November 12, 2010

Dear Member of Congress,

The Bush era tax cuts being considered need to be analyzed for their differential effects not just on high and low income people, but also on whites and people of color.

As a national, multi-racial, multi-ethnic network of economic experts of color, we feel that too little notice has been made of what could be one of the most salient effects of the recession: the growth of the economic divide between whites and people of color in general, and the decimation of the black middle class in particular. It's not just a matter of higher unemployment and poverty rates. The staggering loss of wealth in communities of color– financial assets that allow families to weather economic storms and to make investments that enable them and their children to get ahead – has been allowed to happen as if by accident. One of those "accidents" has been tax policies in general and those in 2001 and 2003 in particular that provide more subsidies to whites in building assets than they provide to people of color.

The US government has always and continues to recognize the importance of wealth to economic mobility, and has invested in helping families build assets. In 2009, 99% of the federal asset building budget – tax dollars used to subsidize asset building activities of its citizens - was delivered through the tax code. For example, $384 billion was spent on wealth subsidies such as income tax deductions, property taxes and home mortgage interest, deferments on retirement savings, and reduced tax rates on income from investments and inheritances.

Tax policies can help low and middle-income people get a start, but most help the rich get richer. For example, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) tax cuts saved taxpayers in the bottom quintile $80 a year, while the top 1% received $42,618 annually; very low income people received nothing. Further, these policies exacerbated the racial wealth gap as we argue below. Therefore we recommend the following:

1. ***Cuts in taxes on income earned through investments in 2001 and 2003 exacerbated the racial wealth gap; these should expire.***

   - Savings are the starting point for asset building; investments in the financial marketplace are for the most part made by those who already own homes and retirement accounts, and who have some familiarity with the financial sector. African Americans were 23% and Hispanics 28% less likely than all families to own direct or indirect holdings of publicly traded stock; these numbers are not surprising given that while only 5% of whites lack a bank account, a quarter of blacks and Hispanics did not even have a bank account.
   - Of federal tax expenditures to incentivize savings and investments in 2009, $89.5 billion was spent on reduced tax rates on dividends and long term capital gains. As a nation that values hard

work, income from wealth should not be taxed at a lower rate than income from work. $23.7 billion more was spent on the exclusion of capital gains at death.

2. ***Eliminating the estate tax is a dangerous idea for our democracy. The tax should not only remain, but the exemption level should be lowered, and the rate should be raised and become more progressive.***

- Eliminating the estate tax would massively increase the deficit in order to help the children of the richest 1% of our population become even richer, rather than using the tax dollars for public investments that could strengthen our economy. Because people of color were excluded from building wealth throughout much of US history, they are far less likely to have assets to pass onto their children. For example, while 1 in 4 white Americans will receive an inheritance, only 1 in 20 African Americans will; and they will receive only 8 cents to the white inheritor's dollar.
- The estate tax will produce a trillion dollars in revenue over the next decade. In 2010, of the 400 richest people in America who have increased their fortunes in the last year, only one is African American, and only a few are Asian or Latino. At the other end, poverty levels have risen, and it is estimated that overall child poverty could grow to 25% by 2012, with children of color disproportionately represented among those in poverty. All of the nation's children could benefit from estate tax revenues.

3. ***Tax deferments on retirement and college savings accounts are not the most effective savings incentives for many people of color. While these do help middle income Americans, other mechanisms – scholarships and matched retirement accounts – need to supplement these tax policies to ensure racial equity in access to higher education and retirement security.***

- Low-wage workers, who are disproportionately people of color, are less likely to have employer-sponsored retirement accounts and therefore do not benefit from pre-tax retirement contributions. Of those that do have retirement accounts, a study by Ariel/Hewitt found that regardless of income or age, African American and Hispanic workers have lower participation rates and contribute less to their 401(k) plans than their white counterparts. Moreover, the study found that in 2010, 48% of African Americans were forced to withdraw from those accounts during the recession, compared to 31% of whites.
- Tax-deferred college savings accounts are not effective for low-income people because they have lower tax rates, and therefore, the tax saving that comes from these accounts is small and unlikely to induce saving. In contrast, middle- and upper-income people who can put aside tens of thousands of dollars for their children receive meaningful tax breaks. In addition, the vast difference in educational quality in neighborhoods of color with low property taxes makes college less of a realistic possibility.

4. Subsidies for homeowners should be reformed. While not part of the Bush tax cuts, re-examination of these subsidies is overdue.

- Homeownership rates were already lower for people of color than whites, with 75% of white families owning homes, compared to less than 50% for African Americans and Latinos. Roughly 66% of Asians and Native people own homes. Racial disparities in sub-prime lending occurred for all non-white populations in every part of the country leading to high foreclosure rates in minority neighborhoods.

- President Bush's Tax Commission suggested that the cap on the Home Mortgage Interest Deduction should be lowered. What began as an incentive for middle class Americans to become homeowners has become a subsidy for mansions and vacation homes. Low-income homeowners who do not itemize get no benefit at all. The federal government provides $137.6 billion in housing related tax expenditures. The Home Mortgage Interest Deduction, which can be claimed for homes costing up to one million dollars, the property tax deduction, and the exclusion of capital gains on the sale of principal residences accounts for $126.8 billion. Bringing down the subsidies for high cost homes and second homes and using those dollars to instead help those without homes or who have lost homes would help close the racial wealth gap.

The Bush era tax policy changes have increased economic inequality in general, and exacerbated the racial economic divide. The time is ripe to de-code the tax code, and make visible the effects of tax cuts and tax expenditures by race, gender, family status, and age. With better information, there would be greater understanding and engagement of all constituencies in shaping policy to foster wealth building for those who most need the opportunity to contribute to, and benefit from, our national economy.

Thank you for your time and consideration. If you would like to receive more information or engage in further dialogue about this important issue, please contact our Washington liaison, Dr. Maya Rockeymoore, President and CEO of Global Policy Solutions at 202-265-5111 or maya@globalpolicysolutions.com.

Sincerely,

Meizhu Lui, Director
Closing the Racial Wealth Gap Initiative & the Experts of Color Network
Insight Center for Community Economic Development

About Us

The Insight Center's Closing the Racial Wealth Gap Initiative is a national effort to address the wealth gap that leaves the average American family of color with only 16 cents for every dollar owned by the average white family. To close this gap in the next generation, we have brought together over 150 scholars, advocates, and practitioners of color to inform the national economic debate with diverse perspectives and provide policy solutions to create a more inclusive and equitable future for all Americans as part of our Experts of Color Network.