenditure from our analysis as we relied on 2019 distributional estimates generated by the CBO in a report published in 2021 (See: "**The Distribution of Major Tax Expenditures in 2019**") since CBO's methodologies and underlying data sources to estimate the dispersion of major tax expenditures differ from those used in TPC's model.

Table 3. Household Share of Total Funding From Select Tax Programs, FY2023* ($ Millions)

Issue Area	Tax Break	Lowest 20% of Households	Lower-Middle Income Households	Middle Income Households	Upper-Middle Income Households	Highest 20% of Households	Richest 1%	Richest 0.1%
Income	Reduced Tax Rates on Long-Term Capital Gains and Qualified Dividends	$265	$1,326	$5,567	$11,399	$245,748	$195,114	$147,131
Income	State and Local Tax Deduction	$21	$190	$1,435	$4,051	$15,403	$3,819	$1,287
Income	Earned Income Tax Credit	$32,396	$32,040	$6,266	$214	$0	$0	$0
Income	Exclusion for Pensions and Retirement Savings Accounts	$1,476	$16,974	$45,387	$84,132	$220,662	$23,985	$2,583
Income	Exclusion of Social Security and Railroad Retirement Benefits	$4,213	$20,430	$17,576	$2,945	$91	$0	$0
Healthcare	Exclusion for Employment-Based Health Insurance	$2,021	$13,541	$40,016	$55,173	$91,551	$7,882	$808
Education	Higher Education Tax Credits	$1,931	$3,124	$3,564	$3,848	$1,718	$0	$0
Housing	Mortgage Interest Deduction	$25	$173	$1,359	$4,248	$18,896	$4,026	$445
Family Care	Child Tax Credit	$8,676	$24,807	$27,984	$31,650	$28,839	$0	$0
Family Care	Child and Dependent Care Tax Credit	$20	$638	$1,061	$1,418	$1,964	$36	$5
Jobs	20-Percent Pass-Through Deduction for Qualified Business Income (Section 199A)	$56	$501	$1,727	$4,010	$49,350	$29,800	$14,315
Total ($)		$51,045	$113,241	$150,214	$199,078	$624,871	$234,861	$152,259
Total (%)		4%	10%	13%	17%	56%	22%	14%

* Due to the unavailability of publicly accessible distributional estimates for the Exclusion of Capital Gains at Death from TPC's microsimulation model, we omitted this expenditure from our analysis as we relied on 2019 distributional estimates generated by the CBO in a report published in 2021 (See: "**The Distribution of Major Tax Expenditures in 2019**") since CBO's methodologies and underlying data sources to estimate the dispersion of major tax expenditures differ from those used in TPC's model.

Table 4. Average Household Benefit from Select Tax Programs, FY2023*

Issue Area	Tax Break	Lowest 20% of Households	Lower-Middle Income Households	Middle Income Households	Upper-Middle Income Households	Highest 20% of Households	Richest 1%	Richest 0.1%
Income	Preferential Tax Rates on Capital Gains and Dividends	--	$21	$124	$310	$8,113	$139,680	$1,022,308
Income	State and Local Tax Deduction	$0	$10	$52	$165	$744	$3,979	$12,971
Income	Earned Income Tax Credit	$599	$723	$155	$10	--	$0	$0
Income	Exclusion for Pensions and Retirement Savings Accounts	$21	$207	$579	$1,313	$4,186	$9,849	$9,808
Income	Exclusion of Social Se-curity and Railroad Retirement Benefits	$52	$279	$258	$52	--	$0	$0
Healthcare	Exclusion for Employment-Based Health Insurance	$41	$382	$1,199	$2,026	$4,072	$7,524	$6,883
Education	Higher Education Tax Credits	$41	$83	$103	$134	$72	$0	$0
Housing	Mortgage Interest Deduction	$0	$10	$52	$176	$961	$4,465	$4,723
Family	Child Tax Credit	$196	$661	$785	$1,106	$1,209	$10	$0
Family	Child and Dependent Care Credit	$0	$10	$21	$41	$62	$31	$21
Jobs	Deduction for Qualified Business Income	--	$10	$52	$134	$1,974	$25,817	$120,540
Totals		$951	$2,398	$3,380	$5,467	$21,394	$191,356	$1,177,253

*Due to the unavailability of publicly accessible distributional estimates for the Exclusion of Capital Gains at Death from TPC's microsimulation model, we omitted this expenditure from our analysis as we relied on 2019 distributional estimates generated by the CBO in a report published in 2021 (See: "**The Distribution of Major Tax Expenditures in 2019**") since CBO's methodologies and underlying data sources to estimate the dispersion of major tax expenditures differ from those used in TPC's model.

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