From Upside Down to Right-Side Up:  
Turning the Tax Code Into an Engine for Economic and Racial Equality

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Who are government services and programs intended to serve? Corporations or citizens? The wealthy among us or the most vulnerable and disenfranchised? White communities or communities of color? During the first six months of 2020—as the nation grappled with the COVID-19 pandemic and the senseless murders of Ahmaud Arbery, Breonna Taylor, George Floyd and Rayshard Brooks—national attention has once again turned to these pressing questions and countless others.

But while these events have once again exposed the financial fragility of so many, the vulnerabilities of our government systems at all levels—from health care, housing, the economy and more—and the effect of systemic racism against communities of color, the reality is that many of the issues that have unfolded are no accident. Instead, they are the compounding byproduct of public policies made over generations that tilt the social and economic scales in favor of the wealthy over everyone else, and particularly in favor of White communities over communities of color at nearly every turn.

While many of these choices and policies have been and continue to be clearly visible, many more are not.

For instance, the government's main means for raising revenue to pay for programs and services—the federal income tax system—may seem like one that should serve all without prejudice, but it, too, is riddled with systemic racism and inequality. In fact, when it comes to race, while the income tax system and many state tax systems do not explicitly take race into account, their history and design are embedded with racial bias and are built on an economic system infused with systemic racism. And, when it comes to income, while the overall tax code is moderately progressive, meaning that it modestly works to close income and wealth gaps, many of its key features are accessed almost exclusively by the wealthy. Even when they are not, the vast majority of the benefits of these provisions still accrue to them.

Although reform of our tax code may not seem to be the most pressing issue at this moment, it is essential for two reasons. First, wealth plays a significant role in perpetuating systemic racism and economic inequality. Second, the federal government spends about $634 billion a year through the tax code promoting savings, retirement accounts, higher education, and homeownership—dollars which largely go to help wealthy, mostly White, households build wealth.

We know that the government can design tax programs—and by extension a tax system—that meaningfully and immediately can respond to the issues before us and support those who need the most help. For example, the stimulus rebates program, part of the $1.7 trillion dollar Coronavirus Aid, Relief and Economic Security (CARES) Act, the Earned Income Tax Credit (EITC) and the Child Tax Credits (CTC). We consider these programs to be right-side up—meaning the more an individual or family needs support, the more support they get. The federal government can and needs to do more of them. With more of the public now recognizing systemic racism as a serious issue that needs to be addressed, and with the individual tax provisions within the nearly $2 trillion Tax Cuts and Jobs Act set to expire at the end of 2025, Congress will soon have a clear opportunity to make historic investments that can begin to close the gaps between those at the top and everyone else and between White communities and communities of color.

Tax Spending is Government Spending by Another Name

Data from the Office of Management and Budget shows that the amount spent on more than 20 federal wealth-building tax programs that promote savings, retirement accounts, higher education and homeownership was about $634 billion in 2019. That’s more than the combined discretionary budgets of 14 of the 15 cabinet-level agencies that same year—$577 billion.

Most of this spending flows through programs that are upside down, meaning the more an individual or family needs support, the less support they get. As a result, a relatively small portion of this spending went to those who need the most wealth-building support. In fact, using most recently available data from Tax Policy Center, we conservatively estimate that in 2019, a millionaire received an average benefit of about $160,000 from spending made through wealth-building tax programs. In contrast, a working family—earning less than $50,000—received just about $220, on average from this wealth-building tax spending.

These tax programs suffer from one or more of four flaws that limit their usefulness for individuals and families who need the most support:
• Itemized deductions exclude lower-income households from any benefits.
• Most tax programs increase support to a household as their tax rate increases.
• The larger the asset, the more the support.
• Timing and structure of many tax programs can prevent families from benefiting.

**Most Tax Provisions are Upside Down But A Few Can Be Held Up as Examples of Right-Side Up Policies**

Taken together, upside down provisions within the overall tax code serve to drive overall economic inequality, and also to widen long-standing inequities facing communities of color. The Mortgage Interest Deduction (MID) is a prime illustration. Newly produced estimates by the Institute on Taxation and Economic Policy (ITEP) show that the MID continues to disproportionately benefit White households:

• White households receive 78.4% of the MID’s benefits, despite making up 68.8% of all tax returns.
• Asian, Black and Latino households receive 19.5% of the MID’s benefits, despite making up 28.4% of all tax returns.
• The top 20% of White households—who make up 15.8% of all tax returns—receive 59.1% of the MID’s benefits. In contrast, the top 20% of Black and Hispanic households, which make up 2.4% of all returns, receive 8.8% of the MID’s benefits. Asian households in the top 20%, which make up 1.3% of all returns, receive 4.9% of the MID’s benefits.

However, a few right-side up tax provisions can be held up as examples to show that it is possible to create tax policy that benefits low- and moderate-income households and households of color:

• Black, Native American and/or Alaska Native, Native Hawaiian/other Pacific Islander and Hispanic households make up 24.9% of all tax returns but account for 40.1% of all the tax returns claiming the EITC. (These taxpayers’ collective income is about 16%—lower than their share of the overall population.)
• Black households make up 17.2% of those claiming the EITC; they receive 18.1% of all EITC benefits.
• Hispanic households make up 21.2% of those claiming the EITC; they receive 24.6% of all EITC benefits.

**Our Opportunity to Turn the Tax Code Right-Side Up for Economic and Racial Justice is Now**

COVID-19 and the recession have exposed and put pressure on the financial fragility of so many people at the bottom of the income distribution. As we recover from this crisis, and as we deal as a nation with systemic racism in the most overt form and in every place it exists, we cannot make progress by going back to “same as before”. Indeed, while many of the crises that have been elevated in the first six months of 2020 predate the moment that we are in, any semblance of recovery must be grounded in addressing the origins of those crises. Creating a more just and equitable society in which all—but especially Black and indigenous people, and other people of color—can prosper will require both new investments and a meaningful redirection of existing resources that primarily serve to calcify economic and racial inequality. The $634 billion spent through upside-down tax programs represent a significant pool of resources that can serve as a down payment to begin remediying the persistent and insidious role of systemic racism in government programs and our tax code. We just need to start turning our upside-down tax spending right-side up.

The following policies are a few examples of how Congress should act:

• Expand and strengthen tax credits for working families, such as the EITC, to support low- and moderate-income families, bolstering their income and ability to save.
• Help low- and moderate-income families with housing costs, and build pathways towards successful homeownership.
• Create a universal, simple, safe and affordable retirement savings account for all households, along with incentives to save.
• Provide every child with a meaningful birthright investment to narrow the massive racial wealth divide.

To learn more, please see our report, *From Upside Down to Right-Side Up*, available [here](#), or contact Roberto Arjona at [r.arjona@prosperitynow.org](mailto:r.arjona@prosperitynow.org).