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ADVANCING GENDER AND RACIAL EQUITY **BY TAXING WEALTH**

Authors:
Amy Matsui, Kathryn Menefee, *and* Amy Royce

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ABSTRACT

The tax code encourages the wealthy to hoard their wealth, shields such wealth from taxation, and enables its transfer across generations. By doing so, the tax code further concentrates wealth in the hands of the privileged few, perpetuates racial and gender wealth gaps, and deprives us of revenues that could be put toward public investments that benefit women and people of color.

This report examines the tax treatment of wealth as a gender, racial, and economic justice issue. Employment discrimination along with countless other current and historical discriminatory policies mean that women and people of color are less able to access and accumulate wealth. In contrast, the wealth of those at the top continues to grow at the expense of the economic security of women and people of color. And largely due to the quiet but relentless efforts of the ultra-rich to influence politics and public policy, the tax code increasingly encourages and rewards extreme wealth and exacerbates the concentration of wealth among a small number of predominantly white men.

This report describes how current tax policies contribute to racial and gender wealth gaps, and why outsized wealth concentrated in the hands of an elite few harms women of color, women overall, and people of color. The report also provides proposals to tax wealth more equitably, including taxing income from wealth like income from labor, taxing wealth directly through a wealth tax, and taxing intergenerational transfers of wealth. Taken comprehensively, these proposals would curb excessive wealth, reduce gender and racial wealth disparities, and increase equity in the tax system.

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ABOUT THE NATIONAL WOMEN'S LAW CENTER

The National Women's Law Center fights for gender justice — in the courts, in public policy, and in our society — working across the issues that are central to the lives of women and girls.

We use the law in all its forms to change culture and drive solutions to the gender inequity that shapes our society and to break down the barriers that harm all of us — especially those who face multiple forms of discrimination. For more than 45 years, we have been on the leading edge of every major legal and policy victory for women.

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AUTHORS

Amy K. Matsui is Director of Income Security and Senior Counsel at the National Women's Law Center. She works on a broad range of economic issues affecting low- and moderate-income women and families, with special emphasis on federal and state tax policy. She is a graduate of Stanford Law School and the University of California, Berkeley.

Kathryn Menefee is a Legal Fellow on the Income Security team at the National Women's Law Center. She works on tax policy issues, with an emphasis on refundable tax credit advocacy and outreach. She is a graduate of Georgetown University Law Center and the University of Texas, Austin.

Amy Royce is a Senior Counsel on the Income Security team at the National Women's Law Center. She works on tax policy and economic security issues, including equitably raising revenues to fund investment priorities for women and families. She is a graduate of Georgetown University Law Center and Georgetown University.

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INTRODUCTION

The tax system in the United States helps to both create and exacerbate racial and gender wealth disparities. These disparities existed long before the pandemic, but the growth of wealth for the rich and the loss of wealth for families with low incomes during COVID means that these gaps have only widened.[1] And to the extent that COVID exposed the flaws in our economy, it likewise laid bare that provisions of the tax code enable and compound those flaws.

The pandemic made starkly apparent that our economy is predicated on the undervalued and underpaid labor of women and people of color, whether as essential workers or caregivers, paid and unpaid. These inequities—exacerbated by decades of chronic underinvestment in women, families, and communities—made us more susceptible to health and economic disaster when the pandemic hit. As a result, those with low incomes, among whom single women and people of color are overrepresented, disproportionately experienced illness and death, unemployment, and material hardship during COVID—and continue to do so during the uneven recovery.[2]

Even as millions experienced economic hardship, faced unemployment, or were pushed out of the labor force altogether, U.S. billionaires' wealth quickly rebounded, increasing by 70 percent, from $3 trillion to over $5 trillion, in the span of 20 months.[3]

In the same period, they paid an effective income tax rate of just 8 percent (including income from their wealth that goes largely untaxed).[4]

It doesn't have to be this way. By the revenues it raises and the economic policies it furthers, the tax system can be a powerful tool for advancing equity and providing economic support and access to opportunity for all of us—rather than a wealth-building mechanism for the privileged few.

For example, through temporary expansions to the Child Tax Credit enacted in the American Rescue Plan Act, the lowest-income families, disproportionately Black and Latinx and headed by single women, were finally able to access their full Child Tax Credit refund in 2021.[5] Full refundability, together with advance monthly payments of the Child Tax Credit and a higher credit amount for families with young children, cut child poverty by about one-third between July and December 2021 (when advance payments of the credit ended).[6] Making these changes permanent could cut child poverty nearly in half.[7] Congress now must choose whether to use tax policy to continue this reduction in child poverty and hardship or to return to a less equitable tax credit that left out millions of low-income families.

Our income tax system was purposefully constructed to be progressive, meaning that individuals with higher incomes pay a larger share of their income—on the principle that the distribution of tax burdens should

reflect and recognize the individual's ability to pay to fund priorities that support our shared prosperity. But while the Progressive Movement fought to restructure the tax code in the early 20th century to address income inequality, it failed to reckon with the racial and gender inequality baked into our economy and the very fabric of our communities since the earliest days of U.S. history. Because much of the modern tax code was written by a small group of wealthy, white male elites, moreover, it largely reflects their values, experiences, and worldview.

In addition, while the income tax code is progressive, and includes provisions like the Child Tax Credit and Earned Income Tax Credit that especially advance racial, gender, and economic equity,[8] its overall progressivity has been undermined in recent decades by deductions, exemptions, credits, and preferential treatment of certain kinds of income that overwhelmingly favor the wealthy. Commensurate changes to other parts of the tax system—including corporate tax rate cuts and ballooning exemptions to the estate tax—have also weakened the ability of the progressive income tax to check extreme power and wealth. These tax policies augment wealth extracted by the wealthy, who are disproportionately white,[9] through inequitable economic systems, with predictable results.

Tax policy changes favoring the wealthy and corporations, whose board members and shareholders are disproportionately white men,[10] have not only unleashed excessive wealth accumulation, but also failed to collect adequate tax revenues over time, leading to the ongoing erosion of our social infrastructure. For example, at the same time that the 2017 Trump tax law decreased revenues by nearly $2 trillion,[11] public investments in child care, health care, public education, accessible and affordable housing, and more remained grossly underfunded—to the detriment of women of color especially, as well as women more generally, and communities of color, leaving us all more susceptible to the ravages of the pandemic. Indeed, over time, our tax laws have amplified racial and gender inequities throughout our economy and society—in the workforce, housing, education, health care, and more—contributing to and reinforcing racial and gender income and wealth disparities.

Our previous work has focused on ways that income tax policies perpetuate and exacerbate existing racial and gender inequalities in our economic systems and structures.[12] We highlighted how racial and gender bias embedded in the tax code fails to match current realities for women, people of color, and others. We examined how tax policies that favor the wealthy shape decisions that have downstream negative impacts on workers in low-paid industries, who are disproportionately women and people of color. We described how income tax policies that favor the wealthy affect economic, racial, and gender equity, because households of color and women supporting families on their own are overrepresented in lower income brackets and underrepresented in higher income brackets.

And, as we wrote in 2019, "there is good news: To the extent that policy created certain inequities in the tax code, policy has the potential to remedy them."[13]

In this report, we argue that the tax treatment of wealth is a gender, racial, and economic justice issue. In the first section, we summarize existing analyses of wealth disparities by race and gender, how current tax policies encourage and reward the concentration of wealth among a small number of predominantly white men, and why outsized wealth concentrated in the hands of an elite few harms women of color, women overall, and people of color. In the second section, we describe proposals to tax wealth, including how those proposals would curb excessive wealth, reduce gender and racial wealth disparities, and increase equity in the tax system. We also recommend a comprehensive approach that considers how these proposals would be combined and coordinated.

Building on the legacy of the Progressive Movement, progressive politicians like Senators Elizabeth Warren and Bernie Sanders and Congresswoman Alexandria Ocasio-Cortez have championed proposals to tax the rich.[14] Over the past several years, taxing the rich has proven to have consistent and overwhelming public support.[15] Yet, as demonstrated most recently by the negotiations around revenue proposals for the Build Back Better budget reconciliation plan, ensuring that the wealthy pay their fair shares in taxes, even in the wake of a devastating global pandemic that made the need to do so glaringly obvious, is no easy feat. As law professor Dorothy Brown put it in her recent, foundational work, *The Whiteness of Wealth*, "The way out demands work from whites, blacks, and the American public as a whole.... It will take sustained, systemic change, from the federal to the individual level, to upend the status quo."[16] This work is central to gender and racial justice.

SECTION 1

WEALTH INEQUALITY **IS A GENDER AND RACIAL JUSTICE ISSUE**

WEALTH INEQUALITY **IS A GENDER AND RACIAL JUSTICE ISSUE**

It is well-established that a disproportionate share of wealth in this country is owned by a very small number of rich households.[17] All of the available evidence indicates that those who hold the lion's share of wealth in this country are overwhelmingly white and male.

Racial and gender wealth gaps are long-standing and persistent and have deep historical and political roots. Land theft, slavery, and a regime of racially discriminatory laws that followed the formal end of slavery have served to extract wealth for white people at the expense of people of color.[18] Numerous discriminatory policies rooted in that history, ranging from prohibiting property ownership by women and people of color,[19] lack of access to credit by women and people of color,[20] and chronic underinvestment in businesses owned by women and people of color,[21] contribute to the reality that women of color currently own pennies on the dollar compared to white men.

Women and people of color accumulate less wealth in part because they experience employment discrimination and other barriers to high-paying jobs, leading to the well-documented wage gap.[22] But the gender and racial wage gap alone does not cause wealth disparities. Rather, historical inequalities and discrimination are compounded by underinvestment in communities of color and our social infrastructure. For example, actions that boost wealth for white people, such as educational attainment or homeownership, do not provide the same return on investment for Black people in part because it is more difficult for Black workers to pay off higher levels of student debt on salaries that are constrained by discrimination, and because homes in more racially diverse neighborhoods may be undervalued yet face more burdensome taxation.[23] Thus, the combination of discriminatory policies and underinvestment strips the wealth of women and people of color and pushes women of color into debt. This undermines their financial security, as well as that of their children and future generations.

In contrast, the wealth of those at the top has grown at the expense of the economic security of women and people of color, because of the inequities baked into our economy.[24]

And largely due to the quiet but relentless efforts of the ultra-rich to influence politics and public policy, the tax code increasingly rewards extreme wealth, shields such wealth from taxation, and enables its transfer across generations. By doing so, the tax code deprives us of revenues that could be put toward public investments that benefit women, people of color, and all of us.

Extreme wealth concentration is thus both the product of, and a factor contributing to, racial and gender inequities. (While this report focuses on gender and race, it is important to note the income and wealth disparities experienced by other groups and individuals with overlapping and intersecting identities—including LGBTQ individuals, people with disabilities, and immigrants.)[25]

METHODOLOGY

The data cited throughout this report comes from multiple sources, including the U.S. Census Bureau, Survey of Consumer Finances (SCF), other federal agencies, numerous surveys, as well as analyses of these and other data conducted by other individuals and organizations. Within these multiple data sources, moreover, there are a wide range of terms used to refer to people of different racial or ethnic groups. In this paper, we use the following terms to refer to women and households: Asian, Black, Latina/x, Native American, and white, non-Hispanic, because these terms most closely align with the categories found in the Census and SCF surveys. The "Asian" race category includes those who identified themselves as Asian in the U.S. Census Bureau. While we use "Asian" rather than "Asian American and Pacific Islander" (AAPI) throughout because it best reflects the data, we want to acknowledge that the failure to disaggregate AAPI people by more specific ethnicity obfuscates the diversity of this community.[26] The "Black" race category includes those who identified themselves as Black or African American. The "Latina" category includes women of any race who identified themselves to be of Hispanic, Latino, or Spanish origin. We use the term "Latinx" to discuss households of any race who are of Hispanic, Latino, or Spanish origin because this term allows for more gender inclusivity. The "Native American" race category includes those who identified themselves as American Indian or Alaskan Native. The "white" race category includes those who identified themselves as white, but not of Hispanic, Latino, or Spanish origin. Please refer to each individual source note for more information on racial and ethnic categories.

1A WHO HOLDS WEALTH?

WHAT IS INCOME?

Most people understand income to be the money they receive, such as from wages and salaries, that they can spend. Economists also consider gains on capital assets, such as increases in the value of shares of stock, to be income because these gains similarly increase someone's ability to spend. (For many wealthy people, most of their income comes from gains on their assets.)[27]

WHAT IS WEALTH?

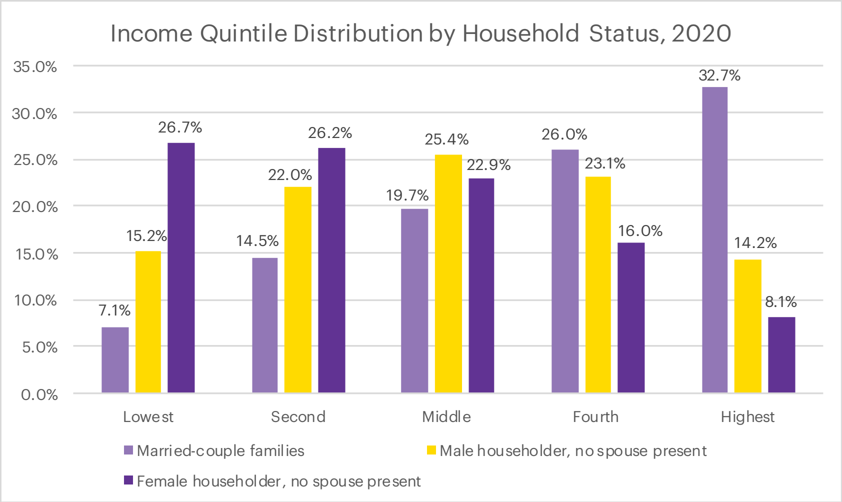
For the purposes of this paper, wealth is defined as the total value of assets individuals or families have accumulated (such as savings, stocks, a home, or a 401(k)), subtracting any debts (such as student loans or credit card debt).

It is unsurprising that households with higher incomes are more likely to have higher levels of wealth. The more income a family has, the more likely they are to be able to put aside some of their income as savings, to have access to credit, or to have other opportunities to accrue wealth (such as purchasing stock options as part of their compensation). Conversely, families with lower incomes are less likely to have spare income to put into savings after meeting basic needs, face disparities in banking and credit, and confront a host of policies that have the effect of reducing wealth that they accrue (such as discriminatory appraisals for the homes of people of color). Notably, women supporting families on their own and households of color are overrepresented in lower-income households, while higher-income households are more likely to be white and headed by a married, different-sex couple.[28]

BOX 1: AVAILABLE DATA ON THE RELATIONSHIP BETWEEN GENDER, RACE & INCOME

There is ample evidence of women's increased risk of economic insecurity throughout their lives. Women working full time, year-round are paid less than men, and women are overrepresented in jobs with the lowest wages and in part-time work.[29] Women are more likely than men to take time out of the labor force to provide care for family members. Unsurprisingly, women experience higher rates of poverty.[30] As seen in Figure 1, women-headed households[31] are underrepresented among households at the top of the income scale and overrepresented among households at the bottom of the income scale.[32]

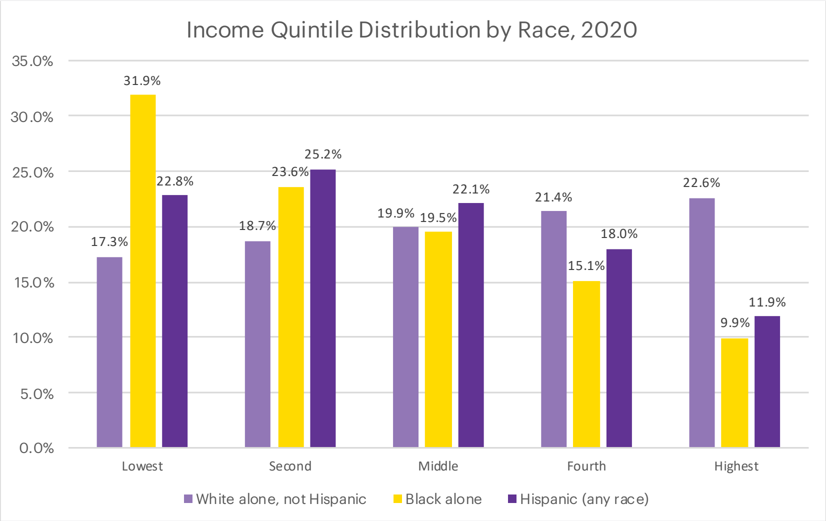
FIGURE 1



Source: U.S. Census Bureau, "Percent Distribution of Households, by Selected Characteristics Within Income Quintile and Top 5 Percent," Table HINC-05 in 2021 Current Population Survey (Washington, DC: Sept. 14, 2021), https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-05.html.

People of color experience more economic insecurity than white households. Historically, Black, Latinx, Asian, and American Indian and Alaska Native (AI/AN) households have been more likely than white households to have incomes that fall below the poverty line.[33] And, as seen in Figure 2, Black and Latinx households are overrepresented among low- and moderate-income households, and white households are overrepresented in the top income quintile.[34]

FIGURE 2

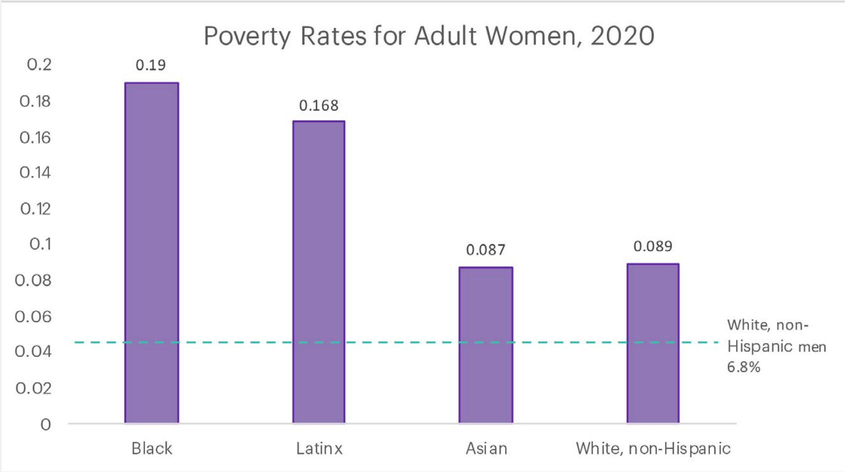


Source: U.S. Census Bureau, "Percent Distribution of Households, by Selected Characteristics Within Income Quintile and Top 5 Percent," Table HINC-05 in 2021 Current Population Survey (Washington, DC: Sept. 14, 2021), https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-05.html.

BOX 1: CONTINUED

Women of color face both racial and gender discrimination and often experience overlapping and compounding economic effects. For example, the wage gap is even more pronounced for women of color than for white women.[35] As a result, women of color are more likely to experience economic insecurity. As seen in Figure 3, Black and Latinx women experience significantly higher rates of poverty compared to white women.

FIGURE 3



Source: U.S. Census Bureau, "Age and Sex of All People, Family Members and Unrelated Individuals," Table POV-01 from Current population Survey Detailed Tables for Poverty, (Washington, DD: Sept. 14, 2021), https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pov/pov-01.html.

But while income is relevant, it is not the same as wealth. Data that measures wealth, however, likewise shows that single women, households of color, and women of color hold less wealth than white men and white families.

WOMEN

Women have always owned less wealth than men,[36] due to a range of factors both historical and ongoing, including employment discrimination, lack of access to credit,[37] and historical barriers to property ownership.[38] Women who are very wealthy are much more likely than men to have inherited their wealth.[39] However, because many women share their assets with their married partners—and because most surveys assess wealth at the household level—it can be hard to calculate the overall gender wealth gap (see Box 2). Comparing the wealth of households headed by single women to households headed by single men has been a popular way for researchers to calculate an important slice of this gap.[40]

According to analyses of the 2019 Survey of Consumer Finance (SCF) (the most recent wealth data available), single women own a median[41] of $46,900 wealth compared to the $56,900 owned by single men—roughly 82 cents for every dollar owned by men.[42] Households headed by women who had never been married—and so have never shared assets with a partner—experienced the largest wealth gap. Compared to men who had never been married, women in this group owned 34 cents per one dollar of men's wealth.[43] And a sizable gender wealth gap (71 cents per one dollar of men's wealth) remains even after controlling for age, children, race and ethnicity, education, income, homeownership, inheritance, employment, and financial risk taking.[44]

BOX 2: THE GENDER WEALTH GAP FOR MARRIED INDIVIDUALS

Although the gender wealth gap between unmarried households is the easiest to calculate, it is not the full picture. Married individuals typically have more wealth than unmarried individuals,[45] but assets are not always divided equally between partners in a marriage—and the individual with more assets may have more power in the relationship.[46] There have been several attempts to assess the gender wealth gap between married men and married women.[47] One recent analysis —relying on the 2008 Panel of the Survey of Income and Program Participation (SIPP) that allows for assets to be measured at an individual level—found that married women own an average of $27,000 less than married men.[48] More research should be conducted with updated data to get a fuller picture into the division of assets between married partners and the overall gender wealth gap.

PEOPLE OF COLOR

According to the 2019 SCF data, white families[49] own a median of $188,200 compared to the $24,100 Black families own and the $36,100 Latinx families own—meaning Black and Latinx families held roughly 13 cents and 19 cents of wealth, respectively, for every dollar owned by white families.[50] Other families of color—including Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, other races, and those who identified as more than one race—also had lower wealth than white families.[51] In fact, in the second quarter of 2020, white families owned 84 percent of all household wealth, despite only representing 60 percent of the population.[52]

Black and Latinx families have very little wealth to pass down to their children. Even families of color with high incomes have less wealth than white families with comparable incomes. For example, white families in the top 10 percent of income have a median net worth that is $1.4 million larger than that of Black families in the same percentile, and in fact, white families have a higher median net worth than Black families at every income bracket (except for the bottom 20 percent, which typically owns no wealth).[53] This is because wealth reflects decades of discriminatory policies—including Jim Crow laws and redlining[54] —that have barred people of color from growing wealth and passing it down to their children.[55] In 2019, white families were nearly three times more likely than Black families and over four times more likely than Latinx families to have received an inheritance.[56]

Racial wealth gaps are also not showing signs of improvement over time. In 2019, the wealth gaps experienced by Black and Latinx households were largely unchanged from 2016,[57] the last time the survey was taken, and the ratio between white and Black household wealth is larger now than it was at the beginning of the century.[58] Black and Latinx families also experienced a greater drop in household wealth in the years following the Great Recession, suggesting that racial wealth gaps may widen again in the aftermath of the COVID-19 recession.[59] (Disproportionate infection and death rates, higher rates of unemployment, and greater experience of material hardship in communities of color will likely have additional impacts on the wealth of people of color, as well as that of their children, in the wake of COVID-19).[60]

WOMEN OF COLOR

Many women of color—specifically Black women and Latinas, who face both gender and racial disparities—experience the most profound wealth gap of any group.[61] Households headed by single Black women and Latinas own a median of $8,200 and $7,900 of wealth respectively compared to the $92,300 owned by single white men and the $85,700 owned by single white women.[62] This means that single Black women and Latinas own roughly 9 cents for every dollar owned by single white men. It is also worth noting that these SCF calculations include vehicles as part of household wealth, which are a necessity for many but are more difficult than other assets to sell in an emergency and do not tend to appreciate like other assets. Excluding vehicles from the calculation, single Black women and Latinas only own 2 and 1 cents per dollar single white men own, respectively.[63] Moreover, COVID-19 is likely to impact the wealth of women of color, who faced higher rates of unemployment and material hardship during the pandemic than white women or white men.[64]

In sum, the available data demonstrate that those who hold the bulk of the wealth in this country are disproportionately white, male, and married. Accordingly, tax policies that treat wealth and high-wealth households preferentially are likely to disproportionately benefit men, especially white men.

Finally, it is instructive to look at data about the very wealthy. While not a comprehensive or exhaustive list of the wealthy, Forbes magazine's annual ranking of the 400 wealthiest people in the United States is a commonly referenced and illustrative measure.[65] According to this ranking, women and people of color are underrepresented among individuals with high net worth. This year, the Forbes 400 list specifically named only 56 women (14 percent),[66] and only two Black men.[67] In addition, even within this extremely wealthy cohort, white men have higher average amounts of wealth compared to white women, AAPI men, Black men, or Latino men.[68]

Thus, the evidence indicates that white men and white families are much more likely to hold wealth than women, households of color, or women of color—and hold significantly more of it.

GENDER & RACIAL WEALTH GAPS

For every $1 of wealth owned by a single man...

Single women own 82 cents

For every $1 of wealth owned by a white household...

Black households own 13 cents

Latinx households own 19 cents

For every $1 of wealth owned by a single white man...

Single Black women own 9 cents

Single Latinas own 9 cents

Source: 2019 Survey of Consumer Finance; calculated at the median

1B HOW THE TAX CODE AMPLIFIES AND CONCENTRATES WEALTH

As noted in earlier work, the modern tax code was written almost exclusively by wealthy, white men, and thus reflects their values, expectations, and worldview.[69] Unsurprisingly, as a result, numerous provisions of the tax code perpetuate, and exacerbate, the concentration of wealth in the hands of the wealthy—and white—few.

First, the modern tax code often favors wealth accumulation by those who can already afford to save, rather than making it possible for people with lower incomes (among whom women supporting families on their own and families of color are overrepresented) to accrue wealth.

For instance, the tax code purports to encourage homeownership by allowing homeowners to deduct the interest paid on mortgages for their primary residence. The Mortgage Interest Deduction (MID) is an itemized deduction, meaning that taxpayers may only claim it if they do not claim the standard deduction ($25,900 for a married couple in 2022).[70] For the most part, taxpayers will only itemize if their itemized deductions exceed the standard deduction. This is more likely to be true for higher-income taxpayers, who may be able to claim deductions for charitable contributions or other permitted items; indeed, in 2018, over 80 percent of taxpayers with incomes over $100,000 took itemized deductions.[71] In contrast, only 20 percent of taxpayers with incomes between $30,000 and $50,000 itemized, and only 7 percent of taxpayers with incomes under $30,000 did so.[72] "Moreover, it is unclear whether the reduction in taxable income provided through the MID provides enough financial incentive to encourage and enable families to purchase a home, rather than reward families who are already able to afford a mortgage to do so."[73] In any event, the MID is overwhelmingly claimed by higher-income households,[74] which leaves out many women supporting families and families of color.

Tax policies related to homeownership do not exist in a vacuum. They reinforce and exacerbate the effects of decades of discriminatory housing and lending policies. Women had extremely limited access to mortgage credit until the 1970s—single women were denied home loans, and married women could not build credit in their own names.[75] Research has shown that women applying for mortgages today are offered worse terms more often than men, despite better repayment history and a lower likelihood of default.[76] Historically, communities of color were denied access to federal mortgage lending altogether and faced a range of government policies (including redlining, blockbusting, and restrictive covenants) that shut them out of homeownership.[77] As a result, women and people of color are still less likely to own their own homes today, which has traditionally been a major path to growing wealth for families in the United States.[78] For example, according to recent data by the Federal Reserve, 44 percent of Black families and 48 percent of Latinx families own homes, compared to 74 percent of white families.[79] And women of color—who face multiple forms of discrimination—experience even steeper disparities: only 40 percent of Black women-headed households and 45 percent of Latina-headed households owned homes in 2019.[80] The homes of women and people of color, in addition, are worth less, and appreciate less over time, than those of white men or white households.[81]

Similarly, the tax code purports to encourage saving for retirement—for example, by exempting contributions to workplace retirement savings accounts from income taxes.[82] But incentives that take the form of tax savings are more valuable to higher-income workers (because their income tax rates are higher) yet do little to make it easier for lower-income workers to put money aside for their future retirement. While there is a tax credit that is intended to reward low- and moderate-income taxpayers for saving, it is nonrefundable, meaning that if the taxpayer has little or no tax liability, the credit has little (or no) value.[83] In practice, taxpayers in the top 20 percent of incomes receive the largest benefit from tax incentives for retirement savings overall.[84]

Tax policies related to retirement savings likewise operate in the context of racial and gender inequities in the workforce and the economy more generally. The fact that the primary vehicle for tax-favored retirement savings is connected to employment means that women, who bear disproportionate responsibility for caregiving and who are more likely to take time out of the paid workforce for caregiving, may be less likely to be able to take advantage of these options. Not all employers offer the retirement savings plans to which tax-favored contributions can be made, moreover, and poorly paid jobs, in which women and especially women of color predominate, are particularly unlikely to offer pensions or tax-favored retirement savings plans.[85] Additionally, most plans impose a minimum hours requirement to be eligible to participate, and women are much more likely to work part-time than men because of caregiving responsibilities, making it more difficult to meet those minimums.[86] Finally, workers need spare income to contribute to retirement savings accounts, and women and people of color have lower earnings than white men, making it much more difficult for them to save for retirement. These factors contribute to major racial and gender disparities in retirement savings, especially for women of color.[87]

Other examples abound.[88] For instance, the tax code does little to ameliorate the effect of policies that erode the wealth of low- and moderate-income households, such as student loan debt, high property tax bills, predatory lending practices, or municipal, state, or local fines and fees.[89]

The upshot is that the tax code makes it easier for those with higher incomes to accrue wealth in numerous ways, but does little to help women, families of color, and low- and moderate-income households do so.

Second, once accumulated, wealth receives preferential treatment under the tax code in a number of key ways.

Crucially for many wealthy people, their gains in certain types of assets (like stock) never face income taxes unless the assets are sold. The tax system ignores entirely that gains in their portfolios meaningfully allow wealthy people access to economic power because taxation is generally based on when gains are "realized," that is, when assets are sold.

However, many kinds of wealth generate income for their owners without having to be sold (also called capital income, or income from wealth itself). For example, stocks that perform well can provide income in the form of cash dividends to shareholders (representing their share of profits); financial assets like bonds can pay income in the form of interest. Property can be rented out. Businesses structured as pass-through businesses (which include financial firms, real estate businesses, oil and gas companies, and law or accounting firms) produce income. (In addition, people can borrow against equity in their homes or use assets as collateral for a loan, and the resulting funds are not considered income for tax purposes.[90])

But capital income that is taxed is treated preferentially, compared to income from work. For example, the top tax rate for dividends (the share of profits paid to shareholders) and capital gains (the increase in the value of an asset between the time it is obtained and the time that it is sold) is a modest 20 percent, where the top tax rates on income from work are 35 or 37 percent.[91] Pass-through businesses and rental income are also subject to preferential rates and offsets.[92] Forty-one percent of the income received by the richest households in the United States derives from wealth, rather than from work, and so, these tax breaks overwhelmingly benefit the very wealthy.[93]

In addition, the tax code permits wealth to be transferred tax-free in a variety of ways, including through charitable donations and philanthropy, gifts, and trusts.[94] Further, wealth passed from one generation to the next is not taxed under the income tax system, but instead has its own separate tax scheme (the estate tax).[95] Only very large estates are subject to the estate tax, and an army of lawyers and accountants are well paid to figure out how to help the very wealthy avoid the tax, allowing them to transfer extraordinary amounts of wealth to their heirs without taxation.[96]

For many wealthy people who can employ tax planners, paying taxes on their wealth is therefore largely optional. They can strategically combine loopholes, exclusions and tax shelters to achieve extremely low effective tax rates, despite their ability to pay much more.[97]

In addition, some wealthy people are able to avoid paying their taxes due to weak tax enforcement.[98]

IRS funding has been reduced by almost one-third in the last decade, impairing its ability to go after high-income taxpayers with sophisticated tax counsel and the resources to wage lengthy, expensive legal battles over their tax liability.[99] A study by the Treasury Inspector General found that, in Tax Years 2014 through 2016, the IRS failed to pursue over 300,000 high-income individuals who did not even file tax returns.[100] Tax enforcement against the very rich has declined to the point where the IRS now audits low-income taxpayers claiming the EITC—a refundable tax credit for taxpayers with low and moderate incomes, from which women and people of color disproportionately benefit—at close to the same rates as the top one percent.[101] Women supporting families on their own and households of color are underrepresented among high-income taxpayers who evade taxes, but they are overrepresented in the lower-income brackets. Lower-income taxpayers are both excessively audited and would benefit from programs and services funded by the revenues lost to the tax gap. And so, inadequate tax enforcement has both gender and racial implications.

The combined effect of these policy decisions is that the current tax system enables the very few, very wealthy to accumulate enormous amounts of wealth.

Moreover, it taxes people with large fortunes at much lower effective rates than people who live off income from work. For example, an analysis of billionaires showed they are taxed at an effective tax rate of less than 8 percent, including income from their wealth that goes largely untaxed.[102] And those wealthy few are overwhelmingly likely to be white and male, and overwhelmingly unlikely to be women or people of color.

BOX 3: WHAT IS AN "EFFECTIVE TAX RATE?"

A recent study from the White House found that the wealthiest 400 households in the United States pay an effective federal income rate of just over 8 percent annually.[103] In comparison, a first-year public school teacher earning a $40,154 salary with typical benefits (who does not receive income from other sources) would have an effective tax rate of 11.7 percent.[104]

How is this possible? Unlike ordinary workers who receive most of their income from salaries and wages, the very wealthy receive most of their income from their wealth in the form of investments, such as in stock and real estate. While ordinary workers must pay taxes on their work income every pay period, the wealthy only have to pay taxes on their wealth when they sell their investments or receive dividends (and at that point pay a lower rate than the equivalent income tax rate on wages). Additionally, a specific loophole described later in this paper—stepped-up basis—allows many wealthy individuals to avoid ever paying taxes on their investment gains.

This means that despite the enormous economic advantages the wealthy enjoy, compared to working people, the tax rates they effectively pay on their incomes are strikingly lower than the income tax rates paid by the rest of us.

1C WHY DOES THIS MATTER?

Wealth is an important component, as well as a measure, of economic security. For individual families, wealth provides a cushion against emergencies, helps build future wealth, and allows families who have access to it to pursue opportunities for a better future. Wealth helps children to thrive[105] and offers support across generations. Conversely, the lack of wealth can make it harder for people and families of color to weather financial crises (like COVID),[106] for women workers to seek higher wages,[107] or for Black people to experience upward economic mobility.[108] Research has also shown growing up in a lower wealth household has detrimental lifetime effects on children, such as worse physical health, worse social outcomes, and fewer years of completed schooling.[109] Unfortunately, as described above, women supporting families on their own, families of color, and women of color are more likely to have low levels of wealth—and are therefore less likely to enjoy the benefits of financial stability, financial resilience, well-being, and access to opportunity.

The fact that women and people of color are more likely to have low wealth, and less likely than white men to have high wealth, reflects racial and gender inequality.

But extreme wealth inequality, in and of itself, has immensely significant consequences. For example, research suggests that over-concentration of wealth is correlated with slower long-term economic growth,[110] harming all of us. In addition, the massive accumulation of wealth among a small group of—mostly male, mostly white—individuals has far-reaching effects on the democratic process, harming the well-being of women, people of color, and the rest of us who are underrepresented among the ultra-wealthy.

In our prior work, we explored some of the ways that preferential tax treatment for the wealthy and corporations widens pay and power disparities between executives and workers.[111] Wealth accumulation not only concentrates economic power, but also political power. Whereas most ordinary people in the United States struggle to get their voices heard, the very wealthy have outsized access to politicians and to the political process. They can afford to pay for lobbyists, make sizable donations to lawmakers, and invest in the priorities that benefit them.[112] A 2013 study of the top one percent's political activities and preferences found that the very wealthy are incredibly politically active, with almost half of them initiating contact with a congressional office within a six-month period and a full two-thirds contributing money to politics in the last year.[113] In addition to direct contributions, the wealthy can also wield enormous influence on the political process through outside spending, often by donating to Super Political Action Committees (or Super PACs). While there are limits to how much an individual can donate to a candidate, Super PACs can raise unlimited funds to run political advertisements and otherwise affect election outcomes.[114] The New York Times found that, in 2015, half of the money raised for the 2016 presidential election had been donated by fewer than 400 families, most of it channeled through Super PACs.[115]

Through their outsized political influence, the very wealthy ensure their preferences sway political discussion and policy.[116] Wealthy people routinely bring their political issues to the forefront of political debate,[117] and policies strongly supported by the very wealthy are adopted about 45 percent of the time.[118] In contrast, the support of the general public hardly affects the likelihood of a policy changing at all.[119] This concentrated political influence is particularly troubling because the political priorities of the very wealthy do not align with many economic policies that would benefit the general public, and the economy overall. As the 2013 study discussed above summarizes, "to a much greater extent than the general public… the wealthy oppose government action to redistribute income or wealth."[120] The very wealthy are also much less willing to support programs that benefit women and families, including a minimum wage above the poverty level, unemployment supports, the Earned Income Tax Credit, or widely available educational opportunities—and in fact are more likely to support cutting programs like Social Security or health care.[121] This opposition persists despite the fact that the wealthy benefit from public goods provided by the government, and themselves receive numerous public benefits and preferences, in addition to the provisions of the tax code enumerated above.[122]

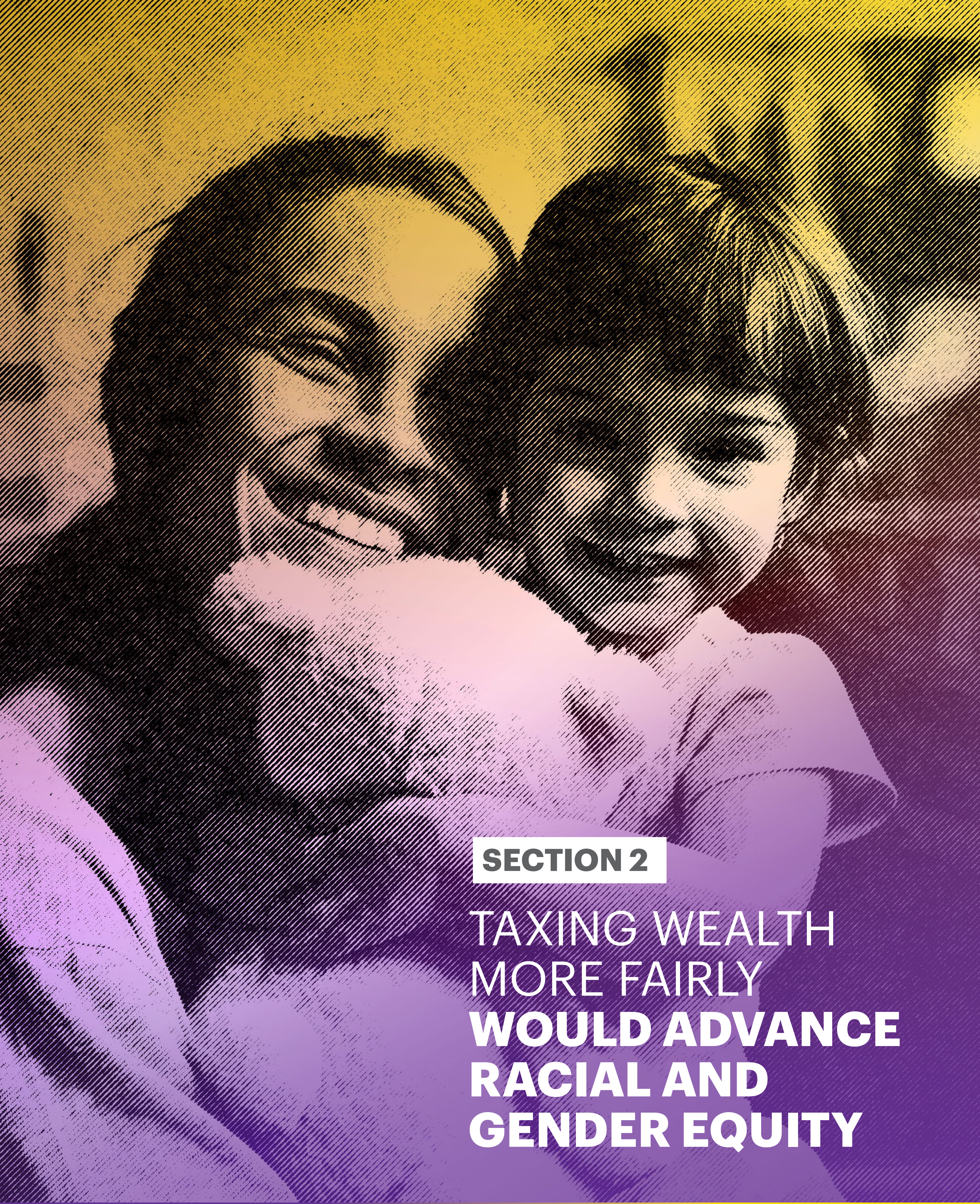
Moreover, the very wealthy are, unsurprisingly, much less likely to want to raise taxes on high-income people.[123] And though their public statements may not reflect it, they lobby hard to protect their wealth from taxation.

For example, a recent study found that a dozen of the wealthiest billionaires have contributed substantially to efforts to abolish the estate tax.[124] Their contributions, along with lobbying efforts by other wealthy individuals and corporations, have had a huge impact on tax legislation in recent years—such as the 2017 Tax Cuts and Jobs Act, which overwhelmingly benefited the very rich.[125] And a similar lobbying push impacted the tax provisions included in the House-passed 2021 Build Back Better Act. As initially proposed by President Biden,[126] the Build Back Better plan included raising the corporate tax rate, raising the top federal income tax rate, and eliminating stepped-up basis, a loophole that allows the wealthy to avoid paying taxes on income generated by wealth. Corporations and the very wealthy responded with a swift and relentless lobbying campaign, most notably featuring disingenuous statements by current lobbyist and former Senator Heidi Heitkamp in opposition to ending stepped-up basis.[127] Prominent lobbying groups, including the U.S. Chamber of Commerce and the Business Roundtable, poured money into advertisements and other efforts to fight the provisions.[128] These efforts proved effective, despite the tremendous popularity, revenue-raising potential, and strong policy rationale for these tax provisions, and all three were ultimately removed from the version of the Act that passed the House.

As many have pointed out, the disproportionate influence of the very wealthy on the country's political processes has troubling implications for the health of our democracy.[129] One analysis in 2004 found that "each of the top 400 or so richest Americans had on average about 22,000 times the political power of the average member of the bottom 90 percent"—and the top 400 families have only grown wealthier in the years since this analysis.[130] This lopsided power not only privileges policies that benefit the wealthy—who are disproportionately white men—but also makes it more difficult to enact policies that benefit everyone else, namely women and people of color.

In the wake of the pandemic, it's even more clear that our tax system doesn't currently tax wealth the way it should. Tax laws that were written by and for white male elites shouldn't continue to reinforce and compound the privilege conferred by discriminatory systems of education, homeownership, financial institutions, the workforce, and the economy writ large, across generations. Our tax system shouldn't pretend that a middle-class worker with $80,000 of yearly income is in the same position as Jeff Bezos, who paid himself an $80,000 annual salary in 2020 but whose net worth increased by $75 billion during that same year.[131] Billionaires shouldn't qualify for stimulus checks because their tax advisors are so skilled at keeping their taxable incomes low. [132] Ordinary workers should not face higher tax rates than wealthy people who live off their investments and can opt not to receive a salary.[133] The wealthy should not be able to game when they sell their investments, and thus when they are taxed, and use tax shelters and loopholes to avoid paying their fair share.[134]

And the wealthy should not be able to so easily employ their political influence to create more favorable tax rules for themselves before their taxes are due.[135]



SECTION 2

TAXING WEALTH MORE FAIRLY **WOULD ADVANCE RACIAL AND GENDER EQUITY**

TAXING WEALTH MORE FAIRLY WOULD **ADVANCE RACIAL AND GENDER EQUITY**

In order to curb the accumulation of excessive wealth, mitigate the adverse political and economic consequences of the overconcentration of wealth at the very top, and reduce gender and racial wealth disparities, we need to do a better, fairer, and more equitable job of taxing wealth.

While acknowledging that there are women supporting families and people of color among those with higher incomes and wealth, and that they likely face racial and gender income and wealth disparities, this report takes the view that policy solutions aimed at increasing equity should center those who face the greatest barriers to economic security and wealth-building.

Taxing wealth more effectively would reduce racial and gender inequity in the tax code by making the code less advantageous for the wealthy, who tend to be white and male rather than women or people of color, compared to workers. For example, 93 percent of the wealth owned by those listed in the Forbes 400 are white, and 87 percent are men, which suggests that a wealth tax on the very rich would primarily affect white men's wealth.[136]

Taxing wealth would reckon with centuries of systemic discrimination and oppression, by breaking up massive concentrations of wealth that has grown over generations—and by raising revenues that can be invested in women, families, and communities of color and support a more equitable economy. Taxing wealth would ensure that the wealthy could not "opt out" of contributing their fair share to fund national priorities from which we all benefit. In short, taxing wealth would make the tax system, and our economy, society, and democracy, better, fairer, and more equitable. (It is important to note that taxing wealth more equitably will not, by itself, likely be enough to curb the outsized political influence enjoyed by the very wealthy.)[137]

This section will outline three main ways to better tax wealth: 1) taxing income from wealth like income from labor; 2) taxing wealth directly through a wealth tax; and 3) taxing intergenerational transfers of wealth.

BOX 4: WEALTH TAXES ARE **INCOMPLETE SOLUTIONS**

Wealth taxes like the one described in this paper are an incomplete solution to resolving racial and gender wealth disparities. They reduce racial and gender wealth gaps by reducing the level of wealth at the top, and by indirectly funding investments that support the economic security of women and people of color (facilitating but not ensuring the ability to accrue savings and wealth). Given entrenched disparities, resulting from inequities that are built into our discriminatory economic systems and structures, specific and intentional policy solutions are needed to ensure that women and people of color can build the meaningful amounts of wealth they need for their own financial stability and opportunity. Reducing wealth gaps by increasing the level of wealth at the "bottom" will require bold policy interventions[138] if not a revolutionary reenvisioning of our economy,[139] both of which are beyond the scope of this paper.

2A TAXING INCOME FROM WEALTH LIKE INCOME FROM LABOR

One way to improve the tax treatment of wealth would be to make the way we tax income that is derived from wealth more consistent with the way we tax income from work. Most people in the United States earn most of their income from labor, such as salaries and wages. For those in the bottom 80 percent—among whom single women, women-headed households, and families of color are disproportionately represented—labor income makes up about three-quarters of their total income.[140]

In contrast, the top one percent—disproportionately white men—derive 67 percent of their income from tax-advantaged capital income and pass-through businesses and only 34 percent of their income from work.[141] A significant share of their income comes from what is known as "capital gains"—the profits from selling appreciated assets (or capital), such as stock, a piece of art, a house, or a business.

The pandemic provides an illustrative example of how capital gains work: between 2019 and 2020, the value of a share of Amazon stock increased from $1,847 to $3,256, and so Amazon stockholders accrued capital gains of $1,409 per share in the first year of the pandemic.[142]

The tax code gives preferential tax treatment of capital gains over income from labor in three ways.[143]

DELAYED TAXATION

As discussed above, the very wealthy can delay paying their capital gains taxes until they sell the asset (also called "realization" of capital gains). This encourages the wealthy to hoard their assets, letting them appreciate (possibly receiving income from dividends, interest or rent in the meantime) and only selling when it is financially advantageous to do so.[144] This means that wealthy people who, for example, have seen their stock greatly increase in value over the course of the pandemic can continue to receive returns on the full amount of their profit and will not be taxed on this profit until they sell their stock. In contrast, income from wages and salaries are taxed every pay period.

PREFERENTIAL RATE

When wealthy people do sell their assets, their capital gains are taxed at a preferential rate, as long as those assets have been held for over a year. The top tax rate for capital gains is currently 20 percent, compared to the current top income tax rate of 37 percent.[145] Individuals who make over $200,000 (and married couples who make over $250,000) have to pay an additional 3.8 percent Net Investment Income Tax (NIIT) on their capital gains.[146]

STEPPED-UP BASIS

The tax code also provides a loophole that allows many wealthy people to avoid ever paying taxes on their capital gains. If someone does not sell an asset during their lifetime, they can pass it down to the next generation without paying income taxes on any gains on their unsold assets (also called "unrealized capital gains"). In addition, a provision called stepped-up basis allows the heir to adopt the value of the asset at the time of the decedent's death, so the increase in value of the asset during the decedent's life never faces the income tax. For example, a wealthy individual who owns a piece of real estate that has increased in value from $700,000 to $1,000,000 over the course of their lifetime can pass these gains onto their heir tax-free. If the heir decides to sell the real estate, they will only pay taxes on gains above $1,000,000—the value of the property when they inherited it. The $300,000 appreciation in the previous owner's lifetime are never taxed. This "stepped-up basis" loophole forgoes between nearly $44 to $54 billion a year in revenues, which could have been used to invest in women and families.[147]

The preferential treatment of capital gains overwhelmingly benefits the very wealthy and white.[148] Thirty-four percent of the wealth of the top one percent consists of unrealized (and so untaxed) capital gains, compared to just 6.1 percent of the bottom 90 percent.[149] And as of April 2021, U.S. billionaires owned $2.5 trillion in unrealized capital gains (more than 50 percent of their total wealth).[150] The fact that so many wealthy people delay paying or never pay taxes on their capital gains means that their effective tax rate is much lower than for many people who derive most of their income from labor (as discussed in Box 3).

There are several possible policy solutions to make the way we tax capital gains more equitable.

RAISING THE CAPITAL GAINS RATE

It does not make sense to tax capital gains at a significantly lower rate than income from work. Researchers have shown that there is not an economic benefit from cutting capital income taxes,[151] and multiple studies have shown that optimal rates can be significantly higher than they are today.[152] However, the Joint Committee on Taxation estimates that the "revenue maximizing" capital gains tax rate is around 30 percent, because higher rates encourage wealthy individuals to continue holding onto their assets rather than selling them.[153] And so, a raise in the capital gains rate should be paired with complementary reforms that discourage wealthy people from hoarding their assets—such as the two discussed below[154]—to ensure that the very wealthy must pay taxes on their gains.

TAXING CAPITAL GAINS AT DEATH

One way to ensure that the wealthy pay their capital gains taxes would be to tax capital gains at death for individuals above certain income thresholds or for very large gains. This would eliminate the stepped-up basis loophole and prevent wealthy people from permanently erasing their lifetime gains and prevent their heirs from receiving these gains free of income taxes. Additionally, taxing gains at death would reduce the incentive for wealthy individuals to hoard their assets because there would be a smaller advantage for holding onto assets until death.[155] However, even if coupled with an increase in the tax rate on capital gains, incentives to delay selling assets would still remain, including the ability to receive higher returns on untaxed gains.[156] Additionally, wealthy people would likely delay selling appreciated assets in the hopes that the law might weaken or change before their death—or so that they may wield their political influence to try to change the law themselves.[157]

Taxing capital gains at death would also raise considerable revenue, especially when paired with an increased capital gains rate. The Department of Treasury estimates that taxing capital gains at death and raising the capital gains rate, as presented in President Biden's 2022 budget proposal, would raise over $322,000 million over 10 years.[158]

MARK-TO-MARKET

Another policy option would be to tax capital gains on an annual basis, through a system called "mark-to-market." Under mark-to-market taxation, capital gains would be taxed every year whether or not the appreciated asset has been sold.[159] So, for example, wealthy individuals whose stock portfolios increased in value during the pandemic would have those gains subject to taxation every year, rather than just when they sold the stock. Mark-to-market taxation would also eliminate most tax incentives to defer the sale of assets, since gains will be taxed annually regardless of whether they are sold.[160] If implemented effectively, this system also has the potential to bring in even more revenue than simply taxing gains at death. In their analysis, former law professors (currently, officials in the Department of the Treasury) Lily Batchelder and David Kamin estimated that raising the capital gains tax rates to ordinary income rates and implementing a mark-to-market taxation system for the top one percent would bring in $2.1 trillion over 10 years.[161]

A system of mark-to-market taxation might require valuing assets every year, compared to our current scheme of only determining value when assets are sold. There is precedent for taxing gains in this way: our current system taxes certain types of securities on a mark-to-market basis.[162] However, a broader mark-to-market system could pose difficulties for certain kinds of assets, like works of art, for which capital gains are not publicly reported and which would require yearly appraisal. The Billionaires Income Tax, a proposal spearheaded by Senate Finance Chair Ron Wyden, mitigates this problem by imposing the yearly capital gains tax on non-publicly traded assets retrospectively as a "deferral charge" after the asset is sold.[163] Moreover, Senator Wyden's proposal would apply to a small subset of the wealthiest Americans; there are only 700 hundred people above the proposal's very high asset and income threshold,[164] which would reduce the administrative burden on the IRS. However, the IRS would require significant additional funding in order to implement even this narrow version of mark-to-market taxation.

One argument against closing the stepped-up basis loophole or mark-to-market taxation is that unrealized capital gains are not income because they only exist "on paper." For example, a person who owns stock that has increased in value would not be able to spend that profit until they sell the stock—the increased value of the stock is locked in the stock itself and could be wiped out in the next stock market crash. Under this thinking, it would be unfair to tax someone for "paper" gains that do not provide them with cash in hand.

However, this argument does not align with how income is defined in an economic sense or how the tax code treats certain other assets. Income is defined by economists as the "sum of one's consumption and change in net worth," and both realized and unrealized capital gains fall under this definition.[165] As tax economists Joel Slemrod and Jon Bakija explain, "whether you sell the asset does not matter because an increase in the value of assets you own increases your purchasing power."[166] And in practice, wealthy people are able to get purchasing power from their unrealized capital gains very easily. Wealthy people can borrow against their appreciated assets, securing large personal loans by using their investments as collateral.[167] The cost of this borrowing is much lower than the cost of capital gains taxes, especially when there are low interest rates. Wealthy people often take advantage of this opportunity: for example, as of May 2021, Elon Musk has borrowed against 92 million of his Tesla shares, worth about $57.7 billion.[168] This is how, as he recently pointed out on Twitter, he is able to forgo a salary.[169]
As a result, wealthy people have very little incentive to sell their assets during their lifetimes. Instead, after they buy assets, they can borrow against the appreciated value of those assets and hold onto those assets until they die, so they can pass the assets to their heirs tax-free. This "buy, borrow, die" strategy allows the very wealthy to grow massive fortunes while avoiding almost any taxation.[170]

In addition to reducing tax avoidance by the very wealthy, these proposals (raising the capital gains rate paired with either an at-death or mark-to-market taxation system) would promote racial and gender equity in a couple of ways. First, because capital gains are highly concentrated among the those in the highest income and wealth brackets—in which single women, women-headed households, and people of color are underrepresented—taxing capital gains more fairly would curb wealth hoarding by wealthy white men, and thus narrow gender and racial wealth gaps.

Second, women and people of color are less likely to bear the burden of more effective taxation of capital gains, because research shows there is a smaller likelihood of their holding capital. An analysis by the Institute on Taxation and Economic Policy (ITEP) found that, though white families only represent 65 percent of all families, they own almost 90 percent of corporate stock and private business assets.[171] Black and Latinx families, in comparison, own 1.7 and 0.5 percent of corporate equities respectively and less than 2 percent of private business assets—and the capital assets they do own are less valuable than those owned by white families.[172] Women are also less likely to hold these types of wealth-growing assets.[173] According to one survey, only 48 percent of women invest in the stock market compared to 66 percent of men, and women are also more likely to hold a large percentage of their assets in cash (65 percent versus 51 percent of men), such as by placing money into a savings account.[174]

BOX 5: THE GAP IN CAPITAL ASSETS

Women and families of color have less income compared to men and white families, and so have less money to invest in the stock market. But the income gap does not fully explain the gap in capital assets. For example, white families in the bottom 20 percent of the income distribution are more likely to own stock than Black families in the top 40 percent.[175] In her book *The Whiteness of Wealth*, Dorothy Brown describes the historical and ongoing discrimination in the financial services market—it wasn't until 1970 that the first Black person traded on the floor of the New York Stock exchange—that prevents many Black families from investing in the stock trade.[176] Additionally, women and especially women of color are still underrepresented in the types of high-income jobs that provide stock and other capital assets as part of their compensation packages, including CEO, entrepreneurial, and high-tech positions.[177] And so, more effective taxation of capital gains would increase racial and gender equity in the tax code, by eliminating preferences that overwhelmingly accrue to the wealthy and white.

Third, these proposals would raise significant revenue that could be used to fund investments that benefit women and families of color, such as child care, paid leave, health care, affordable housing, and family tax credits. This would increase economic growth, especially after decades of disinvestment. [178] These investments would also increase families' economic security and financial stability, making it easier for families to save and invest.

Reforming the way capital gains are taxed would therefore go a long way toward advancing gender and racial equity in the tax code.

2B TAXING WEALTH DIRECTLY THROUGH A WEALTH TAX

Another potential solution is for the federal government to institute a wealth tax. A wealth tax would apply an annual tax to the entire value of a taxpayer's net worth, defined as the total value of all assets minus any debts.[179] At present, the tax code generally taxes income—for example, earnings from work or gains from selling assets—and capital gains reform, as described above, would make this income tax system more equitable. A wealth tax, in contrast, is not an income tax but a tax on the value of assets themselves. Annual wealth taxes would effectively increase taxes on individuals who, despite their considerable resources, otherwise avoid taxation.[180]

Proposals for an annual federal wealth tax differ in specifics, but have these common features:

TARGETED TO THE WEALTHY

Proposed wealth taxes use a high "exemption amount," or threshold below which the tax would not apply. For example, if the exemption amount is $25 million, anyone with a net worth below that amount would not owe any wealth tax. A net worth tax targeted to the very wealthy would increase progressivity in the tax code, by aiming additional taxation squarely at the families with the greatest ability to pay.[181] A high exemption amount is also important so that families of more modest means do not face a tax they would struggle to pay because they do not have cash on hand, while the ultra-wealthy have access to the needed liquidity.[182]

RAISE SIGNIFICANT REVENUES

Because of enormous wealth concentration at the top, even a very low wealth tax rate would add substantial new tax revenue. Economists estimate that a 2 percent tax on wealth over $10 million (the top 1 percent) would raise between $3.5 trillion and $6.7 trillion over 10 years.[183] Even a tax more concentrated toward the very rich, such as a 2 percent tax on the wealth over $50 million (the top .1 percent), combined with a 3 percent tax on wealth over $1 billion, would raise an estimated $1.9 trillion to $3.3 trillion over 10 years.[184] And imposing a 5 percent tax on the wealth owned just by those listed in the Forbes 400 could raise over $2.2 trillion over 10 years.[185]

INCLUDE A BROAD BASE OF ASSETS

Proposals generally provide that all assets that contribute to net worth be taxed, to avoid creating incentives for the wealthy to buy up assets that are not subject to the wealth tax.[186]

Although an annual net worth tax would be a new kind of tax at the federal level, other types of taxes on wealth are already part of the federal tax system in the form of the federal estate tax (discussed further below).[187] Property taxes are another kind of annual wealth tax at the state or local level, and several states levy additional taxes on high-value homes (otherwise known as "mansion taxes").[188] Some states have recently targeted wealth as they seek to add needed revenue in the wake of the pandemic.[189]

By taxing net worth rather than income, a wealth tax is one way to prevent wealthy taxpayers from avoiding tax liability indefinitely.[190] It would tax assets as they accumulate value in real time, mirroring the real-world increases in spending power these assets grant to the wealthy as their value increases.[191]

It would directly target the wealth families have accumulated, sometimes over many generations, and would thereby directly address the growing inequality between the wealthy and the rest of us, as well as racial and gender disparities in wealth.

A wealth tax is an extremely progressive tax.[192] The burden of the tax falls on the owners of wealth, targeting the taxation precisely to those who are the most well-off.[193] As explained above, wealth concentration reflects racial and gender inequities across our other economic systems and structures. Because of these inequities, relatively few women supporting families on their own, households of color, and other marginalized groups, such as LGBTQ people[194] and people with disabilities,[195] would be likely to face additional tax burdens.

BOX 6: REDUCING RACIAL AND GENDER WEALTH GAPS

Wealth taxes could also reduce the racial and gender wealth gaps, because they so specifically target the people (disproportionately white men) who have had the advantages that allowed them to accumulate wealth. According to the Brookings Institute, today, "the 400 richest American billionaires have more total wealth than all 10 million Black American households combined."[196] The racial wealth gap today stands at approximately $10 trillion.[197] By imposing greater taxation specifically on billionaires and multi-millionaires, a wealth tax aims to narrow these gaps from the top.[198]

Of course, revenues from a wealth tax could—and should—be used to make public investments centered on the needs of marginalized communities. Revenue estimates in the trillions of dollars over 10 years mean significant public investments could be made. This would both foster economic growth and improve the economic security and wealth-building potential of women, families, and communities.

By targeting wealth itself, a wealth tax would also increase racial and gender equity within the tax code by reducing disparities in effective taxation rates.[199] As mentioned earlier, even among those with higher incomes, women and people of color have less wealth than white people. As a result, high-income women and people of color are likely paying higher effective tax rates than high-income white men, since more of their income comes from work rather than wealth. Moreover, when considering all forms of income in an economic sense, people with lower net worth, who are disproportionately women and people of color, pay higher effective tax rates than the ultra-wealthy.[200] For the median family by net worth, white households have about $150,000 more in wealth than Black households, [201] which likewise may impact effective tax rates, given the preferential tax treatment of wealth. A wealth tax would go far to remedy this blatant unfairness.

As a new kind of tax in the U.S. system, however, a wealth tax would require new rules governing its administration. Perhaps most significantly, as with mark-to-market taxation, a wealth tax would require valuation of all assets and liabilities on an annual basis, at varying levels of complexity.[202] There is reason to believe that the valuation challenges, while substantial, are not insurmountable.[203] Other countries that have implemented wealth taxes provide potential models. Formulas designed for the U.S. context have also been proposed.[204] Valuation is currently required for other more limited tax purposes, such as the estate and gift tax. Building on these systems, regulations on valuation could include a combination of market value, appraisals, and formulas for determining value.[205] Regulations could also address potential strategies to undervalue net worth, such as artificially inflating debts.[206] Moreover, taxpayers that would be subject to a wealth tax are the most likely to have the assistance of tax advisors, and therefore should be presumed to be able to comply with the detailed valuation rules that would be necessary.[207] In any event, setting up valuation processes and regulations (as well as enforcement) would require the IRS to have additional resources.

Other countries that have implemented wealth taxes provide lessons for U.S. policymakers to consider.[208] These lessons should shape the specifics of any wealth tax the United States enacts, to avoid pitfalls seen elsewhere.[209] For example, many countries excluded significant asset classes (for example, owner-occupied housing or retirement savings), leading to lower revenue.[210]

And economic distortions were observed when wealthy residents transferred assets into classes not subject to the wealth tax.[211] Accordingly, a wealth tax should be designed to include most assets (which might also make it harder to avoid). [212] In addition, the United States is the only country that taxes its citizens regardless of their place of residence, so it would be more difficult for U.S. citizens to merely move to other countries to avoid a wealth tax, as noticeably occurred in France. [213] A leading wealth tax proposal would impose a stiff exit tax if a wealthy individual renounced U.S. citizenship, to further disincentivize expatriation to avoid taxation.[214]

By imposing a tax directly on the largest accumulations of wealth, a wealth tax would be a direct response to the substantial inequities in who holds wealth and how the tax system treats that wealth.

BOX 7: CONSTITUTIONAL CONCERNS

Some have raised constitutional concerns that the Supreme Court would strike down a federal wealth tax as an un-apportioned "direct tax." (Apportionment means that each state would have to pay the same amount of taxes on a per-person basis and would therefore require different tax rates for each state, which a federal wealth tax with a uniform rate would not provide for.) Constitutional scrutiny will therefore likely focus on whether the wealth tax is a "direct tax."[215] The direct tax clause was added to the Constitution as part of the infamous "three-fifths compromise," which propped up the power of states that profited from the enslavement of people.[216] The historical record supports the view that the provision was intentionally ambiguous at the time, in service of its insertion as a compromise measure.[217] It was immediately interpreted narrowly to allow Congress broad taxation powers without an apportionment requirement. Subsequently (and notably, during the Gilded Age), the Supreme Court expanded the meaning of "direct tax" to include income, a decision which was overturned by the 16th Amendment.[218] Many scholars believe a wealth tax is not a "direct tax" as a matter of law, and should therefore survive a constitutional challenge, based on current precedents,[219] although the current Supreme Court's view is unknown.

As a vestige of slavery, the direct tax clause should not serve as a contemporary barrier to wealth taxation[220] and should arguably be amended out of the Constitution entirely.[221] Modern interpretations that are divorced from this history continue to privilege the groups that have long held power and wealth, and the origins of the direct tax clause in a profoundly immoral and since abolished system weigh in favor of narrow construction.[222] The "constitutional legacy of slavery" continues to shape debate about taxation that could reduce racial inequality.[223] As many scholars have examined, the racial and gender wealth gaps stem from dehumanizing and discriminatory practices, as does the direct tax clause.[224] A constitutional provision that was once used to deny the humanity of people, treat them as property, and exploit their labor is now being debated as the basis to invalidate a tax policy that would break up the concentrations of wealth that slavery and the laws enacted in its wake, at least in part, helped facilitate.

Some scholars have proposed methods of formulating a wealth tax that would be more likely to survive a constitutional challenge.[225] Others have proposed that legislators could craft an alternative for a wealth tax that is apportioned, to become effective if an un-apportioned wealth tax is deemed unconstitutional.[226]

2C TAXING INTERGENERATIONAL TRANSFERS OF WEALTH

A third option is to better tax intergenerational wealth transfers. Inheritance accounts for 40 percent of all wealth. 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).[227] There are stark racial differences in the receipt of inheritances.[228] As economist Janelle Jones notes, "White families are twice as likely to receive an inheritance as Black families, and that inheritance is nearly three times as much."[229] Further, scholars have explained that for Black families, intergenerational wealth transfers "often travel in the opposite direction," from younger to older family members, and such gifts may be used to help family members cover living expenses.[230] As Dorothy Brown has observed, "This both limits [B]lack households' potential to save and invest, and reduces the likelihood that a [B]lack parent will be able to leave an inheritance to be passed down to the next generation tax-free."[231]

The tax code allows the very wealthy to transfer massive amounts of wealth to future generations, largely avoiding taxes. The estate tax, backstopped by the gift tax, is the primary mechanism for taxing intergenerational wealth transfers. The estate tax imposes a 40 percent tax on wealth (above a certain value) that is transferred, at death, to an heir other than a spouse; it is paid by the estate—that is, the amount of estate taxes is taken out of the estate and thus reduces its value.[232] The gift tax is also a 40 percent tax imposed on lifetime wealth transfers to family members that exceed $16,000 per recipient, per year (in 2022; the limit is $32,000 per recipient for gifts given by a married couple); it is paid by the person making the gift.[233] In addition, "generation-skipping taxes" impose additional taxes on wealth transfers such as those from a grandparent to a grandchild.

In its design and structure, the estate tax is extremely progressive and has the potential to mitigate the harmful effects of excessive intergenerational wealth transfers.[234] While, as mentioned earlier, the estate tax was created with the specific intent of limiting how much wealth could be transferred, its ability to do is constrained because it only applies, under current law, to exceedingly large estates.[235] Moreover, because of the stepped-up basis rule, one justification for the estate tax has been to ensure that unrealized capital gains do not fully escape taxation at death. However, the high exclusions enacted through the TCJA mean that the estate tax now only reaches the unrealized capital gains of a small group of extremely wealthy households.[236] In addition, wealthy individuals have numerous ways to reduce their estate "tax base," that is, the size of their estates that would be subject to the estate tax.[237]

BOX 8: LOOPHOLES TO THE ESTATE TAX

Many wealthy individuals are able to reduce their estate taxes through complex tax planning before their deaths—to the extent that former law professor Lily Batchelder estimated that under current law, there is only an effective tax rate of about 2 percent on transferred wealth, which is only imposed, once, at the time of transfer.[238]

One way that wealthy individuals reduce the size of their estates is by taking advantage of gift tax exemptions during their lifetimes. In addition to the annual $16,000 per person exemption and the $12.06 million lifetime exemption (which applies to both the estate and the gift tax), direct payments of tuition and medical expenses are not subject to the gift tax. This increases the amount that the wealthy can transfer without paying gift taxes.[239]

Wealthy individuals also circumvent the estate tax by using trusts. The creator of a trust may have to pay gift or estate taxes when they initially transfer wealth into a trust, but will never have to pay additional taxes while the wealth remains in the trust, no matter how much it increases in value.[240] As has been a recent topic of discussion among tax experts, wealthy individuals can partially or fully avoid the estate and gift tax by using trusts with particularly advantageous tax treatment, including grantor-retained annuity trusts and intentionally defective grantor trusts.[241] Grantor retained annuity trusts alone have been estimated to reduce the amount of revenue raised by the estate and gift tax by one-third.[242] Another type of trust that has been increasingly used by the very wealthy to avoid the estate tax is the dynasty trust, which is designed to last for multiple generations and can potentially allow wealth to grow untaxed for centuries, or even forever.[243] The process of developing a wealth tax might involve more holistically reforming the way trusts are formed and implemented, but those concerns are outside the scope of this paper. [244]

As a result, "[o]nly the estates of the wealthiest 0.1 percent of Americans—roughly one out of every 1,000 people who die—owe[d] any estate tax" in 2018.[245]

This illustrates how the current estate tax confers enormous benefits upon the wealthiest, among whom women and households of color are underrepresented.[246]

It encourages the accumulation and concentration of wealth, to the detriment of women and people of color, and our economy more generally. Further, the erosion of the estate tax has contributed to widening racial wealth gaps.[247] And the loss of revenues that could have been collected under a more robust estate tax [248] to support public investments also particularly harms women and communities of color.

While the structure of the estate tax is progressive and effective, in order to make the estate tax more robust, it must apply to more wealth. One simple way to accomplish that is by lowering the exemption amounts. Numerous policy advocates and some policymakers have, for example, recommended returning to 2009 exemption levels ($3.5 million per spouse; $7 million per married couple).[249] In addition, there have been recommendations to make the estate tax base more inclusive, in order to make the tax more effective.[250] Others have advocated for also increasing the estate tax rate; by, for example, returning to the 2009 rate for estate and gift taxes of 45 percent.[251]

As an alternative to the existing estate tax, some have proposed creating a federal inheritance tax, that is, a tax on assets received from someone who died. Inheritance taxes are paid by the person who inherits the assets (rather than the estate). There are currently six states with inheritance taxes,[252] but there is no federal inheritance tax at present. Then-law professor Lily Batchelder proposed an inheritance tax that would replace the estate and gift taxes, and tax accrued gains on assets at the time of transfer. Inheritances above a certain threshold would be taxed, under the income and payroll tax systems, under Batchelder's proposal.[253]

Taxes on wealth transfers, in the form of estate or inheritance taxes, are among the most progressive forms of taxation. Since these taxes largely impact the extremely wealthy, making them more effective would remove tax preferences enjoyed by the wealthy, with women and people of color less likely to bear additional tax burdens.

Moreover, these taxes directly reduce the size of wealth transfers and remove incentives for the accumulation of dynastic wealth. As a result, scholars and researchers have concluded that they can reduce racial wealth disparities by reducing levels of wealth among the extremely wealthy, who are overwhelmingly white.[254] Similar effects could be expected with regard to wealth gaps faced by women of color, and women more generally.

In addition, wealth transfer taxes are estimated to stimulate economic growth.[255] For example, one study showed that, compared to an income tax, a wealth tax "shifts the tax burden from productive to unproductive entrepreneurs and reallocates capital to the more productive ones."[256] Moreover, a more robust estate tax or an inheritance tax could raise significant revenues for public investments: a legislative proposal spearheaded by Senator Bernie Sanders in 2021 is estimated to raise $2.2 trillion; the Batchelder inheritance tax proposal is estimated to raise between $168 and $337 billion in revenues over a 10-year period, depending on the parameters of the proposal.[257] As described above, if invested in women, families, and communities, these revenues could support their economic security more broadly, including their ability to build wealth. Improving the taxation of intergenerational wealth transfers would thus advance racial and gender equity.

The administration and enforcement of an improved estate tax would build upon the existing system. If the use of some trusts were curtailed, or the estate tax applied to some assets placed in trust, additional valuation mechanisms and enforcement resources could be required. In addition, if the improvements to the estate tax were paired with the elimination of the stepped-up basis, the valuation of assets could be coordinated with those used under the income tax system. However, if a federal inheritance tax were enacted, a new administration and enforcement scheme would need to be developed—though it might certainly borrow from the previous federal estate tax or state inheritance tax administrative systems.

2D TOWARD A COMPREHENSIVE APPROACH

Each of these proposals addresses different aspects of our inequitable status quo, but none of them can address the tax system's most glaring defects alone. They should be considered as complementary pieces of a comprehensive wealth tax agenda, to further racial and gender equity in the tax code. Only through a comprehensive approach can we break up concentrated wealth at the top, ensure that the very wealthy cannot avoid taxation, rectify the unfairness of working people paying a higher tax rate than the ultra-wealthy, and raise revenues to fund priorities that benefit us all, particularly women and people of color who face steep barriers to wealth-building. A comprehensive approach is necessary to prevent the formation of new loopholes that allow wealthy people to game the system and perpetuate the cycle of political influence and enrichment.

Accordingly, policymakers should strive to reform the taxation of wealth in a comprehensive way. However, the exact way the proposals work together will turn largely on the particulars of how the proposals are designed and implemented.

Below, we have provided a general overview of how the proposals discussed in this report address different aspects of taxing wealth and how certain proposals would complement each other (or would be alternatives) to achieve particular policy goals. (Policymakers would need to coordinate the specifics of each policy, including tax rates, exemption levels, and asset valuation, across the suite of policies.)

- **For example, a strengthened estate tax would—in combination with improvements to capital gains taxation or a wealth tax—help curb massive intergenerational transfers of wealth.** While the estate tax rate is higher than current annual wealth tax proposals, the fact that it is a one-time tax invites valuation gaming at the moment of taxation.[258] As Lily Batchelder and David Kamin note, "[a] variety of estate tax avoidance strategies involve temporarily and artificially deflating the value of transferred assets at the point in time that the wealth transfer is deemed to occur—and therefore valued—for tax purposes."[259] Additionally, because most wealthy people seek to accumulate and enjoy their wealth during their lives, even a strengthened estate tax would not significantly reduce the incentives to defer capital gains taxation as long as possible.[260] And so, it is critical to complement a strengthened estate tax with some additional form of annual capital taxation (at a lower rate), which could be accomplished either through a wealth tax or through mark-to-market taxation.

- **Either annual mark-to-market taxation (which taxes the increase in the value of assets) or an annual wealth tax (which taxes the value of the assets themselves) would attempt to capture wealth that is not sold or transferred, thereby reducing the tax incentive for wealthy people to hold onto their wealth.** Both of these taxes are imposed every year, which would make it more difficult for wealthy people to employ temporary tax avoidance strategies to reduce their wealth tax bill.[261] There are, however, policy trade-offs between the two proposals: as Emmanuel Saez and Gabriel Zucman explain, capital gains taxation heavily targets those whose wealth is increasing rapidly, while a wealth tax better targets those with generational wealth (who tend to be invested more conservatively).[262]

- **Either reforms of capital gains taxation or an annual wealth tax could bring the effective tax rate for the very wealthiest in line with the rate paid by people who earn a wage.** Reforming capital gains tax would equalize the rate at which income from wealth is taxed with income from work and would address a longstanding disparity under the income tax system that operates exclusively for the benefit of the very wealthy. As discussed above, the capital gains rate fix should be paired with a policy solution to close the stepped-up basis loophole (whether by taxing capital gains at death or by implementing mark-to-market taxation).

In addition to designing a tax agenda to capture more wealth and tax wealth more fairly and consistently, policymakers should also consider the aspects of these policies that increase gender and racial equity.[263]

For example, reforming the estate tax addresses the problem of intergenerational wealth transfers, which is one of the greatest contributors to the racial wealth gap. An annual wealth tax would target generational wealth before it is transferred, which would strengthen the equity gains that would result from a strengthened estate tax. Enacting some form of annual taxation for wealth would increase fairness via-a-vis the wealthy and wage workers (women supporting families on their own and people of color underrepresented among the former and overrepresented among the latter). This would also tend to increase fairness along racial and gender lines.

To determine the extent to which these policies have the intended (and expected) impact on racial and gender equity, policymakers should consider conducting equity impact assessments as part of the policy development process. In an important step, the Department of Treasury recently announced it is developing an empirical methodology to examine racial/ethnic equity implications of tax policy and tax administration. [264] As described more fully in earlier work, equity impact statements or assessments "are designed to determine whether a policy or legislative proposal will have a disparate impact on particular communities."[265] In this instance, equity impact assessments could be performed to determine specific legislative proposals' impact on tax burdens, investment benefits, or wealth disparities by gender, race, and other demographic characteristics. These assessments should also permit cross-tabulated analysis (for example, breaking out women of color). The Treasury announcement is part of a broader federal effort. Early in his administration, President Biden issued an Executive Order on Advancing Racial Equity and Support for Underserved Communities Across the Federal Government, which, among other things, instructed:

> *The Director of the Office of Management and Budget (OMB) shall, in partnership with the heads of agencies, study methods for assessing whether agency policies and actions create or exacerbate barriers to full and equal participation by all eligible individuals. The study should aim to identify the best methods, consistent with applicable law, to assist agencies in assessing equity with respect to race, ethnicity, religion, income, geography, gender identity, sexual orientation, and disability.*[266]

The results of the Treasury, or other agencies' studies (or at least the process of conducting those studies) could serve as a model for developing an equity assessment tool for wealth taxes like those discussed in this report.[267]

Furthermore, in order to assess the effectiveness of policies to tax wealth in furthering racial and gender equity, it will be important to collect data about how wealth is distributed among different populations and communities. (This would likewise be consistent with the Biden administration's broader effort to advance racial, gender, and other kinds of equity, which includes an attempt to ensure equitable data collection.)[268] There are several generally accepted sources of data on wealth, but all have shortcomings with regard to demographic information.

There are two major data sources on high-wealth people. The IRS's Statistics of Income department conducts the Personal Wealth Survey, which uses administrative estate tax data to "estimate the wealth of the living population."[269] At present, although data on wealth are provided from this study by gender and age, they are not provided by race or ethnicity, or by other characteristics such as sexual orientation, disability, or being an immigrant. The IRS should seek ways to incorporate race, and potentially other demographic characteristics, into the Personal Wealth Survey (while continuing to protect the confidentiality of individual tax information).

The annual Forbes 400 list of the wealthiest individuals in the United States, likewise, provides the gender of the listed individuals, with some lack of clarity around the number and gender of individuals included as part of a "family" listing. However, this list does not provide information about race or ethnicity. In addition, researchers have found that the valuation of wealth used by the magazine differs in many cases from the valuation of wealth for estate tax purposes.[270] While the Forbes 400 list is compiled by a private sector actor, it would be helpful to have its data consistent with a more robust Personal Wealth Survey (or at least, to have the differences fully articulated).

There are a number of other data sources that deal with wealth,[271] but one key source is the Federal Reserve's quadrennial Survey of Consumer Finances (SCF). The SCF asks questions about assets, including small business and home ownership, that are relevant to the calculation of racial and gender wealth gaps. (The SCF specifically excludes the very high net worth individuals listed on the Fortune 400.) However, the SCF does not collect information by individual members of the household and does not report comprehensive demographic data. The SCF is the only data set that provides measures of wealth, and it is critical to have disaggregated data in order to quantify racial and gender wealth disparities. In addition to reporting data that can be broken down and correlated on race/ethnicity, sex, sexual orientation, and gender identity (this includes reporting data on racial categories beyond Black, White, Other, and Hispanic), the Federal Reserve should improve the SCF by collecting and reporting data on the wealth owned by individuals within the household.

CONCLUSION

The racial and gender wealth disparities enabled and exacerbated by provisions of the tax code are deeply troubling, but also unsurprising. Because tax laws have been shaped for most of our nation's history by a small number of powerful elites, who have been largely white, male, and wealthy, tax laws largely reflect their self-interest, biases, and experiences.

Over time, wealthy white men have deployed their outsized political influence to further shape the tax code to their advantage. And the racial and gender inequities in the tax code compound advantages the wealthy reap from racial and gender inequities in our other economic systems and structures. The result is a tax code that helps to grow the wealth and power of the wealthy few, while leaving the rest of us further and further behind.

COVID laid bare the deep inequities in our economy, yet showed that when we enact economic policies that center the needs of women of color, women overall, and people of color, we can change people's lives for the better. We believe that, if we are willing to tackle the unfinished work of reckoning with racial, gender and economic inequities in the tax code, we can create a tax system that works for all of us.

By taxing wealth more fairly, the tax system can live up to its promise of progressivity, supporting shared prosperity and access to opportunity for all of us—rather than just the privileged few. As law professor Anthony Infanti put it, "The time has come to break this cycle of using the tax code to produce and reproduce privilege and to right the relationship between our tax laws and the hopes and aspirations that we have for American society."[272]

This is the moment for advocates for gender justice and racial justice, and all of us who make up our economy and society, to harness the full potential of the tax code to advance equity.

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