

Testimony of  
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Before the  
U.S. Congress Joint Economic Committee  
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Chairman Beyer, Ranking Member Lee, and members of the Committee: Thank you for inviting me to share these views on the role that our tax system plays in perpetuating the racial wealth gap.

In my testimony today, I will discuss three ways that tax policies are increasing the racial wealth gap. The first looks at the tax breaks for marriage. The second looks at tax breaks for paying for college. The third looks at tax breaks for gifts and inheritances. But if there is one thing that I hope you take away from what I will be sharing with you is that the racial wealth gap will not be eliminated without a fundamental change in our tax laws.

Every year when tax returns are due, black Americans pay higher taxes than their white peers. We would never know this information however because the Internal Revenue Service does not publish statistics by race. They have published statistics by gender and age however.<sup>1</sup> My book *The Whiteness of Wealth: How the Tax System Impoverishes Black Americans – And How We Can Fix It*,<sup>2</sup> based on over two decades of research shows how tax policy advantages white Americans while disadvantaging black Americans, often when they engage in the same

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<sup>1</sup> Jeremy Bearer-Friend, *Should the IRS Know Your Race?: The Challenge of Colorblind Tax Data*, 73 Tax L. Rev. 1, 17 n. 78 (2019) (“For example, age and gender information collected by SSA is shared with IRS and appears in IRS SOI publications.”).

<sup>2</sup> Dorothy A. Brown, *THE WHITENESS OF WEALTH: HOW THE TAX SYSTEM IMPOVERISHES BLACK AMERICANS-AND HOW WE CAN FIX IT* (Crown Publishing Co. 2021).

activity. Those additional taxes lead to fewer dollars available for saving and investing and building wealth. Tax policy contributes to the racial wealth gap.

**Tax subsidies for marriage contribute to the black-white racial wealth gap.**

Tax subsidies for marriage benefit white Americans more than black Americans.

“Overall, the research reveals that African Americans are the least likely to marry, when they marry, they do so later and spend less time married than White Americans, and they are the least likely to stay married.”<sup>3</sup> The majority of white Americans are married, the majority of black Americans are not. As a result, tax subsidies for marriage will disproportionately benefit the majority of white Americans.

Now let’s move to a comparison of white and black married couples. My research shows how subsidies for marriage disproportionately benefit white married couples, while disadvantaging black married couples. It begins with the marriage bonus, which provides a tax cut for married couples in single wage earner households. The single wage earner pays less taxes on their joint return, than the single wage earner would pay had they remained unmarried. My research shows that single wage earner households are more likely to be found among white married couples.<sup>4</sup> The marriage penalty on the other hand describes the tax increase for married couples when both work in the paid labor market. The marriage penalty is the greatest when married couples are in roughly equal wage earner households – when couples contribute 50-50 to household income. Those couples pay higher taxes when they get married, than they would have paid had they remained single. My research shows that black married couples are more likely to

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<sup>3</sup> Patricia Dixon, Marriage Among African Americans: What Does the Research Reveal?, 13 Journal of African American Studies, 32 (March 2009).

<sup>4</sup> Dorothy A. Brown, THE WHITENESS OF WEALTH: HOW THE TAX SYSTEM IMPOVERISHES BLACK AMERICANS-AND HOW WE CAN FIX IT pp. 50-57 (Crown Publishing Co. 2021).

be equal wage earner couples than their white peers. In other words, tax policy decisions contribute to a married black couple's inability to create more wealth.

A study of black and white families over a 25 year period between 1984 and 2009 showed "getting married...significantly increased the wealth holdings for white families by \$75,635 but had no statistically significant impact on African-Americans."<sup>5</sup> I believe the marriage penalty, disproportionately paid by black married couples during those years is part of the reason why.

And while the 2017 Tax Cuts and Jobs Act temporarily eliminated the marriage penalty for many married couples, it did so by significantly increasing the marriage bonus and by leaving intact the significant marriage penalties found in earned income tax credit households. So even if a black married couple does not pay higher taxes today, their white peers get a tax cut that they are ineligible for. In addition, the 2017 Tax Cuts and Jobs Act did not eliminate the marriage penalty for high income married couples and there is a higher percentage of high income black married couples paying the marriage penalty when compared with their high income white peers.

There is also a single's penalty in our tax laws. A single worker with \$50,000 of income will pay higher taxes than a married couple with a single wage earner who earns \$50,000 of income. The marginal tax rate for the single taxpayer is 22 percent compared with 12 percent for the married taxpayer. Almost half (47%) of black Americans are single, compared with just over a quarter of white (28%) and Hispanic (27%) Americans.<sup>6</sup> As a result, black Americans are disproportionately paying the single's penalty along with over a quarter of other taxpayers.

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<sup>5</sup> Thomas Shapiro, Tatjana Meschede, and Sam Osoro, The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide, Research and Policy Brief 3 (Feb. 2013), Institute on Assets and Social Policy, Brandeis University <https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/roots-widening-racial-wealth-gap.pdf>

<sup>6</sup> Profile of Single Americans, Pew Research Center, August 20, 2020; <https://www.pewresearch.org/social-trends/2020/08/20/a-profile-of-single-americans/>

My proposed solution is a repeal of the joint return which only entered the tax code in 1948. It would immediately eliminate the marriage penalty and single's penalty currently being paid by hard working Americans. No longer would their extra tax dollars subsidize certain married taxpayers – that are disproportionately white. The repeal of the joint return would mean that black Americans currently paying higher taxes would have more money available to save towards building wealth.

**Tax subsidies for higher education contribute to the black-white racial wealth gap.**

Black college students leave college with more student loans than their white peers. The average black college graduate has \$7,400 more in student loans than the average white college graduate.<sup>7</sup> Four years after graduation however, black Americans owe an average of \$52,726 in student debt compared with \$28,006 for white college graduates. And the gap is present across income levels.<sup>8</sup> Not even wealthy black taxpayers can protect their children from higher student loan debt.

Wealthy black parents cannot protect their students from college debt the way their white peers can. Their children have higher student loan balances than their white peers.<sup>9</sup> That is true because black wealthy parents hold assets differently from their white peers. They have more

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<sup>7</sup> Judith Scott-Clayton and Jing Li, Black-White Disparity in Student Loan Debt More Than Triples after Graduation, Brookings Institution, Oct. 20, 2016

<sup>8</sup> F.R. Addo, J.N. Houle, and D. Simon, “Young, Black, and (Still) in the Red: Parental Wealth, Race, and Student Loan Debt,” *Race and Social Problems* 8, no. 1 (2016): 64-76.

<sup>9</sup> Dorothy A. Brown, *THE WHITENESS OF WEALTH: HOW THE TAX SYSTEM IMPOVERISHES BLACK AMERICANS-AND HOW WE CAN FIX IT* p. 97-98 (Crown Publishing Co. 2021); Dorothy A. Brown, College isn't the solution for the racial wealth gap. It's part of the problem. *The Washington Post*, April 9, 2021, <https://www.washingtonpost.com/outlook/2021/04/09/student-loans-black-wealth-gap/>

invested in their homes and less invested in the stock market. In addition, Direct PLUS loans which have higher interest rates, are also common among black families.<sup>10</sup>

But why does black college debt grow over time, while white debt is paid off and reduced?

Black college graduates are more likely to attend graduate school compared with their white peers (47 percent vs 38 percent) and more likely to have graduate school debt (40 percent vs 22 percent).<sup>11</sup> Any college debt repayments will be deferred while the student is in graduate school increasing the principal balance over time. Coupled with income-based repayments which black college graduates use almost twice as much as their white counterparts. While created with the best of intentions, deferred debt and income-based repayments are contributing to an ever-increasing black student debt problem. Tax policy does not help matters here.

The deduction for interest on student loan debt is limited to \$2,500 per return and subject to income limits. By my calculations, with black debt at \$53,000 and white student debt at \$28,000 in the first few years, black Americans are more likely to be unable to deduct all of their interest because it exceeds the \$2,500 limit.<sup>12</sup> White Americans on the other hand, are more likely to be eligible to deduct all of their interest.

Student loan debt contributes to the racial wealth gap. Researchers have placed student debt at roughly 10 percent of the racial wealth gap when a college graduate is 25 years old, but by age 30-35, it explains about 25 percent of the gap.<sup>13</sup>

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<sup>10</sup> Andrew Kreighbaum, How Parent PLUS Worsens the Racial Wealth Gap, Inside Higher Ed, May 15, 2018, <https://www.insidehighered.com/news/2018/05/15/report-finds-parent-plus-loans-worsen-outcomes-poorest-families-urges-policy-reforms>

<sup>11</sup> Judith Scott-Clayton and Jing Li, Black-White Disparity in Student Loan Debt More Than Triples after Graduation, Brookings Institution, Oct. 20, 2016.

<sup>12</sup> Dorothy A. Brown, THE WHITENESS OF WEALTH: HOW THE TAX SYSTEM IMPOVERISHES BLACK AMERICANS-AND HOW WE CAN FIX IT pp. 123 (Crown Publishing Co. 2021).

<sup>13</sup> Id. at 125.

I have two solutions: (i) increase Pell grants; and (ii) student debt forgiveness.

According to the Center for Budget and Policy Priorities, “Pell covers just 29 percent of the average costs of tuition, fees, room, and board at public four-year colleges, ... far below the 79 percent it covered in 1975.”<sup>14</sup> Pell grants have obviously not kept up with the rising costs of college. Pell grants are awarded by income and roughly 70 percent of black college students receive them compared with 34 percent of white students.<sup>15</sup> Increasing the amount of Pell grants should enable future generations of black college students to graduate with *significantly* less debt.

I support targeted debt forgiveness. For example, 30 percent of people with incomes higher than \$114,000 carry student loan debt. Forgiving their debt would not help decrease the racial wealth gap. But targeted debt relief to those in households with below median wealth would be preferable. Debt forgiveness should also include not just student debt, but parental debt – similarly to the way the Morehouse debt forgiveness program was structured.<sup>16</sup> Finally, Congress must ensure that any forgiveness is tax-free for those whose debts have been forgiven.

### **Tax subsidies for gifts and inheritances increase the black-white wealth gap.**

The median household wealth of a white high school dropout (\$82,968) is greater than the median wealth of a black college graduate (\$70,219).<sup>17</sup> Part of the explanation lies in family financial transfers.

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<sup>14</sup> Spiros Protopsaltis and Sharon Parrott, Pell Grants – a Key Tool for Expanding College Access and Economic Opportunity- Need Strengthening, Not Cuts, Center on Budget and Policy Priorities, July 27, 2017, <https://www.cbpp.org/research/federal-budget/pell-grants-a-key-tool-for-expanding-college-access-and-economic>

<sup>15</sup> African American Students in Higher Education, Postsecondary National Policy Institute, June 12, 2020

<sup>16</sup> Kelly Tyko, Billionaire Robert F. Smith’s \$34 million gift to Morehouse grads includes parent loans, USA Today, Sept. 20, 2019, <https://www.usatoday.com/story/money/2019/09/20/morehouse-billionaire-gift-smith-donates-34-million-pay-off-loans/2392458001/>

<sup>17</sup> William Darity Jr., Darrick Hamilton, Mark Paul, Alan Aja, Anne Price, Antonio Moore, and Caterina Chiopris, What We Get Wrong About Closing the Racial Wealth Gap, Samuel DuBois Cook Center on Social Equity and

Research shows that gifts and inheritances explain about 5 percent of the racial wealth gap.<sup>18</sup> That study followed families over a 25- year period and showed that white Americans were 5 times more likely to inherit than black Americans. Among black and white Americans who actually received an inheritance, white Americans received about 10 times more wealth than black Americans. For each dollar inherited, white families were able to use 91 percent to increase their wealth, compared with only 20 percent used to increase black wealth. One explanation is that black Americans have extended family members who were alive during Jim Crow and received fewer opportunities to build wealth, because of government racial discrimination that are supported by higher income family members. Black college graduates are more likely to send money to their parents, depleting their wealth, while white college graduates were more likely to receive money from their parents enabling them to build wealth.<sup>19</sup> Once again tax policy exacerbates the racial wealth gap.

Gifts and inheritances are received tax-free.<sup>20</sup> Financial transfers by black Americans to help support family members are not tax deductible. Those without wealth do not have tax breaks to help them build wealth. I believe tax-free family financial transfers helps explain why white households with a high school dropout have more wealth than that found in the households of black college graduates.

### **Wealth Tax Credit as a Proposed Solution**

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Insight Center for Community Economic Development, April 2018, <https://socialequity.duke.edu/portfolio-item/what-we-get-wrong-about-closing-the-racial-wealth-gap/>

<sup>18</sup> Thomas Shapiro, Tatjana Meschede and Sam Osoro, The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide, Institute on Assets and Social Policy, Research and Policy Brief, February 2013, <https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/roots-widening-racial-wealth-gap.pdf>

<sup>19</sup> Tatjana Meschede, Joanna Taylor, Alexis Mann and Thomas Shapiro, “Family Achievements??: How a College Degree Accumulates Wealth for Whites and Not For Blacks, Federal Reserve Bank of St. Louis *Review*, First Quarter 2017, 99(1), pp. 121-37, <https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/family-achievements-how-a-college-degree-accumulates-wealth-for-whites-and-not-for-blacks.pdf>

<sup>20</sup> Internal Revenue Code section 102.

While there is no single tax policy change that can eliminate the racial wealth gap, I propose a tax credit that can help reduce the racial wealth gap. As explained in more detail in Chapter Six of *The Whiteness of Wealth*, I advocate for a wealth tax credit for all taxpayers in households with below median wealth. If your tax liability is lower than the credit, the taxpayer would receive the difference in the form of a refund, every year. If your tax liability is higher, the taxpayer would pay the difference, but that taxpayer would still pay less than those with the same income but with above median wealth. It would disproportionately benefit black taxpayers, because 83 percent of black households have wealth below the white median wealth, but it would also benefit taxpayers regardless of race and/or ethnicity with below median wealth. This proposal seeks to directly help those with the least wealth.

*The Whiteness of Wealth* discusses many other areas where our federal tax policies disadvantage black Americans in their quest to build wealth, but they all lead to the conclusion that our tax laws need a fundamental overhaul that places racial equity at the center in order to significantly reduce the racial wealth gap.

Reducing the racial wealth gap requires systemic change. It will not be easy, and it will not happen quickly. But I believe anytime we shine a spotlight on the complexity of the problem we make a positive step forward.