The 1% tax system exacerbates racial disparities

- Our tax system worsens the racial wealth divide. Because of historical and ongoing discrimination and segregation, in 2009, the typical white household had 20 times more wealth than blacks and 18 times more than Latinos. Tax breaks for wealth accumulation flow overwhelmingly to whites. Whites are 11 times more likely than blacks and Latinos to have a net worth of $5 million or more; cutting the estate tax overwhelmingly benefits white heirs.

- Tax breaks for the 1% disproportionately flow into the hands of high-income and high-wealth whites. The recent income tax extension heavily favors whites, who are three times as likely as blacks and 4.6 times as likely as Latinos to have annual incomes in excess of $250,000, according to original analysis in this report. In the short term, the extension of Bush-era income tax cuts for households earning $250,000 or more per year deprives the federal government of the necessary revenue to create jobs and revive the economy. In the longer term, these cuts will do even greater harm by widening racial income and wealth divides.

- The preferential treatment of capital gains and dividend income further exacerbates the racial wealth divide by rewarding wealthy whites with dramatically lower tax rates. Original analysis provided in this report shows that blacks earn only 13 cents and Latinos earn eight cents for every dollar that whites receive in dividend income. Similarly, blacks have 12 cents and Latinos have 10 cents of unrealized capital gains for each dollar that whites have.

- Increasing wealth inequality entrenches the racial economic divide. In 2007, near the height of the housing bubble, average White net worth was five times greater than average black net worth, and more than three and a half times that of average Latino net worth. White families who have more wealth are able to tap it in times of hardship to avoid falling to the bottom of the economic ladder or to make investments in their future.

- Although American Indians make up more than 1.5% of the population, tribes issued less than 0.1% of the tax-exempt bonds between 2002 and 2004. These restrictions harm the poorer tribes the most, as the differential between tax-exempt and taxable interest rates often determines the feasibility of a project. Without access to tax-exempt rates, poorer tribes simply cannot afford the debt service required to begin to make a dent in the more than $50 billion in unmet capital needs.

Sources:

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