

What’s Race Got to Do With It? Some Tax Proposals Would Widen Racial Inequality, Others Would Advance Equity

By Phineas Baxandall, Policy Director

Lawmakers have proposed a variety of tax cuts, some of which would provide outside benefits to the most affluent households and widen existing racial and economic disparities. Other proposed tax changes would make the Commonwealth more equitable by targeting benefits to lower-income households who need them the most.

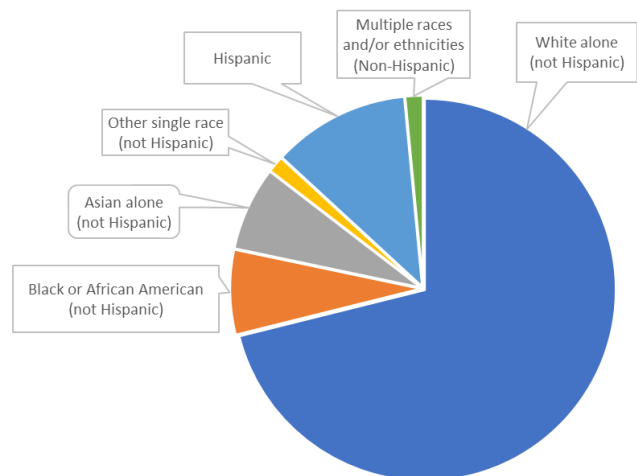
In the package of tax changes proposed by the Massachusetts House in April, the tax changes that would widen racial and economic disparities are:

- Cuts to the estate tax – which is only paid on large accumulations of wealth by a few thousand of the richest families each year. Disparities of *wealth* are far greater between racial groups than differences in income. Reducing taxes on wealth as it is transferred to the next generation widens the racial wealth gap.
- Adoption of universal Single Sales Factor apportionment - which cuts taxes on the profits of many multi-state corporations that operate in Massachusetts. Ownership of these corporations is heavily concentrated among high-income, typically whiter households.
- Cuts to taxes on profits gained from reselling assets held for less than a year – the benefits of which go overwhelmingly to Massachusetts’ wealthiest households. For the lowest-income households, their

Key Takeaways

- Some of the tax cuts proposed by the Massachusetts House in 2023 would widen economic and racial disparities by disproportionately benefiting wealthier, generally whiter households.
- Other proposed tax changes would advance equity and would disproportionately benefit households of color.

Share of All MA Tax Returns by Race, Ethnicity



biggest asset might be their personal vehicle, which they don't resell at a profit. Middle-class investments, meanwhile, are more likely to be a personal residence or retirement savings, both of which would typically be held for many years. Nationally, an estimated 77 percent of short-term capital gains are collected by the highest-income 1 percent of tax filers. The bottom 80 percent of filers get only 3 percent of all short-term capital gains.

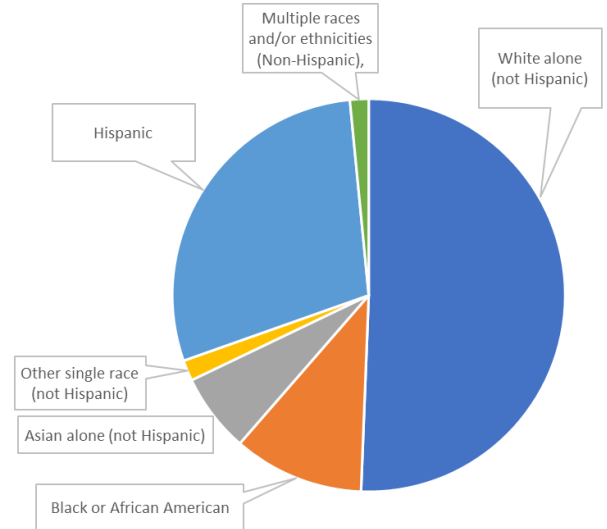
The legislature has also proposed several increases to credits or deductions that would reduce racial and economic disparities. Black, Latinx and other groups of color receive these benefits in a greater share than they represent among tax filers.

Latinx or Hispanic households, for instance, represent an estimated 11.6 percent of all income tax filings in Massachusetts. They would receive 4.3 percent of proposed cuts to short-term capital gains taxes. Meanwhile, they would receive 28.9 percent of proposed increases to the Earned Income Tax Credit (EITC).

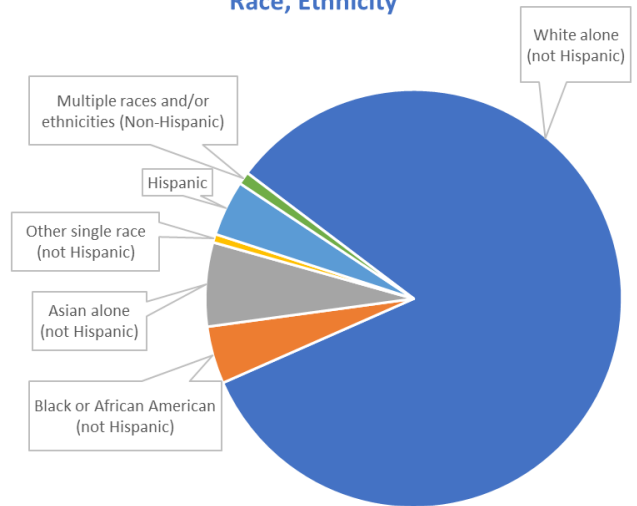
White households file an estimated 71.1 percent of Massachusetts income tax returns. Proposals to cut short-term capital gains taxes, however, would deliver 83.1 percent of the benefits to white households. Meanwhile, 50.6 percent of benefits from increasing the EITC would be delivered to white households.

If lawmakers seek to make the Commonwealth more racially equitable, they can advance this goal through the tax policies they enact. Expanding the EITC, the Child and Family Tax Credit, the Senior Circuit Breaker, and the Rental Deduction will further racial equity by increasing support year after year for households of color. Doing so will help these households build wealth and access economic opportunities. Cutting estate taxes, capital gains taxes or enacting the Single Sales Factor tax cut will do the opposite.

Share of EITC increase by Race, Ethnicity



Share of Short-Term Capital Gains Cut by Race, Ethnicity



Estimates of racial incidence of tax changes calculated by the Institute on Taxation and Economic Policy: <https://itep.org/itep-tax-model/iteps-approach-to-modeling-taxes-by-race-and-ethnicity/>