

# Race, Wealth and Taxes:

## How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide

### SUMMARY AND KEY FINDINGS

Last year, Congress had a tremendous opportunity with the Tax Cuts and Jobs Act (TCJA) to help low-income and middle-class families—particularly those of color—build the wealth needed to secure their share of the American Dream. Unfortunately, by spending the majority of the \$1.9 trillion within this law to provide large tax breaks for the wealthy and multi-billion-dollar corporations, Congress chose to actively invest in policies that exacerbate economic inequality rather than mitigate it.

Even worse, in designing and enacting the 2017 tax law, Congress not only chose to grow the economic gap between rich and everyone else, but also between White households and households of color, thus further perpetuating a long history of systemic racism that undergirds government policies and American society at large.

A newly released report by Prosperity Now and the Institution on Taxation and Economic Policy, *Race, Wealth and Taxes: How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide*, finds that the TCJA not only adds unnecessary fuel to the growing problem of overall economic inequality, but also supercharges an already massive racial wealth divide to an alarming extent.

Using ITEP's microsimulation model, which generates tax estimates for a sample of representative taxpayer records, this study provides the first quantitative analysis to examine the racial implications of the TCJA and how these tax cuts reward existing White wealth at the expense of the economic security of households of color, poor households and a stalling middle class.

Key findings from *Race, Wealth and Taxes* include:

- Of the nearly \$275 billion within the Tax Cuts and Jobs Act in 2018, \$200 billion (72%) goes to the top 20% of households (earning \$110,000 or more). Instead of boosting the middle class and working Americans, this is a giveaway to the richest 20% of Americans.
- Because America's wealthiest families are overwhelmingly White, it is inevitable that a tax cut geared to the very top would shower outsized benefits on White households relative to the overall population and households of color. For instance, while 1.2% of White families earn enough to place them among the top 1% percent of earners, just 0.4% of Latino and Black families are members of this group. Put another way, White families are three times more likely than Latino and Black families to be among the nation's top earners. As a result, households of color are largely excluded from accessing the Tax Cuts and Jobs Act's benefits, leaving them with little support from one of our nation's largest systems for improving the economic outcomes of American households.
- Of the nearly \$275 billion within the Tax Cuts and Jobs Act in 2018, \$218 billion (80%) goes to White households. On average, White households will receive \$2,020 in cuts, while Latino households will receive \$970 and Black households receive \$840.
- More than 40% of all tax cuts from the Tax Cuts and Jobs Act go to the White households in the top 5% of earners (with incomes of \$243,000 or more), despite only representing 3.9% of all tax returns.

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- Regardless of race, middle-class households (earning between \$40,000 and \$110,000) receive \$2.75 a day from the Tax Cuts and Jobs Act. White households in the top 1% of earners (with incomes of \$590,000 or more) receive \$143 a day.
  - While most low- and middle-income families are White, Black and Latino families are overrepresented in this group relative to their share of the national population. Taken together, Black and Latino households account for nearly 30% of the nation's poorest families, despite comprising just 22% of the overall population. 74% percent of Black and Latino households fall in the bottom 60% of taxpayers with incomes of \$65,000 or less. In contrast, just 56% of White households fall in the bottom 60%. The overrepresentation of households of color in the bottom income groups is a large reason why the overall average tax cuts for these taxpayers is substantially lower than those received by White households.
  - In a single day, the richest one percent of taxpayers—with an average income of \$1.8 million—get a larger tax cut (\$131) from the Tax Cuts and Jobs Act than the poorest families—with an average income of \$13,000—receive in one year (\$90).
  - The group most left behind by the 2017 tax law are Asian households who fall in bottom 20% of income-earning households. Earning an average income of \$13,000, this group receives just \$70 from the Tax Cuts and Jobs Act in a year, or less than \$0.20 per day.
  - Even among the super wealthy, the disparity is alarming. White households in the top 1% will receive an average tax cut of \$52,400 a year from the TCJA. Black, Latino and Asian households: \$19,290, \$19,850 and \$35,690, respectively.

Families that are not among our nation's highest-income households are likely to be hit twice by the Tax Cuts and Jobs Act. In the short term, higher deficits brought about by the tax change will likely increase pressure on lawmakers to cut funding for important programs and services that help reduce barriers to opportunity for so many low- and moderate-income households – particularly those of color – in areas like health, income security, job training and education. In the long term, this dynamic will not only exacerbate already tense economic insecurities so many households face today, but will also lead to even further economic hardships for households of color.

Ultimately, the debt-financing of the federal budget not covered by these cuts could lead to deficit and spending impacts that dwarf the distributional impacts that are highlighted throughout *Race, Wealth and Taxes*. Given the country's ongoing demographic shift from a majority-White to a majority-minority population, the effects of this double squeeze from the tax law and budget cuts would not only disproportionately harm communities of color, but it would also have vast consequences for the national economy.

## Methodology

The analysis presented in *Race, Wealth and Taxes* uses ITEP's microsimulation model, which generates tax estimates for a sample of representative taxpayer records. For an explanation of the model, see the ITEP Microsimulation Tax Model Overview at <https://itep.org/itep-tax-model-simple/>.

This analysis includes the impact of personal income tax, corporate income tax and estate tax changes as well as the impact of repealing the Affordable Care Act mandate.

For the purposes of this report, White, Black and Asian taxpayers are all non-Hispanic, while the Latino category includes White, Black, and Asian taxpayers who are Hispanic.