NATIONAL WOMEN'S LAW CENTER
Justice for Her. Justice for All.

MAY 2021 | ISSUE BRIEF

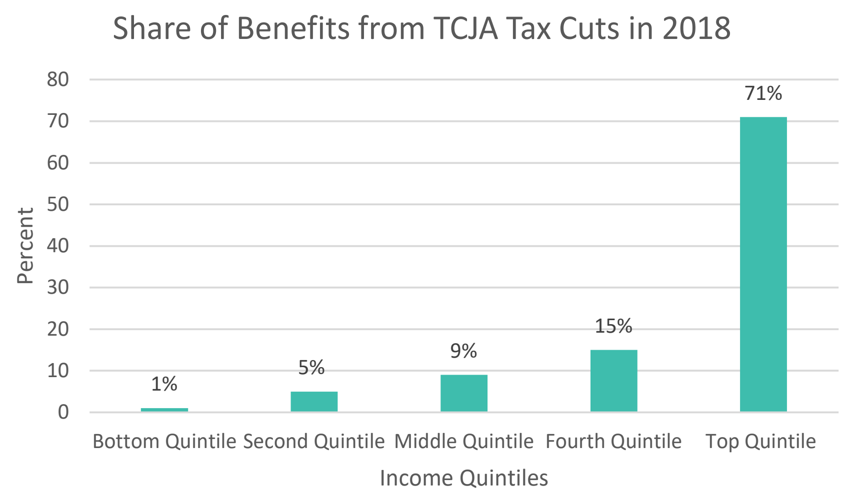
RAISING REVENUES TO REBUILD AN ECONOMY THAT WORKS FOR EVERYONE

Even Before the Pandemic, Our Tax Code Reflected and Exacerbated Racial, Gender, and Economic Inequality

The U.S. tax code's primary purpose is to collect revenue, which is then used to support public investments in our shared national priorities. Our income tax system was purposefully constructed to be progressive, meaning that taxpayers with higher incomes are subject to higher tax rates. However, the drafters of the modern tax code failed to grapple with the effects of pervasive race and gender discrimination in our economy and our society.

In addition, over the last several decades, the proliferation of tax breaks that disproportionately favor big corporations and the wealthy have made the tax code less progressive.[1] Most recently, the 2017 Tax Cuts and Jobs Act (TCJA), which was passed by Republican majorities in Congress during the Trump administration, primarily benefitted the wealthiest households and corporations (see Figure 1).[2]

FIGURE 1:

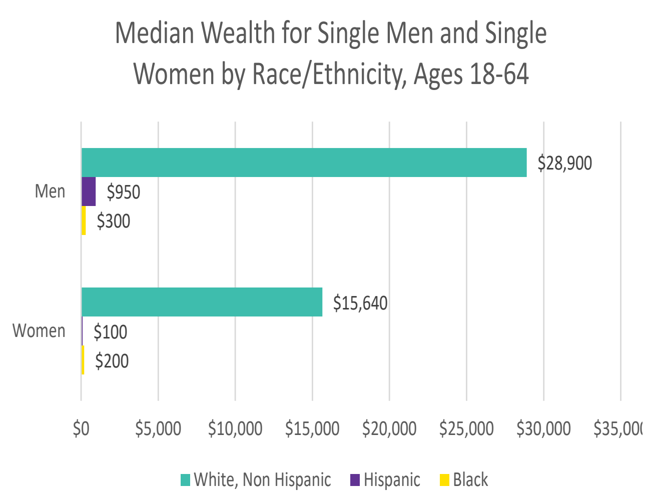


Source: Inst. of Taxation and Econ. Pol'y (ITEP), *TCJA by the Numbers*, 2020 (Aug. 2019) https://itep.org/tcja-2020/.

Tax breaks like those in the TCJA have resulted in the tax system collecting fewer federal revenues, which translates to less funding for infrastructure, education, or other public programs and services from which we all benefit.[3] In fact, the TCJA alone was estimated to reduce federal revenues by over $1.9 trillion over a ten-year period.[4] In addition, IRS budget cuts have constrained the agency's ability to enforce tax laws and collect taxes owed by high-income taxpayers, further reducing federal revenues. These forgone revenues could have supported desperately needed investments in child care, health care, affordable housing—and more—in the years leading up to the pandemic.

These tax breaks and loopholes for the wealthy and large corporations not only reduce the amount of federal revenues available to support critical investments, but also incentivize wealth-building and wealth-hoarding among the already wealthy. Because women and people of color face historically-rooted barriers that create gaps in income[5] and wealth (see Figure 2), the tax code in its current form actually makes some existing economic, gender, and racial inequalities worse.[6]

FIGURE 2:



Source: Mariko Chang, *Women and Wealth: Insights for Grantmakers*, Asset Funders Network 1, 6 (2015), https://assetfunders.org/wp-content/uploads/Women_Wealth_-Insights_Grantmakers_brief_15.pdf.

The COVID-19 Pandemic Has Exposed the Need for Public Investments and Systemic Changes to Ameliorate Longstanding Racial, Gender, and Economic Disparities

The pandemic unleashed widespread job and income losses, with ripple effects on health, caregiving, housing and food insecurity. But the economic pain of the past year has been unevenly felt, with women of color, and women more generally, bearing a disproportionate share of economic insecurity and material hardship.[7] In contrast, during the first eleven months of the pandemic (from March 2020 to February 2021), U.S. billionaires' wealth grew by $1.3 trillion—a 44 percent increase.[8]

Public spending, like the historic investments in the CARES Act and the American Rescue Plan Act, represented the only way to alleviate the hardship faced by millions across the country at the scale of need, stimulate the economy, and mitigate widening racial and gender health, income, and wealth disparities.[9]

But we can't just go back to the inequitable and unsustainable status quo that existed in February 2020. Addressing the deep underlying flaws in our economy that made the pandemic so devastating for women of color and their families in the first place will also require significant and sustained public investments. Robust public investments in the care economy; income supports; safe, affordable, and accessible housing; health care; and quality jobs are needed to ensure an equitable recovery, and build an economy that works for everyone.[10] These investments will promote racial and gender equity, economic growth, and shared prosperity.[11]

We Need to Pair Investments in the Care Infrastructure, Housing, Quality Jobs, and More with Progressive Tax Policies

New revenues from more equitable tax policies can help support long-term investments in shared priorities such as child care, paid leave, and health care that will help build a more equitable economy. Moreover, we can raise revenues in a way that will make the tax code more progressive, and thus, advance racial, gender, and economic equity: by raising taxes on the wealthy and big corporations.

Specifically, policymakers should:

- raise taxes on corporations and wealthy individuals,
- tax income from capital like income from work,
- meaningfully tax inheritance, and
- strengthen tax enforcement on the rich and powerful.

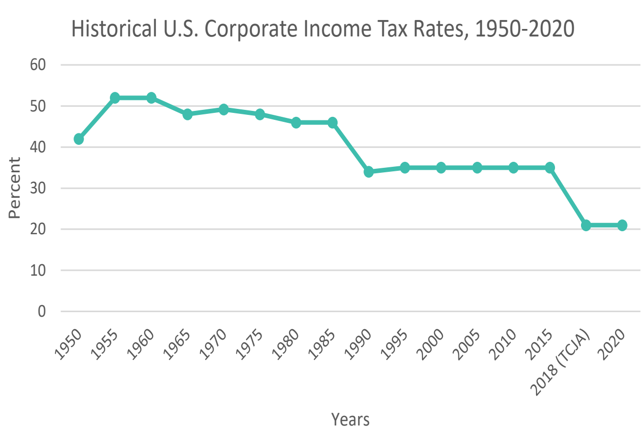
The wealthy and large corporations that have profited from our inequitable economic system now need to pay their fair share so we can build back better, to achieve an economy that works for all of us.

1. Raise taxes on corporations and wealthy individuals.

Corporations must pay their fair share.

For decades, loopholes and tax cuts in our tax code have allowed corporations to avoid paying their fair share in taxes (see Figure 3).[12] In 2017, the TCJA slashed the corporate tax rate by 40 percent—from 35 percent to 21 percent—and made it more profitable for corporations to take their jobs and resources overseas, and enacted other corporate tax cuts.[13]

FIGURE 3:



Source: Tax Pol'y Ctr., *Corporate Top Tax Rate and Bracket: 1909 to 2020* (March 25, 2020), https://www.taxpolicycenter.org/statistics/corporate-top-tax-rate-and-bracket.

These egregious corporate tax breaks have deprived the nation of important revenues needed to invest in our shared priorities.[14] The Center on Budget and Policy Priorities estimates that corporate tax revenues, as a share of GDP, dropped by about $200 billion per year from 2000 compared to 2019.[15] After the TCJA cut the corporate tax rate by 40 percent, corporate tax revenues (both actual revenues and revenues as a share of GDP) dropped by about 40 percent in 2018.[16]

And research shows that the TCJA did little to boost economic growth in 2018[17] or in subsequent years.[18]

Corporate tax breaks have also contributed to staggering inequality in this country. One of the main beneficiaries of 2017 corporate tax cuts were wealthy shareholders—disproportionately white men[19]—who received record stock buybacks,[20] totaling $1 trillion among companies in the S&P 500 in 2018 alone.[21] Meanwhile, though supporters of the law claimed that the benefits would eventually trickle down to workers through investments, research shows that low-income workers—disproportionately women and women of color—received limited benefits.[22] In contrast, according to the Institute on Taxation and Economic Policy (ITEP), fifty-five of the largest corporations in the country paid no corporate income taxes in 2020—despite making almost $40.5 billion in combined pre-tax income.[23]

Ensuring that corporations pay their fair share in taxes will raise revenues needed to make public investments, and enact structural changes so that low-income workers and families can succeed in our economy.[24] Investments such as those envisioned in President Biden's American Jobs Plan and American Families Plan will also stimulate economic growth and help ensure an equitable economic recovery.[25] Increasing taxes on big corporations will also make our economy stronger by breaking up massive accumulations of wealth among corporations and shareholders.

In late March, the Biden-Harris Administration proposed a number of corporate tax reforms in the American Jobs Plan,[26] including:

- raising the corporate tax rate to 28 percent,
- eliminating corporate incentives to invest offshore,
- increasing tax enforcement on corporations, and
- closing corporate tax loopholes, such as those that allow some big corporations to pay little to no federal taxes despite huge shareholder profits.

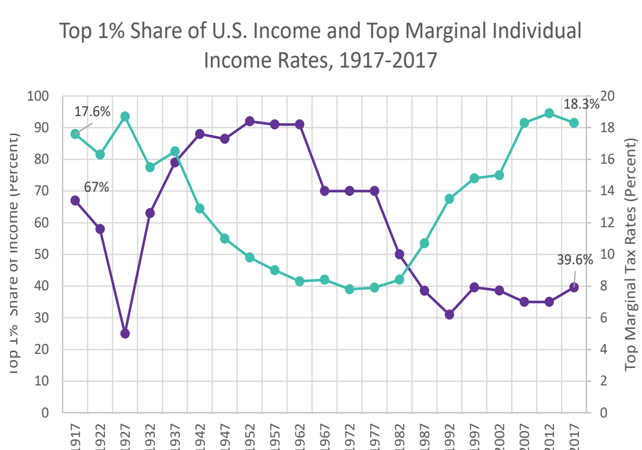
According to a projection by the Penn Wharton Budget Model (PWBM), these provisions would raise $2.1 trillion dollars over ten years,[27] which would make more revenues available for critical investments. Other, similar proposals to ensure that that corporations pay their fair share[28] would likewise help ensure an equitable economic recovery.

Wealthy individuals must pay their fair share.

Income tax rates are progressive, with higher tax rates applying to higher income brackets. The top marginal income tax rate—that is, the rate of tax applied to a taxpayer's last dollar of income—has been as high as 70 or even 90 percent in the 20th century, during a period of a growing middle class and strong economic growth, and the average rate since World War II has been 59 percent.[29] But recently, policymakers have dramatically lowered top marginal rates. In 2017, the TCJA reduced the top rate from 39.6 percent to 37 percent. Because the top marginal rate only applies to individuals making over $518,401 (in Tax Year 2020),[30] this tax break only benefits the very wealthy. Lowering the top marginal income tax rate has also deprived the nation of revenues to invest in our shared priorities.[31]

As with corporate tax breaks, lower tax rates on high earners contribute to racial and gender income and wealth disparities. Economists cite the substantial decreases in the top marginal tax rates over the last 50 years as one of the reasons that individuals in the top one percent have been able to increase their incomes so dramatically[32] (see Figure 4). Notably, women supporting families on their own and families of color are underrepresented in higher income brackets, and are therefore less likely to benefit from tax cuts such as these.[33] Lower tax rates on the highest earners also encourage executives, managers, and other highly paid professionals—the majority of whom are white men—to bargain for higher compensation, which increases inequality between executives and the low-wage workforce—disproportionately women and people of color—whose labor actually creates the profit.[34]

FIGURE 4:



Sources: Emmanuel Saez, Table A1: *Top fractiles income shares (excluding capital gains) in the United States* (2017); https://eml.berkeley.edu/~saez/TabFig2017.xls; Tax Pol'y Ctr., *Historical Highest Marginal Income Tax Rates*, 1913-2020 (Feb. 4, 2020), https://www.taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates.

In the American Families Plan, the Biden-Harris Administration proposed restoring the top marginal rate to 39.6 percent, which would reverse the TCJA tax cut.[35] ITEP estimates that this would bring in $25.9 billion in revenues in Tax Year 2022 and that virtually all of the tax burden would fall on the top one percent of earners.[36] This, and other similar proposals to raise top marginal income tax rates,[37] would help build a stronger, more equitable economy and ameliorate income and wealth disparities.

2. Income from wealth should be taxed like income from work.

Forty percent of the income received by the richest households in the United States derives from wealth, rather than from labor.[38] A significant share of that income from wealth (or "capital income") is what is known as "capital gains"—the profits from selling assets (or capital), such as a share of stock, a piece of art, a house, or a business.[39] Individuals only pay taxes on capital gains when the assets are sold, and even then at lower rates than on income from work: the top tax rate for capital gains is currently 20 percent, compared to the current top income tax rate of 37 percent. Researchers have shown that there is not an economic benefit from cutting capital income taxes, and multiple studies have shown that optimal rates can be significantly higher than they are today.[40]

Preferential capital gains tax rates overwhelmingly benefit the very wealthy. In 2019, the top one percent reported three-quarters of all long-term capital gains, with the richest 0.1 percent accounting for more than half.[41] White families are three times more likely than Latinx and Black families to belong to the top one percent of earners.[42] Even among higher-income families, families of color have lower incomes and derive less of their income from wealth.[43]

In addition, the current taxation of capital gains allows—and encourages—the wealthy to hoard their wealth. Wealthy taxpayers can hold onto assets, letting them appreciate (possibly receiving income from dividends, interest or rent in the meantime) and only selling (and paying taxes on the profits) when it is financially advantageous to do so.[44] What is more, if someone does not sell an asset during their lifetime, they can pass it down to the next generation without paying taxes on any lifetime gains. In addition, the heir adopts the value of the asset at the time of the donor's death (otherwise known as "stepped-up basis"), so the increase in value of the asset during the donor's life is *never* taxed.[45]

This preferential treatment of capital gains at death, in addition to the preferential tax treatment of inheritance discussed in the next section, encourages intergenerational wealth transfers.[46] This, in turn, contributes to vast racial and gender wealth gaps.

Reforming the preferential taxation of capital gains would provide more revenues for the investments we need to support an equitable economic recovery, and it would lessen racial and gender wealth gaps.

One way to reform the taxation of capital gains would be to raise the capital gains rates so that income from wealth is taxed at the same rate as income from labor.[47] However, just raising the capital gains rate, without more comprehensive policy changes, would simply further incentivize the wealthy to hoard their assets.[48] Taxing the value of assets annually, rather than just when the asset is sold—through a system called "mark to market"—and eliminating stepped-up basis would both be ways to ensure the wealthy cannot avoid paying taxes on their capital gains.[49]

The American Families Plan proposes[50] to raise the top tax rate on capital gains from 20 to 39.6 percent (to match the proposed increased top income tax rate) for households making more than $1 million annually, and to also eliminate stepped-up basis for these households.[51] ITEP estimates that this tax increase would raise $62.6 billion in Tax Year 2022 and that, like the marginal income tax rate increase, the increase would fall almost entirely on the top one percent.[52]

3. Inheritance should be meaningfully taxed.

The modern tax on intergenerational wealth transfers, adopted by President Theodore Roosevelt, was proposed "specifically for the purpose of limiting the amount that one individual could transfer to another and thereby to break up large concentrations of wealth."[53]

Inheritance is not taxed like income from work or capital gains, but instead has its own separate tax scheme called the estate tax. Only very large estates are subject to the estate tax, which applies a 40 percent tax to estates above a certain amount. However, changes to the estate tax and related taxes over the past several decades have substantially eroded their ability to serve the critical function of putting a brake on dynastic wealth accumulation.[54] Most recently, the TCJA doubled the amount that these very wealthy households can pass on tax-free to their heirs. Right now, the estate tax is only imposed on estates valued above $11.18 million per individual or $22.36 million per couple.

For a couple's estate valued at $25 million, this means that the estate tax would only apply to $2.64 million of its value; an estate valued at $20 million would be subject to no estate taxes at all. As these examples illustrate, current estate tax policies overwhelmingly favor the very wealthy few.

In addition to forgoing billions in revenue needed for national priorities, the erosion of the estate tax has contributed to widening wealth gaps between people of color and white people in the United States.[55] Inheritance accounts for 40 percent of all wealth.[56] Moreover, inheritance explains about 30 percent of the correlation between parent and child incomes (and more than 50 percent of the correlation between parent and child wealth).[57] For this reason, the estate tax is the single most progressive provision in the tax code; it has the potential to be an incredibly powerful tool for leveling the playing field between those who inherit wealth—disproportionately white families[58] —and those who rely on income from labor—disproportionately women and people of color. Increasing taxation of intergenerational wealth transfers would thus support an equitable economic recovery, both by raising revenues to invest in our shared priorities and by addressing racial and gender wealth disparities.

One way to more meaningfully tax inheritance would be to raise the estate tax rate and lower the current exemption amounts. For example, Senator Bernie Sanders and Rep. Jimmy Gomez recently introduced legislation that would raise the estate tax rate to 45 percent and restore the 2009 exemptions of $3.5 million per individual and $7 million per married couple.[59] Another possible option to explore would be a wealth tax—such as a yearly tax on the total value of a very wealthy individual or household net worth.[60]

4. Tax enforcement against the rich and powerful must be strengthened.

Not only do corporations and the very wealthy enjoy preferential tax breaks and loopholes, but many of them are able to avoid paying their fair share of taxes due to insufficient tax enforcement.[61] IRS funding has been reduced by almost one-third in the last decade, impacting the agency's ability to go after high-income taxpayers with the resources not only for tax planning but also for lengthy, expensive legal battles.[62] One study found that, in one four-year period, the IRS failed to go after over 300,000 high-income individuals who did not even file tax returns.[63] Tax enforcement against the very rich has declined to the point where the rate at which the IRS now audits low-income taxpayers claiming the EITC—a refundable tax credit from which women and people of color disproportionately benefit—is approaching the rate for very high-income individuals.[64]

In total, the U.S. loses about $600 billion per year in unpaid taxes (and some estimates are even higher).[65] These revenues could have been used to support investments that allow women, people of color, and families with low incomes to succeed in our economy. And when high-income individuals do not pay their taxes, it further exacerbates gender and racial inequity in the tax system.

As several lawmakers have recently proposed,[66] one way to strengthen tax enforcement is to increase IRS funding and mandate audit quotas for high-income taxpayers.[67] The Treasury Department has estimated that every $1 in funding for enforcement would collect nearly $6 in taxes owed—a tremendous return on investment.[68] This would both provide revenues to invest in shared priorities and increase race and gender equity in the tax system.

The Biden-Harris Administration's recently unveiled budget proposal includes a one-year $417 million increase for IRS enforcement.[69] In addition, the American Families Plan would provide $80 billion in additional dedicated IRS funding over 10 years,[70] a significant step toward the robust, multi-year funding necessary to fully rebuild the agency and ensure equitable tax enforcement.[71]

Conclusion

Raising taxes on the wealthy and large corporations would increase the amount of federal revenues available to support investments in the care economy, affordable housing, health care, and refundable tax credits for families. In addition, raising revenues through progressive tax increases would help mitigate gender and racial income and wealth gaps and curb wealth-hoarding by the already wealthy. To achieve these goals, it is important for policymakers to implement a suite of tax reforms—such as those highlighted in this brief—that will ensure corporations and wealthy individuals actually pay their fair share. Making the tax code fairer and more equitable enjoys broad public support, and is central to achieving an equitable economic recovery.[72]

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2 Inst. of Taxation and Econ. Pol'y (ITEP), *TCJA by the Numbers*, 2020 (Aug. 20219), https://itep.org/tcja-2020/.

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4 John McClelland & Jeffrey Werling, *How the 2017 Tax Act Affects CBO's Projections*, Cong. Budget Off. (Apr. 20, 2018), https://www.cbo.gov/publication/53787.

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11 Hersh & Paul, *supra* note 10; Chuck Marr, Samantha Jacoby, Sam Washington, & George Fenton, CBPP, *Asking Wealthiest Households to Pay Fairer Amount in Tax Would Help Fund a More Equitable Recovery* (Apr. 22, 2021), https://www.cbpp.org/research/federal-tax/asking-wealthiest-households-to-pay-fairer-amount-in-tax-would-help-fund-a#_ftnref27 [hereinafter CBPP Wealthiest Households]; Hilary Hoynes, Trevon Logan, Atif Mian ,& William Spriggs, *More than 200 Economists to Congress: Seize "Historic Opportunity to Make Long-overdue Public Investments" to Boost Economic Growth*, Wash. Ctr. for Equitable Recovery (Apr. 6, 2021), https://equitablegrowth.org/press/more-than-200-economists-to-congress-seize-historic-opportunity-to-make-long-overdue-public-investments-to-boost-economic-growth/. These investments should include increased direct funding for child care to help families afford child care, support the child care workforce, and stabilize the child care industry. Robert Paul Hartley, Ajay Chaudry, Melissa Boteach, Estelle Mitchell & Kathryn Menefee, NWLC, *A Lifetime's Worth of Benefits: The Effects of Affordable, High-Quality Child Care on Family Income, the Gender Earnings Gap, and Women's Retirement Security* (Apr. 2021), https://nwlc.org/resources/a-lifetimes-worth-of-benefits-the-effects-of-affordable-high-quality-child-care-on-family-income-the-gender-earnings-gap-and-womens-retirement-security/.

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22 Firms used a limited amount of funds from the tax cuts to pay for worker bonuses—constituting 2% to 3% of the corporate tax cut. Most of the funds were used for shareholder buybacks. Cong. Research Serv., *supra* note 17, at 14. *See also* Gale Hendricks & Seth Hanlon, *The TCJA 2 Years Later: Corporations, Not

Workers, Are the Big Winners, Ctr. for Am. Progress (Dec. 19, 2019), https://www.americanprogress.org/issues/economy/news/2019/12/19/478924/tcja-2-years-later-corporations-not-workers-big-winners/; Hunter Blair, *As Investment Continues to Decline the Trump Tax Cuts Remain Nothing but a Handout to the Rich*, Econ. Pol'y Inst. (Feb. 4, 2020), https://www.epi.org/blog/as-investment-continues-to-decline-the-trump-tax-cuts-remain-nothing-but-a-handout-to-the-rich/. It is not just the TCJA that failed to pass the majority of its benefits to workers. A recent comprehensive study over 18 countries over five decades found that trickle-down economics does not work in any context in which it has been implemented. David Hope & Julian Limberg, Int'l l Inequities Inst., *The Economic Consequences of Major Tax Cuts for the Rich* (Dec. 2020), http://eprints.lse.ac.uk/107919/1/Hope_economic_consequences_of_major_tax_cuts_published.pdf.

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