June 2024

When Tax Policy Discriminates

The TCJA's Impact on Black Taxpayers

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Acknowledgments

The author thanks Leon Trakman and Catherine Deane for their feedback and insights. Elizabeth Pancotti, Elly Kugler, Sonya Gurwitt, Oskar Dye-Furstenberg, and Aastha Uprety also contributed to this brief.

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Introduction

In 1986, the Internal Revenue Code (IRC) changed so much that even its name went from Internal Revenue Code of 1954 to the Internal Revenue Code of 1986. Its modifications included taxing capital gains at the same rate as ordinary income, ending the interest deduction for personal loans (including interest for credit card debt and education loans), an accelerated depreciation system that was so generous that it returned more in tax benefits than the depreciated items cost, a drop in the top tax rate for individuals from 50 to 28 percent coupled with a rise in the bottom rate from 11 to 15 percent, and increased amounts for personal exemptions and the standard deduction. The 1986 Code also introduced inflation adjustments, strengthened the alternative minimum tax, reduced the corporate tax rate (from 50 to 35 percent) reduced certain business expenses (such as business meals, travel, and entertainment) and restricted others (Winfrey 2023).

In the 1990s, William Whitford and I studied the IRC of 1986 to see if it taxed black people more harshly than white people. When we first proposed our study, we received the harshest blowback of our careers. We were mocked by nearly every reviewer: How could a neutral law have any racial effects? Civil rights laws had racial implications, of course, but that is where it stopped, and we were fools to think otherwise. Tax returns do not code for race. So, why would anyone study race and the IRC?

This was at the beginning of the critical race theory (CRT) movement. At that time, CRT relied a great deal on storytelling as a way of exposing hidden racial discrimination, and certainly we could have drawn on our own and others' stories to illustrate our points. But instead, we were determined to do a study that was so strong and careful that the worst racist could not challenge our findings. We used the Survey of Income and Program Participation (SIPP)—a notoriously difficult database to work with—to construct tax returns for a wide variety of people who were the same in terms of their marital status, number of children, education, urban or rural location, and a host of other factors.

We found that black taxpayers who looked like their white counterparts in terms of these and other demographic factors paid higher taxes because the IRC favors certain behaviors and benefits that are closed to black people. For example, black people were then (and are now) less likely to receive valuable employer-provided tax benefits such as the opportunity to save for retirement tax-free, up to $50,000 of tax-free life insurance, and reimbursement for employee business expenses. A long history of federal government actions created and sustained redlining, making black people less likely to own homes and thus barred from receiving the home mortgage interest deduction and the deduction for state and local taxes, while also making it more difficult for black taxpayers to escape the standard deduction to get the benefit of other itemized deductions through IRS Form 1040 Schedule A. A long American history gave white people wealth while it made black people property, and so kept the benefits of the capital gains rate from black taxpayers. The list of inequalities was extensive and, in the end, we inspired a generation of scholars to produce quantitative research on racial tax disparities.[1]

The IRC changed dramatically again when Congress passed the Tax Cuts and Jobs Act (TCJA) in 2017. I believe that the only reason the TCJA did not become the Internal Revenue Code of 2017 is that so many of its provisions were intentionally written to expire in 2026. We should remember, however, that the Bush tax cuts were also set to expire but never did. Instead, they blew a hole in federal revenues that never healed (Horton 2017). Now, it appears that the TCJA has done even more damage to the deficit than the Bush tax cuts and might follow its lead and stick around. Even if all the provisions that are set to expire do, the TCJA has a host of permanent provisions that increase income and wealth disparities while also worsening race and class injustice. Below is the story of the TCJA, told through the work of a host of scholars dedicated to the ideal of producing work so exemplary that even the worst racist must stand down.

Background

The Tax Cuts and Jobs Act (TCJA) of 2017 transformed the Internal Revenue Code. For individuals, the TCJA temporarily changed income tax rates, and dropped some deductions, credits, and exemptions, while substantially changing others. For businesses, the TCJA temporarily lowered effective tax rates for pass-through entities, changed corporate deductions and credits, and permanently cut the corporate tax rate. For multinational enterprises (MNEs), Congress made substantial changes to the international tax system, moving MNEs away from a citizenship-based model and toward a territorial tax system.

When Congress enacted the TCJA, the Joint Committee on Taxation (JCT) estimated that it would reduce federal revenues by $1.46 trillion, including $653.8 billion in tax benefits to businesses, $1.13 trillion in benefits to individuals, plus $324.4 billion in increased tax revenues from international tax reform (Congressional Research Service 2018). Beyond revenue effects, the JCT also concluded that the law would help high-income taxpayers most, providing them with the largest percentage increase in after-tax income, especially taxpayers in the $500,000 to $1 million annual income range. Further, the JCT estimated that, for low-income taxpayers earning $40,000 or less, the TCJA would *reduce* after-tax income in 2023 and beyond, and for those earning $75,000 or less, the TCJA would reduce after-tax income by 2027 (CRS 2018).

The tilt of the TCJA's benefits towards higher-income Americans, and the JCT's finding that after-tax income would decrease for lower-income taxpayers, are driven primarily

[1] See, e.g., Blanton 2023; Collyer, Harris, and Wimer 2019; Fields, Perry, and Donoghoe 2023; Gale et al. 2018; Holtzblatt, McClellan, and Garriga 2024; and Wiehe et al. 2018.

by five factors (CRS 2018). First, although the law temporarily increased the standard deduction and doubled the Child Tax Credit, those provisions expire after 2025. Second, the law included a permanent change in how the Internal Revenue Service (IRS) adjusts tax provisions for inflation, which tends to increase tax burdens over time, especially for lower-income taxpayers (CRS 2014). Third, the changes to the deduction for pass-through business income, which expire in 2025, mostly benefited high-income Americans. Fourth, the permanent reduction in the corporate tax rate primarily went to high-income taxpayers (CRS 2017).

Finally, the after-tax income reductions for the lowest-income Americans are complicated by the TCJA's elimination of the fee for failure to carry health insurance (commonly referred to as the Individual Mandate), which the Affordable Care Act (ACA) established in 2014 (Kaeding 2017; CRS 2020). The JCT hypothesized that fewer taxpayers would buy insurance on public health insurance exchanges, reducing the government's expenditures for health insurance subsidies for lower- and middle-income taxpayers. Thus, although the penalty elimination looks like a tax cut, it is more than offset by the loss of government subsidies. For example, in 2017 alone, the Congressional Budget Office (CBO) estimated the government subsidies to help individuals purchase health insurance at $5,550 per person (2017). In the same year, the average reported Individual Mandate penalty was $788 (Ashe 2021, Table 1). The difference between the two is a $4,712 loss of government benefits per person.

History shows that the JCT's estimates were overly optimistic. Instead of TCJA giving away $1.46 trillion of federal tax revenue by 2027, as early as April of 2018—just four months after the law went into effect—the CBO opined that revenues would fall $600 billion more than the original JCT estimate. The biggest reason for these larger losses were falling tax revenues from corporations and pass-through businesses (Page 2019).

From 2018 onward, the TCJA gave taxpayers in the lowest quintile a whopping extra $70 per year (Tax Policy Center 2017). That $70 does not include the $4,712 loss per person of government benefits resulting from the end of the Individual Mandate. Because the lower subsidies affected this income group most, the TCJA did not help this group at all (Marr, Jacoby, and Fenton 2024). In fact, in this income category, the TCJA likely harmed more people than it helped. Not far behind, households in the second quintile gained $390 per year from the TCJA (or between 0.7 percent and 1.4 percent of income, depending on where the taxpayer fell in the quintile) while the middle quintile received $910 (between 1 percent and 1.7 percent of income) (Marr, Jacoby, and Fenton 2024).

Black households are overrepresented in these three income groups: In 2021, median black household income was $48,297; two-thirds of all black households fell under $75,000, and three-quarters made less than $100,000 (Semega and Kollar 2022; Guzman and Kollar 2023, Table A-2). Based on income distributions alone, black taxpayers did not thrive under the TCJA.

In 2018, 80 percent of all TCJA tax benefits went to white households (Wiehe et al. 2018, 5). On average, white households received more than twice as many tax cuts as black households. Among the top 1 percent, the black/white difference was even greater: Wealthy white households gained $52,400 per year from the TCJA, while wealthy black households received just $19,290 (Wiehe et al. 2018).

Black America and the Internal Revenue Code

Unfortunately, it does not "go without saying" that black America is not intractably indivisible and uniform. In this study, I look at black people as taxpayers. I begin the investigation based on income groups, and then ask:

1. How will the TCJA changes affect the entire income group regardless of race?
2. Do black people in this income group differ from other taxpayers in a way that might make IRC changes more (or less) impactful for black America?

Consider the home mortgage interest deduction. The TCJA temporarily reduced the value of the deduction for high value homes (Harrison 2021). Holtzblatt, McClelland, and Garriga (2024) surmise that the home mortgage interest deduction under the TCJA helps black families about half as much as the "average." Yet it gives white families a 21 percent boost in tax savings over black and Hispanic families that will continue even when the reduction in the home mortgage interest deduction reverses in 2026.[2]

Why does the home mortgage interest deduction help white taxpayers twice as much as it helps black taxpayers? The home mortgage interest deduction only aids taxpayers who (1) own a home, (2) pay mortgage interest, and (3) use itemized (Schedule A) deductions rather than the standard deduction—all traits that are more likely to apply to white taxpayers than black taxpayers.

Black people are less frequent homeowners. Although the US homeownership rate increased to 72.7 percent in 2021, the rate among black Americans was only 44 percent (National Association of Realtors 2023). The 28.7 percent gap between the black ownership rate and the white ownership rate is the largest black-white homeownership rate gap in a decade (NAR 2023). Black people are less likely to own homes than white people for a variety of reasons, including lower income and wealth (Oliver and Shapiro 2006; Perry, Stephens, and Donoghoe 2024; US Department of Labor n.d.), racial discrimination in the housing market (Massey and Denton 1998), racial discrimination in lending (Martinez and Kirchner 2021), and residence in banking deserts (Havard 2020). Further, black people are less likely to marry (JBHE 2022; Horowitz, Graf, and Livingston 2019), and marriage is highly correlated with home ownership (Peter 2023).

[2] Their estimates are based on the 2019 TCJA's lower income tax rates, higher standard deduction, and $10,000 cap on state and local tax deductions.

Black people are also less likely to itemize deductions. Especially since the TCJA—but even before, and most likely after—most taxpayers favor the standard deduction. Only high-income taxpayers are more likely to itemize than not (TPC 2024a). In 2020, more than half of all tax returns with an adjusted gross income (AGI) over $500,000 itemized deductions, compared with 11 percent of tax returns with an AGI between $50,000 and $100,000 and just 2 percent of returns with an AGI under $30,000 (TPC 2024a). Ninety percent of individual returns did not itemize in 2020 (TPC 2024a).

The home mortgage interest deduction helps high-income taxpayers more than any other income group (Glaeser and Shapiro 2003). Indeed, almost half of all mortgagors receive no tax benefit at all from the home mortgage interest deduction (Fischer and Huang 2013). Those homeowners are mostly in the lower-income quintiles (Fischer and Huang 2013).

In 2022, black households had a median annual income of $52,860 (Peter G. Peterson Foundation 2023). Only 25 percent of black households earned more than $100,000 and only 6 percent made more than $200,000 (Guzman and Kollar 2023). In contrast, white households had a median household income of $81,060 (Peter G. Peterson Foundation 2023). Thus, we would expect all people in the lower income quintiles to receive small or no benefits from the home mortgage interest deduction regardless of race. Nevertheless, low-income black people are even less likely to receive a benefit than their low-income white counterparts.

Notwithstanding Holtzblatt, McClelland, and Garriga's (2024) findings, and all of the reasons black taxpayers as a group get little from the home mortgage interest deduction, the Office of Tax Analysis found that the deduction favors upper-middle income black and Hispanic families relative to white families (Cronin, DeFilippes, and Fisher 2023). Although the authors did not explore why their study showed that the home mortgage interest deduction favors high-income black and Hispanic taxpayers, they suggest that black and Hispanic homeowners face higher interest rates or have higher debt-to-value ratios than white families with similar incomes (Cronin, DeFilippes, and Fisher 2023). Another difference between white and black homeowners is that black people pay higher property taxes than white people (Fields, Perry, and Donoghoe 2023). Any of these factors would produce higher mortgage interest and state and local tax payments, and so greater itemized deductions.

The Office of Tax Analysis study's finding that high-income black people are tax advantaged by the home mortgage interest deduction illustrates the importance of looking at tax provisions by income groups, and of studying black taxpayers within each group. Nevertheless, the Office's findings that high-income black people are tax advantaged by the home mortgage interest deduction is not enough to turn this provision into a pro-black taxpayer Code section.

Most black taxpayers do not itemize. Oddly enough, the same is true for other Americans outside of the wealthiest 20 percent. Homeowners in the bottom three quintiles, black or white, often get no benefit from the home mortgage interest deduction. Therefore, from a class perspective, most Americans are not served by the home mortgage interest deduction. Add that most black people do not own their own homes and it becomes clear that black taxpayers as a group are not getting enough out of the home mortgage interest deduction to make it a hill for policymakers to die on—even if some high-income black people are advantaged.

One criticism of a research approach centered on the ways specific tax benefits do (or do not) benefit black taxpayers is that it will lead to recommendations that advantage black people over their white counterparts. But that is not the intent—rather, the point is to recognize that black people live with economic disadvantages that are not of their making, and that the public does not support. To the extent that the tax system is one of those disadvantages, it is worth understanding it and considering alternatives. It is also worth noting that there is great income and wealth inequality in the United States (CBO 2021; Urban Institute 2024; Chancal et al. 2022),[3] and because this analysis focuses on the lower three income quintiles, its insights provide direction on how the IRC can avoid making those problems worse for everyone.

Provision by Provision: The TCJA's Permanent Changes to Individual Tax Provisions

The TCJA made six permanent changes to individual taxes: alterations to the inflation measure; repeal of the individual insurance mandate penalty; expansion of eligible expenses for tax-advantaged education savings accounts; changes to the "Kiddie Tax," which forces a child to pay a tax rate on unearned income that is higher than the child's tax rate based on their income alone; shifting the tax burden of alimony payments; and reduction in the deduction threshold for medical and dental expenses (IRS 2024a).

Change in the Inflation Measure

Congress indexes over 60 IRC provisions for inflation. These include basic individual tax provisions such as the standard deduction, tax brackets, personal exemption amounts, and limits on itemized deductions (IRS 2023b).

Bracket creep occurs when a taxpayer's salary increases because of inflation alone, so that the taxpayer's purchasing power stays static or even declines. Without an inflation

[3] Between 1979 and 2018, average income, both before and after means-tested transfers and federal taxes, grew for all quintiles, but it increased most among households in the highest quintile.

adjustment, the inflated salary would produce a larger tax bill as the inflation-driven wage increase moves the taxpayer into ever higher tax brackets.

The other side of protecting the taxpayer from bracket creep is preventing Congress from using inflation to raise taxes. Inflation adjustments solve both problems (McClelland 2022).

Congress also adjusts some IRC provisions for inflation so that people do not lose benefits because their income has risen above a statutory ceiling. The Earned Income Tax Credit (EITC) is one provision that has an inflation adjustment for this reason.

The TCJA permanently changes how the IRS computes these inflation adjustments.

Before the TCJA, the IRS used the Consumer Price Index for All Urban Consumers (CPI-U), which assumes that consumers buy a static "basket of goods" even when prices change. With the TCJA, the IRS switched to using the Chained Consumer Price Index for All Urban Consumers (C-CPI-U), which assumes that when prices rise, consumers shift their spending to less expensive alternatives (US Bureau of Labor Statistics 2024). Thus, the C-CPI-U decreases upward inflation adjustments by assuming that people's costs will not rise as fast as prices because consumers will adjust their spending to keep costs down.

The switch is particularly hard on low-income people. For example, consider the EITC, which is a refundable credit. A refundable credit reduces a taxpayer's tax bill dollar for dollar until the taxpayer owes no federal income tax. Then, if some credit remains, the remainder becomes a refund (IRS 2023c; IRS 2024b). In 2023, taxpayers qualified for the EITC by (1) earning less than $63,398 from work (earned income), and (2) receiving less than $11,000 of investment income. Congress adjusts both amounts for inflation. For example, in 2024, the earned income ceiling rose to $66,819.

The EITC is meant to help people in the lower income ranges. In those ranges, inflation is hard to escape and harder to repair because low-income people have less opportunity to replenish whatever resources they lose during inflationary times (Jayashankar and Murphy 2023). When the C-CPI-U causes the EITC income ceilings to rise more slowly than inflation, it hurts all low-income people (Chakrabarti, Garcia, and Pinkovskiy 2023)—but it hurts black people more.

Low-income white people are less likely to live in low-income neighborhoods than middle-class black people (Reardon, Fox, and Townsend 2015; Turner and Greene n.d.). Inflation is especially hard on people in the types of food and banking deserts where black people are overrepresented because these neighborhoods offer fewer opportunities to buy the lower-cost items that the C-CPI-U uses to calculate lower benefit increases (Havard 2020). Thus, as incomes rise but spending power does not, low-income white people have a better chance of actually engaging in the substitutions that the C-CPI-I contemplates, in contrast to their black peers, and so low-income white people are less harmed by the C-CPI-U's lower inflation adjustments.

Repeal of the Individual Mandate

Before the TCJA, the ACA had an Individual Mandate that penalized taxpayers who did not obtain health insurance (CRS 2020).[4] The TCJA permanently removed the penalty (Ashe 2021). While this technically reduces tax burdens for uninsured Americans, it incentivizes people to go without insurance, which increases the odds of financial catastrophe from uninsured medical costs. Yet, even among low-income taxpayers, it is likely that black taxpayers suffer more from this change, as black people—both poor and middle class—more often live in neighborhoods that lack access to insurance and health care (Quick and Kahlenberg 2019; Leonhardt 2015; Reardon, Fox, and Townsend 2015; Logan 2011; Sharkey 2014; Paige 2022).

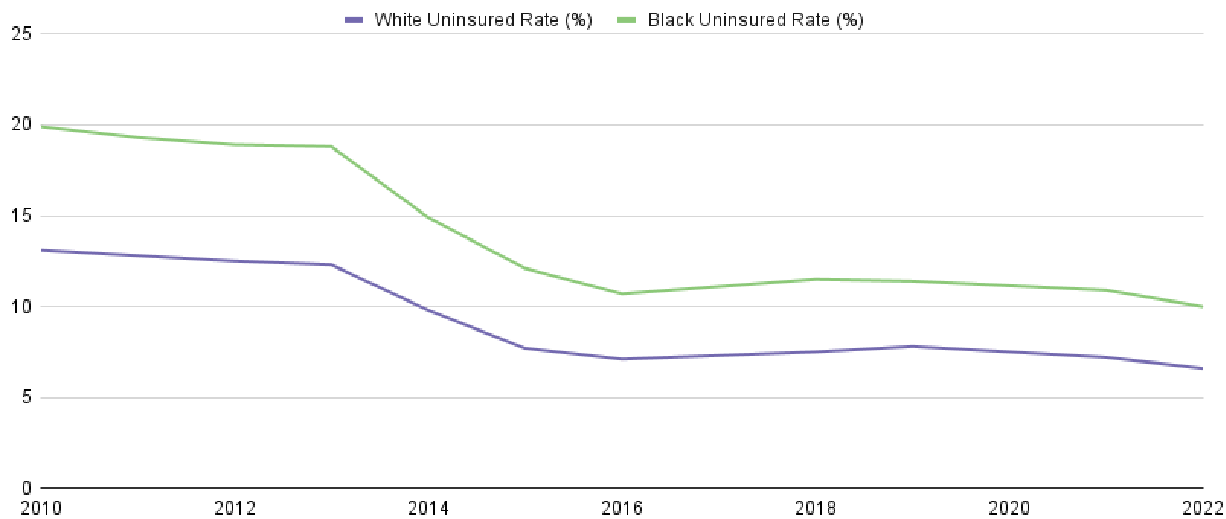
Congress hoped that the Individual Mandate and federal subsidies to buy health insurance would increase insurance coverage and reduce the racial gap in health insurance. From the little that we know, Congress was right.

Just before the ACA became law, there was a 6.8 percent gap between white people and black people when it came to buying health insurance. When the Medicaid and marketplace expansions went into effect in 2014, the black-white health insurance gap dropped to 5.1 percent and it continued to fall until 2016 when it was 3.6 percent or almost half of what it was before the ACA.

Then came the TCJA: When the TCJA killed off the Individual Mandate, both white and black people bought less health insurance. The black uninsured rate rose from 10.7 percent in 2016 to 11.5 percent in 2018, following the law's enactment. In the wake of the COVID-19 pandemic, more people got health insurance as a result of expanded subsidies; the black uninsured rate dropped to 10.9 percent in 2021 and further to 10 percent in 2022 (Hill, Artiga, and Damico 2024). The white uninsured rate rose for three consecutive years, peaking at 7.8 percent in 2019 before falling during the COVID-19 pandemic to 6.6 percent in 2022 (Hill, Artiga, and Damico 2024). After the TCJA and the end of the Individual Mandate, the black-white insurance gap rose to 4 percent in 2018 before slightly narrowing during the COVID-19 pandemic.

[4] The penalty was the greater of (1) 2.5% of applicable income (generally, household income in excess of filing thresholds); or (2) $695 per taxpayer and dependent in 2017 and 2018 (adjusted for inflation), capped at 300 percent of the flat dollar amount.

Uninsured Rate among the Nonelderly Population by Race



Source: Hill, Artiga, and Damico (2024)

Researcher Yejin Ahn wanted to know how losing the Individual Mandate affected insurance coverage by race for people who were ineligible for federal subsidies. To answer this question, she looked at health insurance coverage in two jurisdictions (New Jersey and Washington, DC) that passed their own Individual Mandate after the TCJA got rid of the federal mandate, and compared the health insurance coverage in those jurisdictions to the insurance coverage in states that did nothing. Ahn limited her study to people who were ineligible for health-care subsidies to isolate the Individual Mandate's effect on insurance coverage. She found that more black people with no access to federal subsidies bought health insurance in New Jersey and Washington, DC, than their white peers (Ahn 2022).[5] Ahn concluded that individual mandates increased black taxpayer health coverage and decreased the racial health insurance gap. We do not know how much the mandate increased coverage for people who were eligible for subsidies, but it is likely that their insured rates climbed even higher from the combination of the state-imposed individual mandate and the federal health-care subsidies. So, an important question for black taxpayers is how much more the insurance gap might have closed had the federal Individual Mandate survived.[6]

[5] Table 11 shows that after the Individual Mandate, insurance coverage increased by 0.00416, non-Hispanic insurance coverage increased by 0.00449, Hispanic insurance coverage increased by 0.00671, and non-Hispanic other races increased by 0.00235.
[6] For example, Matthew Buettgens, Fredric Blavin, and Clare Pan (2021) show that the ACA helped reduce inequality between and within racial and ethnic groups (See also Hanlon, Vinelli, and Weller 2020).

529 Plans

Qualified tuition programs, also known as 529 plans, provide tax-free savings for a child's educational expenses. Parents contribute after-tax income to the 529 plan, the monies grow in the plan tax-free and—when spent on the child's educational expenses—leave the account tax-free as well. (IRS 2009).

Before the TCJA, "educational expenses" only included costs for higher education (CRS 2023). But the TCJA permanently expanded 529 plans to allow tax-free withdrawals of up to $10,000 per year for K-12 education expenses at private, public, or religious schools (CRS 2018). There is no $10,000 limit on tax-free withdrawals to fund higher education expenses.

Studies have shown that although black people are more likely to routinely save 10 percent of their income than white people, they begin with lower incomes to save from (Caporal 2024; Markowitz 2023). Further, black people often live in banking deserts, where 529 plans are less available. It is thus no wonder that black people are half as likely to use 529 plans than their white counterparts (Hanson 2023; CFNC 2023).

More importantly, diverting public monies to private schools hurts public schools—especially schools in poorer neighborhoods—to the detriment of low-income families (Hinh 2023; Johnson 2022; Farmer and Poulos 2015). Black people—even middle-class black people—are more likely to live in low-income neighborhoods than low-income white people (Leonhardt 2015). Low-income neighborhoods have fewer private schools and less access to public transportation that might make private schools outside these neighborhoods available (Turner and Greene n.d.).

In 2017, 529 plans accounted for 6 percent of federal tax expenditures on higher education (Oliff, Pontari, and Thiess 2018). Before Congress expanded 529 plans to allow for K-12 expenses, the Treasury Department estimated that 529 plans would account for 10 percent of higher education tax benefits by 2027 (Oliff, Pontari, and Thiess 2018). As of 2023, 529 plans made up the largest portion of private savings for higher education (Hanson 2023; CFNC 2023). After the TCJA, the Brookings Institution predicted that the expansion to include K-12 education would "primarily benefit affluent families, produce limited incentives for promoting private school choice, and come at a nontrivial cost to states" (Malkus, Reeves, and Joo 2018).

The many barriers black families face in getting and using 529 plans show the need to redirect tax revenues to fund free college for all rather than tax savings for some.

The "Kiddie Tax"

The tax on a child's investment and other unearned income, commonly known as the "Kiddie Tax," is meant to stop parents from giving their children passive income in the hope that the IRC will tax the monies at the child's lower tax rate. For example, assume that a parent's marginal rate is 22 percent, while their child is in the 10 percent bracket, and the parent gifts the child a bank account paying $100,000 a year interest. The tax is $22,000 if the parent pays tax on the interest, but only $10,000 if the child is responsible for the tax. If the scheme works, the parent has saved $12,000 in taxes by moving the interest to the child's return. The Kiddie Tax is meant to stop this tax rate arbitrage.

The pre-TCJA Kiddie Tax taxed the child at the parent's rate—in this example, 22 percent, or $22,000. The TCJA substituted the higher tax rate for trusts. Under the TCJA, trusts reach the 37 percent rate at $14,451, while people reach that rate at $578,126 or more (Pleat and Hughes 2023). Thus, under the TCJA, the tax on the $100,000 interest climbed from $22,000 (the parent's rate) to $37,000 (the trust rate).

The trust rate rule was set to expire in 2025, but in 2020, Congress pulled the plug. As a result, under the TCJA, the Kiddie Tax went from the parent's rate to the trust rate in 2018, and then back to the parent's rate once more in 2020.

The Kiddie Tax is only interesting to high-income taxpayers who want to lower their own rate by diverting income to their children. Nevertheless, it is possible that higher-income black families were worse off under the TCJA and are better off now than their higher-income white peers.

White families in the top quintile are more likely to pay at the very highest tax rate—in other words, at the same rate as the trust rate. Black people in the highest quintile are more likely to pay at lower rates because they fall at the bottom of the quintile. Therefore, the example of the Kiddie Tax imposing a higher rate than the parent's rate is more likely to occur with black parents than with white ones. White children might pay the Kiddie Tax at the trust rate both before and after the change, while black children's Kiddie tax rate fell back down to the parent's lower rate after the 2020 change.

Alimony

Before the TCJA, the person paying alimony deducted the payment from income. The person who received the alimony paid tax instead (Moran 1989). Neither the payor, nor the child, nor the custodial parent deducted child support payments or included them in income. The justification for placing the tax burden on the recipient while giving the payor a deduction was that the scheme served as a government subsidy for the divorcing couple who could take advantage of the payee's lower tax rates to save tax costs between them (Moran 1989).

The TCJA repealed the deduction for alimony payments and the payee's inclusion of alimony income. This is a permanent change so that now, payors transfer after-tax monies as alimony and payees have no income from their receipt.

Regardless of race, few people pay or receive alimony (McMullen 2011). Black people have lower marriage rates than other Americans, so black people have fewer divorces and make up a smaller part of the alimony universe (McMullen 2014; Mouzon, Taylor, and Chatters 2020). Yet, even in that small world, black women are less likely to get alimony awards.[7] Alimony occurs when one spouse earns much more than the other. Black couples tend to earn similar salaries, while white couples tend to have one spouse who earns significantly more than the other (Moran 1996; Overs 2023). Given all these considerations, who pays tax on alimony is irrelevant for most black taxpayers. Nevertheless, the change might hurt high-income black couples more than their white counterparts.

The pre-TCJA alimony tax rule was based on the idea that households have a working husband and a stay-at-home wife. If the imaginary couple stays married, the joint return taxes them at a lower rate than two single people. If the couple divorces, the old alimony tax rule still taxes them at a lower rate than two single people by allowing the payor (in a high tax bracket) to shift his tax liability to the recipient in a low bracket. The post-TCJA alimony rule taxes the payor on the alimony and gives the recipient tax-free income.

To illustrate: In 2024, say that a husband with taxable income of $180,000 pays his ex-wife, who has only alimony income, $10,000. Under the TCJA, the husband pays $36,599.42 in tax, which includes $2,400 (24 percent) on the $10,000 alimony payment, and the ex-wife pays no tax. In contrast, before the TCJA, the husband would have deducted the alimony payment. That deduction would have saved him $2,400 in taxes (assuming the same tax rate across years). In turn, the wife would have paid no tax on the $10,000 alimony (because of the standard deduction) for a net tax savings between them of $2,400. Congress' justification for the pre-TCJA method was that the ex-husband and ex-wife would share the net $2,400 tax savings between them, making the couple better off as a unit (Moran 1989).

The pre-TCJA rule is even more beneficial if the payor drops into a lower tax bracket while the recipient stays in the lowest tax bracket (for example, if the husband's payment dropped him from the 24 percent bracket to the 22 percent bracket, and the

[7] "Statistics show that black women are awarded alimony at a significantly lower rate than white women. In 1987, over eighteen percent of currently divorced or separated white women had been awarded alimony at the time of their divorces, while less than eight percent of black women had received such an award" (Perry 1994).

wife remained within the standard deduction). The pre-TCJA rule is less beneficial, although still useful, when the payor's income is so high that he is still at the highest marginal rate even after paying alimony.

Black taxpayers in the highest quintile of earners earn less than high-income white taxpayers.[8] In the lower part of the highest quintile, losing the tax savings that the older alimony rules provided might have a greater impact on black couples than on wealthier white couples because alimony payments made on the bottom edge of the quintile could tip the payor into a lower tax bracket, giving the couple a double tax savings to share. At the top of the quintile, the payor's tax rate stays the same whether or not there is an alimony payment (TPC 2023).

Provision by Provision: Expiring Changes to Individual Tax Rules

The TCJA changed some IRC sections just from 2018 to 2025 and made others permanent. Section IV discussed the permanent changes. This section looks at the expiring provisions.

Below-the-Line Deductions

A general rule of federal income taxation is that deductions are a matter of legislative grace (White v. United States 1938). Another general rule is that personal living expenses are not deductible (IRS 2023d). Two exceptions to the "no personal deductions" rule are the standard deduction and itemized deductions.
Congress sets an amount of income that taxpayers can receive each year without paying a tax. This is the standard deduction (IRS 2024e). Congress also created an alternative to the standard deduction for taxpayers with specific personal expenses that, taken together, are larger than the standard deduction. These are itemized deductions, also known as "below-the-line deductions" or "Schedule A deductions" (IRS 2024d).

The TCJA doubled the standard deduction while temporarily dropping some itemized deductions and restricting or changing others. The changes made the standard deduction more generous than many taxpayers' total itemized deductions. As a result, in the year before the TCJA came online, 31 percent of all individual income tax returns

[8] The top income quintile starts at $153,800 (Marr 2024). The marginal rate for this income is 24 percent for a single individual. Twenty-five percent of black households earn at least $100,000, but only 6 percent of black taxpayers earn more than $200,000 (Guzman and Kollar 2023). Average white household income is $81,060 (Peter G. Peterson Foundation 2023). Forty-one percent of white households earn over $100,000. About 13 percent earn more than $200,000 (Statista 2023) .

used Schedule A, but three years later, the number of returns with itemized deductions dropped to just 9 percent (TPC 2024b).

Of the eight substantive changes that the TCJA made to itemized deductions, all but the 7.5 percent floor on medical and dental expense deductions are slated to disappear in 2026.

The headline for black taxpayers is that the standard deduction will decline by about half in 2026 and the personal exemptions will return. This is important because black taxpayers are unlikely to take advantage of those TCJA expirations that reduce the allure of the standard deduction and make itemized deductions more attractive.

Taxpayers only use itemized deductions when their total below-the-line expenses exceed their standard deduction. This happens for most taxpayers through home ownership, by taking the state and local tax deduction and the home mortgage interest deduction. Given black people's low owner-occupied housing rates, as well as where they fall in the income quintiles, most black taxpayers will not generate enough deductions to step up to a Schedule A.

Table 1. Percentage of Taxpayers Who Itemize Deductions, by Income Group

Income Bracket	TCJA (2019)	Pre-TCJA Law (2019)
Bottom 20%	1.2%	3.7%
20% to 40%	2.5%	9.3%
40% to 60%	5.3%	21.9%
60% to 80%	13.8%	45.3%
80% to 90%	30.3%	67.8%
90% to 95%	50.2%	82.2%
95% to 99%	72.8%	91.5%
Top 1%	91.5%	92.1%
ALL TAXPAYERS	13.7%	31.1%

Source: Tax Foundation General Equilibrium Model (Eastman 2019).

Credits

Before the TCJA, the Child Tax Credit (CTC) gave eligible households income tax reductions of up to $1,000 per child under age 17. Lower-income taxpayers could receive this benefit as the refundable part of the Additional Child Tax Credit (ACTC) so long as they had at least $3,000 of earned income. For higher-income households, the credit phased out.

Eligible households have income under $400,000 and at least one qualifying child (IRS 2024f) who is under 17 years old, a US citizen, US national, or US resident alien who provides less than half of their own financial support, lives with the taxpayer for more than half the year, and does not file a joint return with a spouse (IRS 2024f).

Through 2025, the TCJA temporarily changed the CTC by doubling the maximum credit amount to $2,000 per child, phasing the ACTC in at $2,500 of earned income, capping the refundable part of the credit at $1,400 per child, and increasing the income levels for credit phaseouts (CRS 2024).

In addition to temporary changes to the CTC, the TCJA introduced a new temporary "family credit" for children who were ineligible for the CTC and older adult dependents. The family tax credit for each adult credit-eligible dependent is $500. The CTC's phaseouts apply to the family tax credit too.

According to the Tax Policy Center, nearly all families get a boost from the TCJA changes to the CTC. In 2022:

- The largest average benefits went to families in the middle quintiles ($27,300 to $153,800);
- Low-income families got the smallest average credit for lack of sufficient earnings to qualify for the full $2,000 credit; and
- Families in the highest-income quintile received an average value of $2,170 because the TCJA limited their credits through phaseouts on incomes over $200,000 (TPC 2024c).

These observations support black taxpayer enthusiasm for the TCJA's changes to the CTC, ACTC, and family credit. But Jacob Goldin and Katherine Michelmore (2021) tell a different story. Although they acknowledge that 90 percent of children benefit to at least some degree from the CTC, they find differences in eligibility and benefits by income and race.

In terms of income, they find that most children living in households in the bottom decile are completely ineligible for the CTC, the majority of children in the bottom three deciles are only eligible for a partial credit, and virtually all children in the top half of the income distribution qualify for the full credit amount (Goldin and Michelmore 2021).

One disturbing part of these findings is that people advocate for using credits instead of deductions to support progressive taxation because deductions help taxpayers in higher tax brackets more than taxpayers in lower-income brackets. This occurs because deductions reduce taxable income while credits reduce the tax owed. A reduction in taxable income increases in value as the tax rate increases.

For example, a $1,000 deduction is worth nothing to a taxpayer in the zero-tax bracket because that person will not pay any tax regardless. The same deduction is worth $100 to a taxpayer in the 10 percent bracket and $370 to a taxpayer in the highest tax bracket because they now have $1,000 less to tax. In contrast, credits reduce tax liability dollar for dollar. So, a $100 credit produces a $100 tax saving for everyone with a tax bill, regardless of that person's total income. Even a person who owes no tax will receive $100 if the credit is refundable. When the TCJA places limits on low-income taxpayers' ability to take the full CTC, it reintroduces progressive taxation's problem with deductions into a credit regime. The problem is illustrated when high income taxpayers get the full $2,000 CTC and low-income families receive only $1400.

Goldin and Michelmore (2021) find that approximately three-quarters of non-Hispanic white and Asian children are eligible for the full CTC, but only half of black and Hispanic children are (Collyer et al. 2023; Collyer, Harris, and Wimer 2019).

The reasons for these disparities include:

- Only $1,400 out of the maximum $2,000 per-child credit is refundable, so only taxpayers with at least $2,000 of tax liability per child can receive the full credit;
- The maximum refund depends on taxpayer earnings (Goldin and Michelmore 2021); and
- Only children who live with a close family member are eligible for the CTC.

Black children are less likely to meet CTC requirements: They make up one in four ineligible children, despite representing only 14 percent of all children (Goldin and Michelmore 2021). One way to remedy the disparity between black children and other children is to remove the earnings test limit on refundability by creating a child benefit for all families living with related children under age 17 and with an AGI below the current law thresholds. This change would make 5.9 million children eligible for at least some CTC benefit and would particularly help black children and children in very low-income households (Goldin and Michelmore 2021).

Synthesizing the research shows that the elimination of the TCJA's changes to the CTC, ACTC, and family credit will hurt low-income black families a great deal (Blanton 2023) although the TCJA's boost to those credits provided greater benefits to white taxpayers and higher-income taxpayers overall.

Above-the-Line Deductions

Although the general rule is that personal costs are not deductible, Congress sometimes gives taxpayers a break. One break is the standard deduction that allows taxpayers to deduct specific amounts without even showing a receipt. Another break comes from the below-the-line deductions that taxpayers may use instead of the standard deduction. A third possibility is the "above-the-line" deductions that taxpayers can take whether they use the standard deduction or Schedule A. The TCJA changed two above-the-line deductions: the personal exemptions and the moving expense deduction.

Before the TCJA, personal exemptions created another pot of money that Congress protected from the income tax based on the number of taxpayers and dependents reflected on each return (IRS 2021). After the TCJA, personal exemptions disappeared but the standard deduction expanded.

Moving expenses are complicated: On the one hand, for individuals, moving expenses are a personal expense. But on the other hand, if a person is moving for a job, then perhaps moving expenses are also a cost of producing income. Before the TCJA, Congress split the difference and let people who relocated for work deduct a portion of their moving expenses "above the line" (Intuit 2024).

Of the two, personal exemptions are the most important in terms of tax revenue lost as well as wealth and income inequality increased. Under the TCJA, the standard deduction grew by almost 100 percent and personal exemptions disappeared entirely. After 2025, personal exemptions will come back, and the standard deduction will drop by half. These changes should help large families keep the tax benefit of avoiding Schedule A that they had under the TCJA by protecting the same amount of income from federal income tax. But single people might suffer more. This is significant because while black people have more dependents than their white counterparts (Rogers n.d.), they are also less likely to be married.

Before the TCJA, taxpayers who moved for their jobs could deduct a part of their moving expenses above the line. The TCJA limited that deduction to members of the armed forces. The limitation expires in 2026 when all eligible taxpayers can claim the above-the-line deduction for moving expenses associated with relocating for work, subject to certain conditions dealing with the individual's employment status as well as the distance of the move. We know that black taxpayers are less likely to move for any reason than their white counterparts and also less likely to move for a job (Taylor et al. 2008), suggesting that the expiration of the moving limitation may not have a huge impact on black taxpayers.[9]

Tax Brackets and Tax Rates

Under the TCJA, there are seven marginal rates for ordinary income. While capital gains and dividend rates did not change,[10] when the TCJA expires, marginal rates will return

[9] About half of all Americans ages 30–49 (51 percent) say job or business opportunities are a major reason they moved. A similar number of Americans ages 65 and older (52 percent) say that was not a reason they moved. White people (46 percent) are more likely than black people (34 percent) to say jobs were a major reason for their move.
[10] The TCJA rates are 10, 12, 22, 24, 32, 35, and 37 percent.

to pre-TCJA levels.[11] Except for the 10 and 15 percent brackets, the rates apply over different ranges of taxable income, which adjust annually for inflation.

Marriage Penalties and Bonuses

Tax brackets create marriage penalties and bonuses (Moran and Whitford 1996). A penalty is when a married couple pays more in taxes than two single people, while a bonus is when a married couple pays less in taxes than two single people.

The TCJA changed tax brackets for joint returns to double the singles tax bracket on incomes up to $600,000. These changes benefitted high-income taxpayers more than their low-income counterparts, particularly because they qualified higher-income people for a lower capital gains rate (Silva 2021; Heritage Investment Group n.d.).

Table 2. Individual Income Tax Brackets before and after TCJA

Prior Law					Tax Cuts and Jobs Act				
Taxable Income ($)					Taxable Income ($)				
Single Filers		Married Couples Filing Jointly		Tax Rate (%)	Single Filers		Married Couples Filing Jointly		Tax Rate (%)
Over	But not over	Over	But not over		Over	But not over	Over	But not over	
0	9,525	0	19,050	10	0	9,525	0	19,050	10
9,525	38,700	19,050	77,400	15	9,525	38,700	19,050	77,400	12
38,700	93,700	77,400	156,150	25	38,700	82,500	77,400	165,000	22
93,700	195,450	156,150	327,950	28	82,500	157,500	165,000	315,000	24
195,450	424,950	327,950	424,950	33	157,500	200,000	315,000	400,000	32
424,950	426,700	424,950	480,050	35	200,000	500,000	400,000	600,000	35
426,700	and over	480,050	and over	39.6	500,000	and over	600,000	and over	37

Source and analysis: Urban-Brookings Tax Policy Center (Gale et al. 2018)

Couples in the lowest-earning categories often qualify for the EITC, although the EITC penalizes equal-earning households (Alm, Leguizamon, and Leguizamon 2023). However, because these households usually have only one earner, the net effect is an average marriage bonus (Alm, Leguizamon, and Leguizamon 2023). Nevertheless, black taxpayers receive more help from the EITC than their white counterparts (Alm, Leguizamon, and Leguizamon 2023).

[11] The post-TCJA rates will be 10, 15, 25, 28, 33, 35, and 39.6 percent.

The TCJA bracket changes decreased both the white and black average marriage penalty, but the decrease helped white households more. White spouses' average marriage bonus in 2018 was $1,141, compared to $354 for black couples (Alm, Leguizamon, and Leguizamon 2023).

The TCJA tax cuts gave the highest-earning households the biggest average marriage bonus, with black couples getting an average marriage bonus of $1,196 in 2018 and white households getting an average of $3,177. For households earning less than $20,000, both black and white couples' average marriage bonus fell with the TCJA, although the racial differences in the average marriage penalty or bonus is statistically insignificant (Alm, Leguizamon, and Leguizamon 2023).[12] As noted above, black taxpayers cluster in the lower-income quintiles.

If taxes after the TCJA mirror taxes before the TCJA, as they do with tax brackets and rates, the black/white gap in both the marriage penalty and the marriage bonus will grow.

Capital Gains

The capital gains tax rate is one of the largest drivers of wealth and income inequality in the United States (Moran and Whitford 1996; Oliver and Shapiro 2006; Perry, Stephens, and Donoghoe 2024). The TCJA did not change the capital gains rate; the same rate will apply in 2026 as in 2025.

The capital gains rate helps people who gain their income from appreciated property rather than labor. Even in the top 1 percent, black people are more likely to earn their income from work than from property. Black people are less likely to own stock, pass-through entities, or homes than their white counterparts.[13] They are less likely to have the wealth needed to fill the TCJA's gift and estate tax exemption.

The TCJA's corporate tax cuts, combined with its retention of the capital gains rate and its increase in the estate and gift tax exemptions, helped people who own significant holdings in corporate stock. Black taxpayers—even the wealthiest black taxpayers—are just not in that league (DeSilver 2024). A booming stock market does not help all racial and ethnic groups equally.

[12] Figure 6 shows the estimated differences in the averaged marriage penalty/bonus between black and white households by earnings categories, also including 95 percent confidence intervals.
[13] Stock ownership is highly affected by race and ethnicity, which also are highly correlated to income and wealth. Sixty-one percent of white non-Hispanic families owned stocks in 2019, while only 34 percent of black people and 24 percent of Hispanic people did. Measured by value, 24 percent of white non-Hispanic family assets were in stocks, compared to 13 percent for black people and 10 percent for Hispanic people (Smart 2021).

Alternative Minimum Tax

The alternative minimum tax (AMT) is meant to prevent high-income taxpayers from completely avoiding federal income tax (Moran 1990). The AMT works by computing an alternate taxable income when taxpayers use too many "tax preference items" and then applying a flat tax rate to this AMT taxable income.

Alternative minimum taxable income (AMTI) starts with taxable income, adds back "tax preference items," and then subtracts an AMT exemption amount (Moran 1990). The TCJA taxes what remains at a 26 percent flat rate with a flat 28 percent rate for higher incomes.

According to the Tax Policy Center, the TCJA significantly reduced the number of taxpayers who needed to worry about the AMT by providing a higher AMT exemption and increasing the income level at which the exemption begins to phase out (TPC 2024d). The TCJA also repealed or reduced some of the largest AMT preference items. These changes caused the Tax Policy Center to predict a drop in the number of taxpayers subject to the AMT from more than 5 million in 2017 to just 200,000 in 2018.

Before the TCJA, the exemption amount was $55,400 for singles and $84,500 for couples. In 2024, thanks to the TCJA increases and inflation adjustments, the exemption reached $85,700 for singles/heads of household and $133,300 for married couples.

More than 75 percent of black households earn less than the 2024 AMT exemption amount. These taxpayers will never have to deal with the AMT. Even black people who earn well above the AMT exemption amounts should escape the AMT. In every income quintile, black people have less property than their white counterparts (Moran and Whitford 1996; Oliver and Shapiro 2006; Perry, Stephens, and Donoghoe 2024; US DOL n.d.). AMT tax preferences like net operating losses, depreciation, and passive losses require a level of property ownership beyond what most black taxpayers have. In that the AMT raises revenues and works to decrease income and wealth inequality, while keeping most black people out of its target, black taxpayers might applaud any increase in its impact. That increase would result from allowing the TCJA AMT rules to expire.

ABLE Accounts

Under the TCJA, Achieving a Better Life Experience (ABLE) accounts are tax-favored savings accounts for people with disabilities. ABLE accounts help people ("designated beneficiaries") save money in a tax-preferred way for disability-related expenses without losing eligibility for certain federal means-tested programs, such as Medicaid.

The TCJA protects gifts to an ABLE account through the gift tax exclusion. Each year, an ABLE account cannot receive aggregate contributions greater than the annual gift tax exemption—$18,000 in 2024.

Under the TCJA, a designated beneficiary who is employed can add more to the ABLE account than the annual gift-tax exclusion. But the beneficiary cannot contribute more in a year where another person contributed to certain defined contribution plans on the beneficiary's behalf.

When the TCJA changes expire, the gift tax exclusion will still apply, and designated beneficiaries will no longer have a chance to make additional contributions.

Black people are more likely to have disabilities and to obtain Supplemental Security Income (SSI) disability payments than their white counterparts (NASI n.d.). They are also more likely to be low-income. ABLE accounts could thus provide a great benefit to black taxpayers. Nevertheless, as we saw with 529 plans, black people are less likely to have access to banking or to sophisticated savings devices. The little race research done on this matter shows that less than 2 percent of people with disabilities use an ABLE account, and that white people with disabilities are three times more likely to have an account than their black counterparts.[14] Because few people, black or white, used ABLE accounts, the tax revenues lost on these accounts would be better directed to increasing SSI benefits.

Exclusions

The TCJA has four expiring provisions that affect exclusions:

- Combat zone pay for military service in the Sinai peninsula;
- Student loan forgiveness for death or disability;
- Bicycle commuter reimbursement; and
- Moving expense reimbursement.

Three of the four items provide exclusions to a worker for amounts paid by an employer. Black workers are less likely to get these types of payments as compared to their white counterparts (Moran and Whitford 1996).

Student loan forgiveness is an interesting case because black people are more likely to have student loan debt, to have larger principal amounts of student loan debt, and to pay higher interest rates on that debt than their peers (Baum n.d.). In addition, black

[14] This research has several problems because the database it used included many people who did not reveal their race (Weathers, Kelly, and Hemmeter 2024).

people are more likely to die young and to leave young orphans behind.[15] Thus, an exclusion for student loan forgiveness based on death or disability might help black people as much or more than white people.

Finally, the death of black soldiers in Jordan as part of Israel's war on Gaza was widely covered by the black press and significantly impacted the black community (Bynum 2024). The loss of an exclusion for death benefits paid for work in the Sinai peninsula might have a great psychological effect on the black community, if not a large fiscal impact.

Twenty Percent Deduction for Pass-Through Entities

Although this brief looks at the TCJA's effect on individuals, the law's focus was corporate tax relief.

One hallmark TCJA change was a permanent drop in the corporate income tax rate from a 35 percent top rate to a 21 percent flat rate. That corporate rate cut disturbed pass-through entity owners who paid up to 37 percent on their pass-through entity income.

One conventional belief about the IRC is that corporations are subject to double taxation (Burman, Clausing, and Austin 2017). This belief comes from the operation of corporate tax provisions in relation to individual tax provisions. Under corporate tax provisions, the IRC taxes a corporation on its income (IRC §11). Under individual provisions, the IRC taxes shareholders on corporate dividends (IRC §61). Because corporations pay dividends from after-tax income and shareholders pay tax on dividend income, it is technically possible for corporate income to experience a double tax.

For example, say a corporation earns $100,000 of taxable income. The corporation pays a corporate tax on that income of 21 percent, or $21,000. The corporation then pays the after-tax income of $79,000 to its shareholder as a qualified dividend. Usually, the IRC taxes qualified dividends at a 20 percent rate (IRC §1). In this example, the shareholder would pay a tax of $15,800. The shareholder and the corporation together pay a total of $36,800, or 36.8 percent.

In reality, many corporations and their shareholders avoid the double tax (Burman, Clausing, and Austin 2017). Nevertheless, the cry of unfair double taxation first supported moving the tax rate on dividends down to the capital gains rate, and then supported the TCJA's decreased corporate tax rate.

[15] Racial inequities in bereavement are magnified across the lives of black Americans, who are more likely than white Americans to experience the deaths of children, siblings, spouses, and parents (Mulheron et al. 2022).

In addition to corporations, there are other business entities such as partnerships and limited liability companies that the IRC only taxes at the owner's rate. So, for example, if the business described as a corporation in the example above was a partnership, the business would pay no tax. Instead, its owners would pay tax on the $100,000 at their own rate. The highest individual rate under the TCJA is 37 percent.

Congress placed two temporary provisions in the TCJA for pass-through entities, to compensate pass-through entity owners for the permanent cut in the corporate income tax.

The JCT's estimate of the revenue loss from the TCJA's tax changes includes $264 billion for two provisions:

- The 20 percent deduction for "qualified business income" (QBI); and
- The limit on pass-through losses.

The 20 percent deduction allows pass-through business owners to reduce their ordinary taxable income by as much as 20 percent. The limit on pass-through losses allows owners to take immediate loss deductions for losses that are normally disallowed until later years.

Both benefits give a great deal to taxpayers who had no reason to complain. Returning to the example given above, we can see that the TCJA changes equalized the tax treatment between corporations and pass-through businesses. In that example, the corporation and its shareholder pay a total tax of 36.8 percent. The partners pay a total tax of 37 percent. There was absolutely no reason to give pass-through businesses an additional 20 percent deduction or the ability to take larger losses as a way of making up for the change.

Less than 3 percent of all small business owners are black, and black people rarely receive tax benefits from pass-through entities. Julie-Anne Cronin, Portia DeFilippes, and Robin Fisher (2023) show that preferential treatment of pass-through businesses disproportionately advantages high-income white taxpayers. Just 2 percent of the federal government's pass-through tax preferences reach black taxpayers and just 5 percent reach Hispanic taxpayers.

This provision is set to expire in 2025. That end would increase tax revenues without harming owners of pass-through entities who will remain taxed at near the same rate as corporations and their shareholders who pay a double tax. Of course, as Burman, Clausing, and Austin point out (2017), many corporations and shareholders avoid the double tax. The solution is not to give pass-through business owners greater tax benefits—the solution is to enforce the double tax on corporations (DiVito and Lusiani 2024).

Gift and Estate Tax Changes

Before the TCJA, a married couple could pay up to $10 million in inheritance and gifts without paying gift and estate taxes. Because the IRC adjusts the exclusion for inflation, in 2018, the exclusions would have reached $11.2 million. The TCJA doubled the exclusion to $10 million per person and kept the inflation adjustment. In 2024, the TCJA gives a couple a $27.22 million exclusion. The TCJA schedules the exclusion to drop to pre-TCJA rates in 2026.

The average wealth per household in the top 1 percent—excluding the top 0.1 percent—is $18.4 million (Royal 2024). Therefore, this change will mostly affect the top 0.1 percent, whose average wealth is $1.5 billion (Royal 2024).

For every taxpayer below the 0.1 percent, the pre-TCJA exclusion was too high and the TCJA exclusion is a horrible joke. Oliver and Shapiro (2006) and Moran and Whitford (1996) identified the gift and estate tax exclusion as one significant factor in racial wealth disparities.

Reducing the gift and estate tax exemption might upset Oprah—but there are very few Oprahs in the black world.

Corporate Tax Cuts

The core of the TCJA is its corporate tax cuts (TPC 2024e), which do not expire in 2025. These permanent corporate tax cuts hurt families, children, and low-income people.[16] Analysis shows that the TCJA's benefits:

- Went primarily to wealthy households (TPC 2017);
- Cost the federal government trillions of dollars in taxes that could go instead to deficit reduction, health care, education, or clean air and water (CBO 2018);
- Did not, as promised, increase household income for the bottom 90 percent (Kennedy et al. 2022); and
- Increased income, wealth, and other disparities throughout the economy and particularly for black taxpayers (Wiehe et al. 2018).

As Suzanne Kahn (2024) makes clear, 50 years of trickle down economics has failed. Only the wealthy should applaud the TCJA.

[16] For more Roosevelt Institute work on this topic, see, e.g., Lusiani 2023; Sterling and Steinbaum 2018; Avi-Yonah, DiVito, and Lusiani 2024; Hager and Baines 2023; DiVito and Lusiani 2024; Pancotti 2024; Mitchell and Holmberg 2023; Lusiani 2022.

From the black taxpayer's perspective, the news is even worse. Kayla Kitson (2018) points out that even at the top 1 percent, black taxpayers gain far less from the TCJA than white taxpayers. This brief discusses some of the reasons why.

Are Any Itemized Deductions Worth Saving?

Ending all itemized deductions would reduce the deficit by $2.5 trillion between 2023 and 2032 (CBO 2022). These monies could go to other social goods, such as deficit reduction, affordable housing, health care, and free college for all.

Permanently eliminating Schedule A and raising the standard deduction might also reduce the cost of paid preparer tax returns (Moran 2021). In 2022, Daniel Schneider and Kristen Harknett found that service workers use up to a full day of wages to pay a preparer to create and file their tax returns (Schneider and Harknett 2022), while Paul Weinstein Jr. and Bethany Patten showed that in 2016, low-income taxpayers spent 13 to 22 percent of their refund to file taxes (Weinstein Jr. and Patten 2016).

As ProPublica explained in a series of articles, Congress tried to solve the paid tax preparer problem at the turn of the century with the Free File program (Elliott 2019; Elliott and Waldron 2019; Elliott and Keil 2019a; Elliott and Kiel 2019b) . The IRS gave that program to select paid preparers through a Memorandum of Understanding, which granted monopoly control over the program to those preparers. In return, the preparers created algorithms in their software that effectively prevented more than 90 percent of qualified taxpayers from getting free filing (Moran 2022). When the Treasury Department finally cracked down on the abuse, Intuit and H&R Block left the program. The Federal Trade Commission later punished Intuit for falsely advertising free filing while pushing people to pay (Elliott 2019c).

Another objection to itemized deductions is that they drive income and wealth inequality (NLIHC 2017).[17] In 2016, a quarter of households with adjusted gross income (AGI) between $40,000 and $50,000 claimed itemized deductions, while more than 90 percent of households making above $200,000 used Schedule A (York 2019).

Reducing the deficit, making filing taxes simpler and less costly, and attacking racial wealth disparities are all served by ending itemized deductions while keeping, or even raising, the TCJA's higher standard deduction. In other words, the opposite of what we predict from the TCJA expiring. The TCJA's expirations will cause disappeared deductions (such as casualty losses) to return, while other deductions (such as state and local taxes and home mortgage interest) will expand. Those changes will make itemized deductions more attractive in 2026 when the TCJA expires.

[17] The TCJA tipped the scales in favor of the wealthy 10 percent in ways that have a disparate impact on Black taxpayers (Taite 2021), and will make the distribution of after-tax income less equal (Gale et al. 2018).

Might that hurt some black taxpayers more than others? Perhaps. For example, we already know from the Office of Tax Analysis that high-income black taxpayers get more benefits from the home mortgage interest deduction than their white counterparts. We also know that black homeowners pay more property taxes than their peers (Fields, Perry, and Donoghoe 2023). For black homeowners who can use Schedule A, getting rid of itemized deductions takes away tax relief for the harms of higher-than-normal interest rates and property taxes.

Just as black people are less likely to carry health insurance than their white counterparts, they are also less likely to carry disaster insurance and home insurance (Ramnath and Jeziorski 2021). This might result from a lack of access to well-priced insurance products. Ending itemized deductions for uninsured medical expenses and uninsured casualty expenses might hurt black taxpayers in higher- income quintiles more than other people.

Some might argue that the TCJA's increased benefits for charitable giving helped lower-income taxpayers—black people included. Indeed, MacKenzie Scott's historic gifts to historically black colleges and universities (HBCUs) might serve as an example (Freeman 2021).

However, others, like Robert Reich, would disagree (Reich 2013). Reich points to a 2013 Congressional Budget Office report showing that in 2012, $33 billion of the year's $39 billion in total charitable deductions went to the richest 20 percent of Americans—of whom the richest 1 percent reaped the lion's share (CBO 2013). Reich further points out that rich people give to organizations that cater to rich people, such as Ivy League universities and opera companies, rather than to organizations that help poor people or black people. One reason MacKenzie Scott's donations to HBCUs drew so much attention is that gifts to black organizations are rare (Ponce 2023). This is true even though black people donate a larger share of their income and wealth to charitable organizations than their white peers (Ashley and James 2018; Cherry 2023).

M.E. Edwards' (2021) study tracking how the TCJA changed giving to a Texas university by race, sex, age, and ethnicity found that donation totals to the university increased, but the number of donors fell. Women, black people, and Hispanic people gave less after the TCJA, while the wealthiest white male donors gave more.
It is likely that the TCJA's increased benefits for charitable giving did not help black donors, nor black charitable beneficiaries.

In the end, the number of black taxpayers (indeed all taxpayers) who itemize is small, but the cost of itemized deductions to the nation is large. Eliminating itemized deductions is good for the deficit, good for the majority of taxpayers who do not use itemized deductions, good for many taxpayers who do use itemized deductions in terms of reducing the overall cost of filing tax returns, and good for black taxpayers who are less likely to be able to use itemized deductions because of historical wrongs such as redlining.

The TCJA and Black Taxpayers: A Summary

The TCJA is a poisoned tree planted in poisoned ground.

As William Whitford and I demonstrated in 1996, the 1986 IRC was rife with rules that harmed black taxpayers. This brief shows that the TCJA just made things worse.

Of the permanent changes to the individual tax, the following changes do little to help, or actively harm, low-income taxpayers, with a disproportionate impact on black taxpayers:

- The new method of measuring inflation;
- The repeal of the ACA's Individual Mandate; and
- The expansion of 529 plans to include K-12 education.

The TCJA's reduction of the corporate tax rate and maintenance of the capital gains rate are even worse: These provisions increase wealth and income disparities while fueling racial injustice.

Whether the changes in the Kiddie Tax and alimony taxation hurt or helped black taxpayers needs further study.

Of the TCJA's expiring provisions, the following changes will increase income and wealth disparities for all taxpayers, and particularly for black taxpayers:

- Cutting the standard deduction by half starting in 2026;
- Expanding itemized deductions;
- Reducing the Child Tax Credit.

Reducing the CTC, rather than expanding the credit and eliminating the ways that the credit excludes low-income people, is guaranteed to increase income and wealth disparities as well as harm many children of all races—but particularly black, Hispanic, and Native American children, who already receive less from these credits than their white and Asian peers.

The itemized deductions should never have existed and need to end now in favor of a large standard deduction and the reintroduction of personal exemptions. When the TCJA expires, personal exemptions will come back, but the standard deduction will decline by half. Keeping the TCJA's standard deduction and returning to personal exemptions favors low- and middle-income taxpayers, helps decrease the cost and time suck of tax preparation, and gives support to ending itemized deductions altogether.

ABLE accounts are better replaced with more SSI benefits, while free college is a better use of federal revenues than 529 plans.

Other changes that will at least reduce the TCJA's enormous giveaway to high-income taxpayers include:

- The switch back to the pre-TCJA tax brackets;
- The return to the $10 million gift and estate tax exemption (which was too high to begin with, and outrageous when doubled);
- The return to the more restrictive alternative minimum tax; and
- The death of the 20 percent deduction and loss rules for pass-through businesses.

Nevertheless, no one can claim that a return to the old tax rules is a step forward. Our tax system is a part of the problem of income and wealth disparities now as it was in the past, and it will continue to be part of that problem in the future unless, at the very least, we eliminate the capital gains preference and reform the corporate tax.

Conclusion

In a "Black Critique of the Internal Revenue Code," William Whitford and I (1996) hypothesized that a black Congress would not have passed the many provisions we identified that led to a higher tax burden for black taxpayers. Today, I must ask: Why is Congress treating everyone below the top 1 percent so poorly? When we look only at how black taxpayers fare under the IRC, we could believe that the reason for tax burden disparities is that white legislators do not know how black people live—that they shape tax laws for their (majority) white constituents, and that there are too few black representatives and senators to make a difference. But what politician, even from Beverly Hills, Fifth Avenue, or the Gold Coast, represents only 1 percent?

When the trickle-down theory first took off in the 1980s, the argument was that tax cuts lift all boats. After 50 years, no one can continue to make this claim—yet they still do.

At the end of the last century, William Whitford, and I predicted that racial income and wealth inequality would spread to the rest of the nation, because black people are the canaries in the coal mine. When we wrote, white couples were more likely to have a marriage bonus than a penalty. That has changed as more married white women entered the labor market. When we wrote, white taxpayers still received help from itemized deductions in a way that far fewer white taxpayers benefit from today. Thus, there should be more political support for ending the itemized deductions for the benefit of the deficit and for tax simplification. When we wrote, the idea of black/white wealth disparities was just being introduced. Now, these disparities, as well as wealth disparities in general, are common knowledge. Thus, another opportunity for political change.

I am sorry to learn we were right about the inequities in the IRC spreading out to other taxpayers. Still, the country is much more aware of income and wealth disparities than it was when we first entered this field. Even the Treasury Department now recognizes the many ways that the IRC and the tax collection and auditing system hurt black Americans. With this expanded knowledge base, Americans must finally demand that our legislators create tax laws that support us as a whole, rather than only feeding the 1 percent in the false hope that they will feed us in turn.

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