HOW THE TAX CODE HELPS THE WEALTHY PROSPER
While Leaving Women and People of Color Behind

The tax code increasingly rewards extreme wealth, shields it from taxation, and allows it to grow larger across generations. Because of the preferential rates and loopholes available to the very wealthy, the current tax system (while progressive overall) enables enormous amounts of wealth to be accumulated by very few—who tend to be white and male. This exacerbates racial and gender inequality, hinders economic growth and broadly shared prosperity, and sharply limits the tax revenues available to make investments in women and people of color.

Women and people of color face many barriers to building wealth, including discrimination in employment, education, and housing, historical policies (like those that barred property ownership and access to credit), and current policies (like those that enable the undervaluing of homes in communities of color and proliferation of fines and fees). For these reasons, and more, women and people of color tend to have less wealth and are disproportionately likely to make their money from working. In contrast, white households and white men are more likely to have wealth (including inheritances, stock, and homes), and to have more of it. And the wealthy—who are disproportionately white—make much of their money from wealth, such as dividends from stock, rental payments from their real estate, interest, and returns on their investments.

The tax code rewards wealth, and thus helps to widen gender and racial wealth gaps. To illustrate, let's look at two examples:

- Mary is Black woman who is a first-year public school teacher earning around a $41,000 salary with typical benefits. Like many women of color, she does not have extra income to invest in stock or put into savings. She rents, has student loans that she is repaying, and has some credit card debt.
- Rob is a white billionaire who—like many billionaires—makes a significant portion of his income from wealth, specifically stock. He owns a home, has a 401(k) worth millions of dollars, and has various other kinds of assets. He also does not have student loans or a mortgage thanks to help from his parents and grandparents.

Definitions

- ***Assets:*** Things people own that can be sold for cash or otherwise provide purchasing power. Assets include stock, real estate, and paintings.
- ***Capital gains:*** How much an asset increases in value between when a person buys it and when they sell it. For example, 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 that year.

First, Rob benefits from when and how and if ever his income is taxed under our current system, compared to Mary. Rob, like many wealthy people, saw his stock value increase dramatically over the course of the pandemic; over the course of 2021, he made $1.2 billion in the increased value of his stock alone. (For comparison, Elon Musk made $121 billion in 2021, mostly from the increase in value of Tesla stock.) The income from this increased value is called capital gains (see Definitions).

When?

- Like most working people, Mary is taxed on her salary every pay period because her employer withholds part of her paycheck.
- In contrast, Rob does not have to pay taxes on the capital gains on his stock until he sells his stock. Moreover, he can probably wait to sell his stock when it most benefits him.

How?

- Mary pays taxes on her income based on the federal income tax brackets. With her salary, Mary's marginal tax rate—the tax rate she pays on her last dollar of income—is 22 percent.
- Rob pays taxes on his capital gains based on federal capital gains tax rates—which are lower than "ordinary" income tax rates. Even though he made over a billion in capital gains last year, Rob would only pay a top capital gains rate of 20 percent. This is two percentage points less than Mary's marginal rate, even though she receives far less income than he does. And it's 17 percentage points less than the tax rate Rob would pay if he received his income from working. (Rob's capital gains may also be subject to a 3.8 percent Net Investment Income Tax.)

If ever?

- Mary will always have to pay taxes on her salary as she earns it; she cannot delay or avoid paying them without risking getting in trouble with the IRS.
- Rob can avoid paying taxes on his capital gains forever. If he holds onto his stock until he dies, he can pass the stock onto his heirs without ever paying taxes on the stock's increase in value—and his heirs won't have to pay those taxes either. In the meantime, Rob can simply borrow money using the increased value of his stock as collateral. Under this popular billionaire strategy—called "Buy, Borrow, Die"—Rob gets spending power from his capital gains without having to pay taxes on them.

Second, Rob—who is in a better position than Mary to build *even more wealth*—is rewarded by the tax code when he does.

- Rob can afford to buy a home, and the tax code allows him to deduct the interest on his mortgage from his taxable income every year. In fact, the deduction is more valuable the larger his house is. In contrast, Mary does not get any tax benefit as a renter—and no tax benefit is designed to help her save for a downpayment on a home.
- Rob can afford to take money out of his salary to save for retirement, and the tax code rewards him for doing that. He also can afford to put money in a 529 plan to save for educational expenses for his children and grandchildren. Those savings will grow tax-free (and some states offer additional tax benefits).

Third, Rob will be able to afford a team of lawyers and accountants to help him avoid paying the taxes he owes.

- The IRS is severely underfunded and often can't afford to go after high-income taxpayers like Rob, who have the resources to mount long legal battles. In Tax Years 2014 through 2016, the IRS failed to pursue over 300,000 high-income individuals *who did not even file tax returns*.
- Tax enforcement against the very rich has declined to the point where the IRS now audits low-income taxpayers claiming the Earned Income Tax Credit (EITC) at close to the same rates as the top one percent. The EITC is a refundable tax credit for taxpayers with low and moderate incomes, which disproportionately benefits women of color like Mary.

Finally, the tax code even helps Rob's heirs after he dies. Rob's fortune will probably be subject to the estate tax at his death, but there are many ways he can reduce what gets taken out in taxes so his heirs get more.

- A Trump-era tax law lowered the estate tax rate *and* increased the amount of the estate that is exempt from taxes altogether (to over $12 million per single person and $24 million per married couple in 2022). As a result, the estate tax now only applies to the top 0.1 percent wealthiest households. Additionally, wealthy people like Rob use trusts and other loopholes to reduce the size of their estates and lower the amount of estate taxes they will owe.
- Mary, like many women of color, does not expect to receive an inheritance and in fact, she may have to support her parents as they get older. While Rob's fortune will continue to grow larger across generations thanks to the weakened estate tax and various loopholes, Mary will likely not have very much to pass down to her heirs at all.

But it doesn't have to be this way. Tax policy can be a powerful tool to increase racial and gender equity, if we are willing to unlock its full potential. For more information, read our report, *Advancing Gender and Racial Equity By Taxing Wealth*. More resources on how taxes are a racial and gender justice issue are available at https://nwlc.org/resources/gender-and-the-tax-code/ and https://nwlc.org/resource/ttp/.