



Wealth Inequality and the Tax Code

Ezra Levin, Corporation for Enterprise Development (CFED)

First Focus Briefing, May 15, 2015

On the Agenda

- 1. How has wealth inequality grown?**
- 2. What are tax expenditures?**
- 3. How big are tax expenditures?**
- 4. Who benefits from these tax programs?**

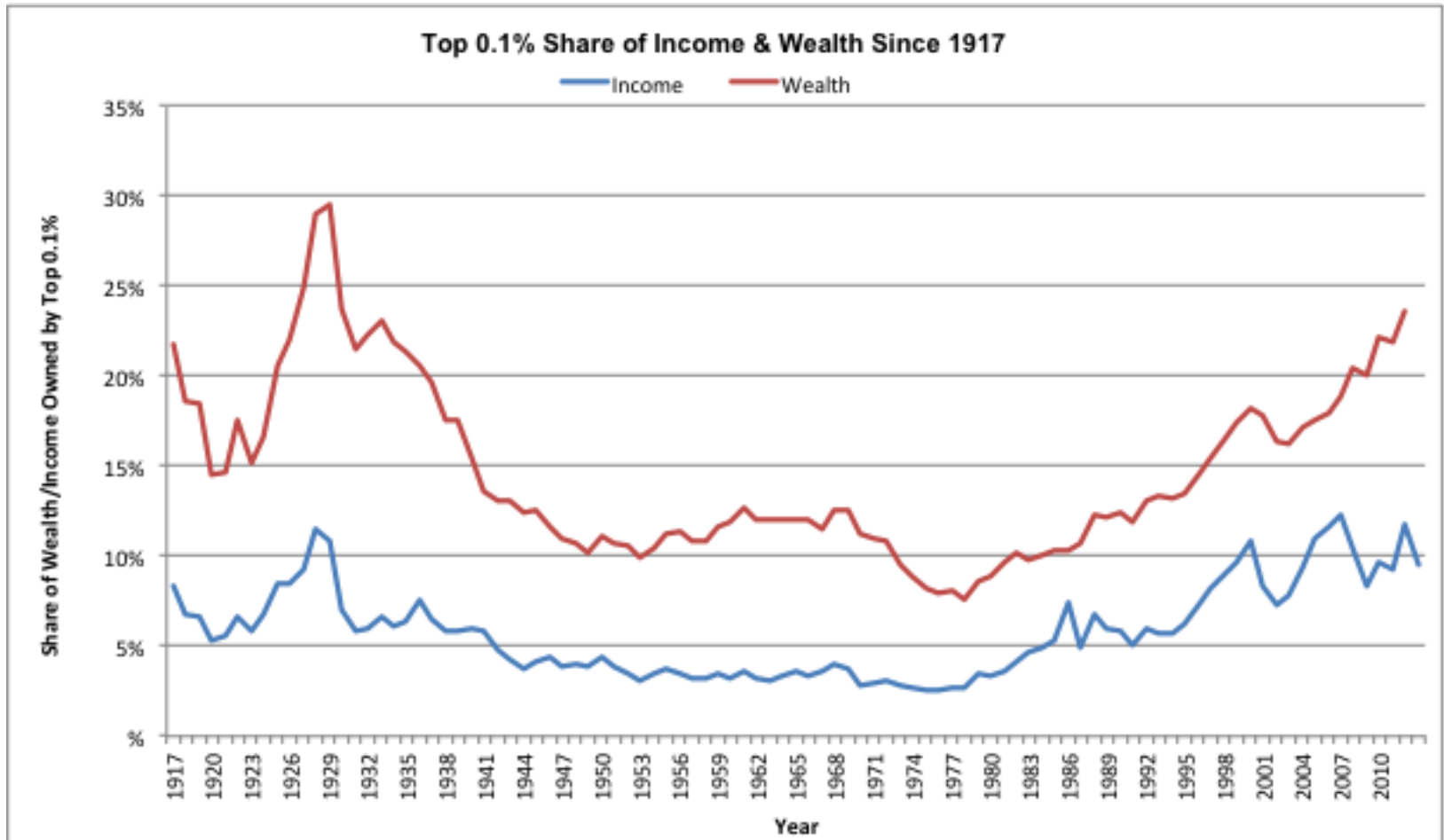
Not on the Agenda

- **Limits of “poverty” as a measure of well-being**
- **Relationship between wealth, material well-being, and economic mobility**
- **Piketty’s $r > g$ and long-term forecasts**

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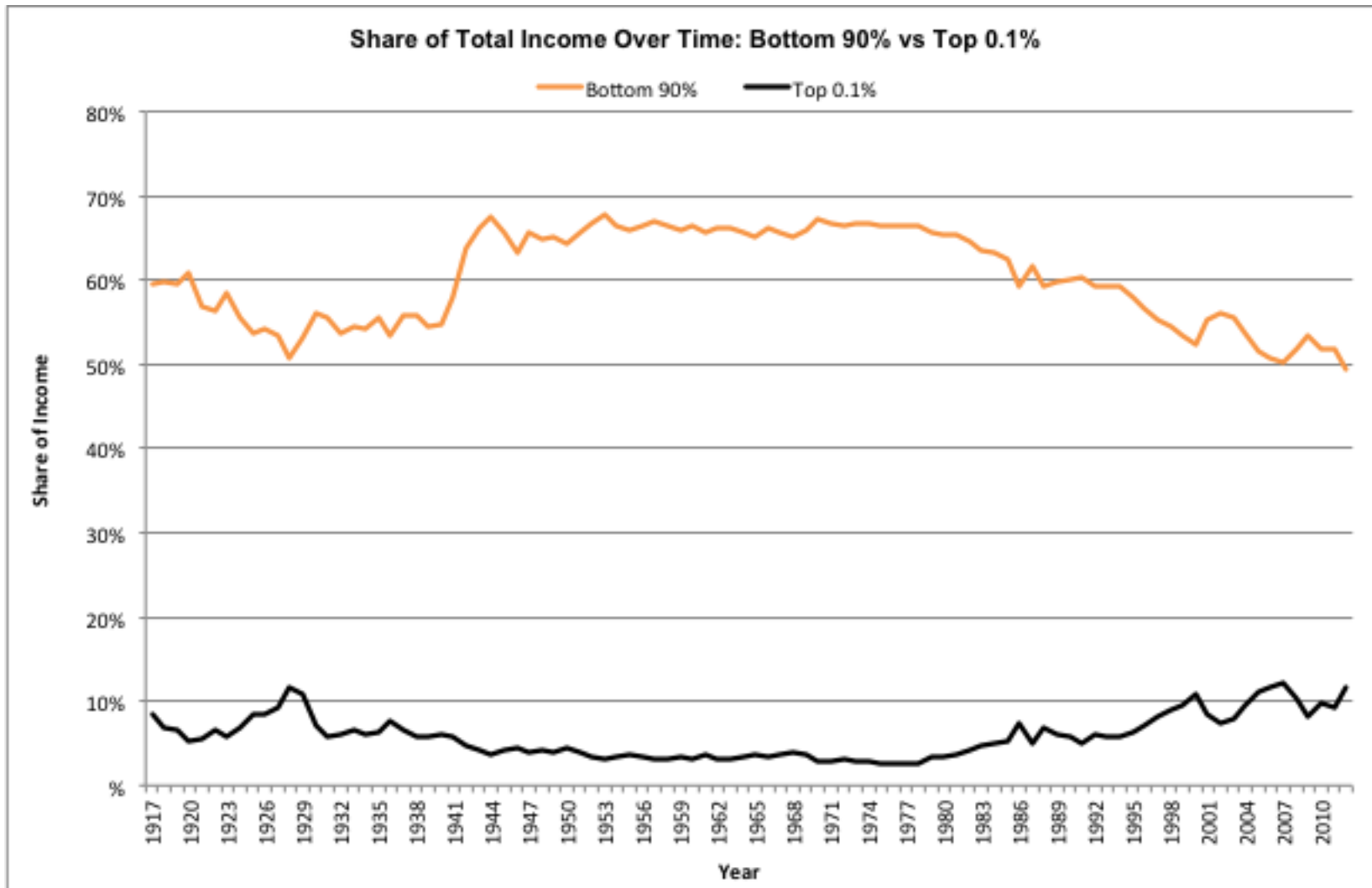
How has wealth inequality grown?

Wealth Inequality



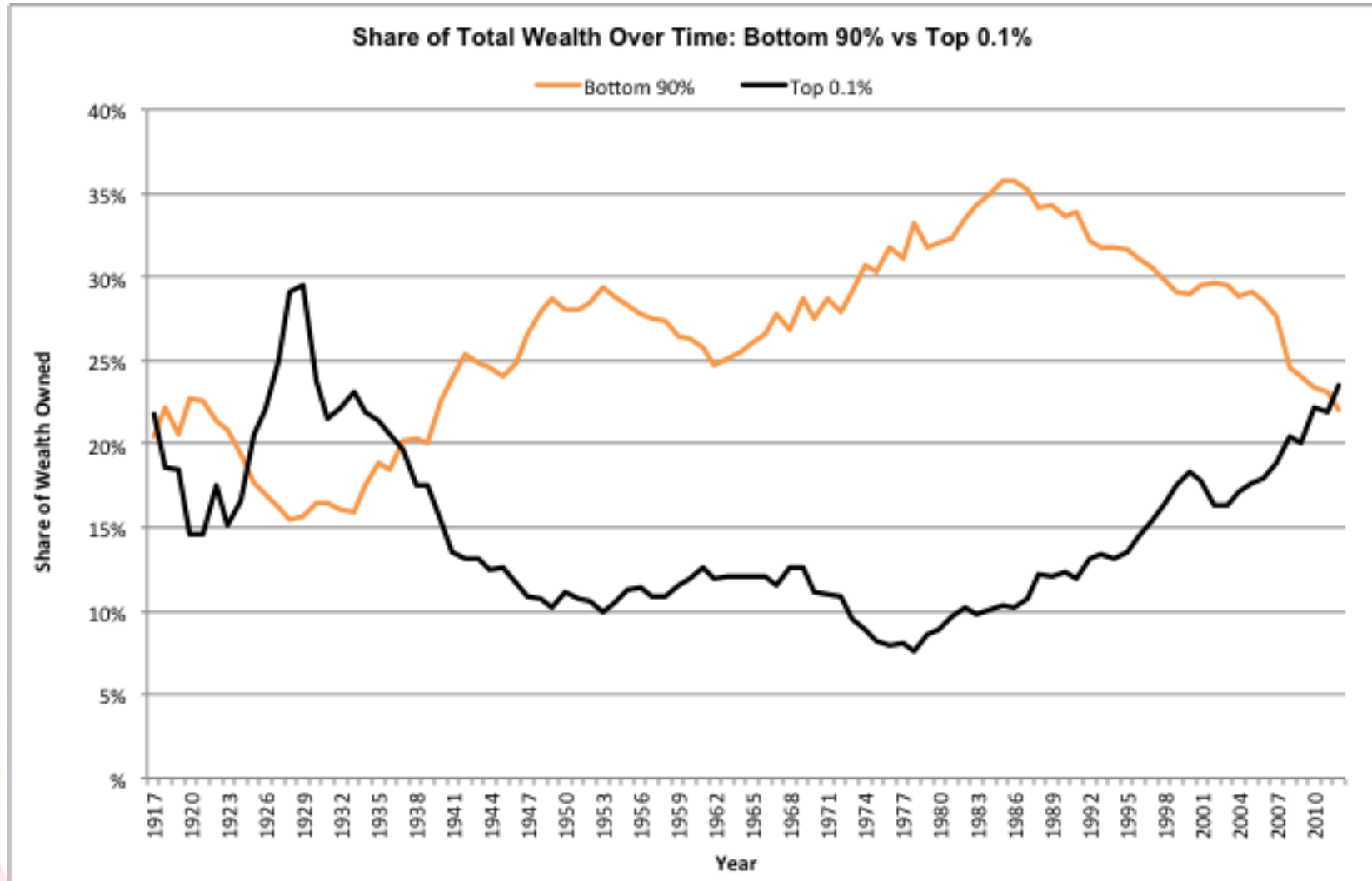
Source: Saez & Zucman, 2014; World Top Incomes Database.

Wealth Inequality



Source: World Top Incomes Database

Wealth Inequality



Source: Saez & Zucman, 2014

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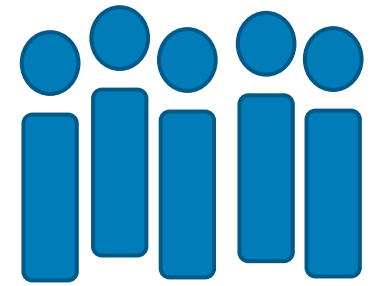
What's a tax expenditure?

What's a Tax Expenditure?

- **Government spending by another name**

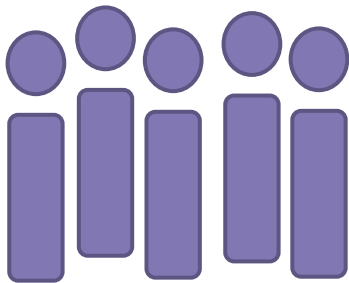
Housing Example: Tax vs Budget Spending

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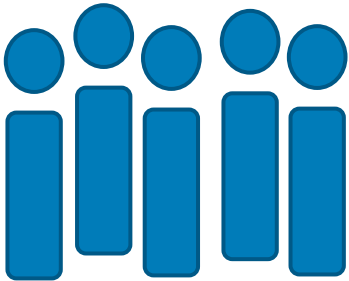


Low-Income Renters

Housing Example: Tax vs Budget Spending



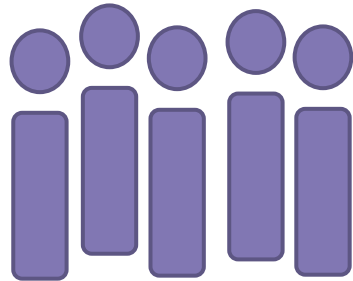
High-Income Homeowners



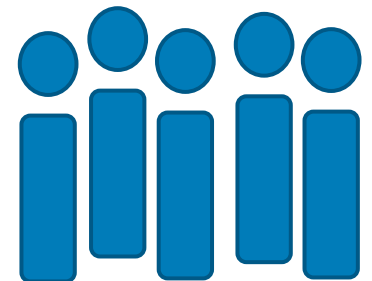
Low-Income Renters

Housing Example: Tax vs Budget Spending

Government Income Tax Revenue



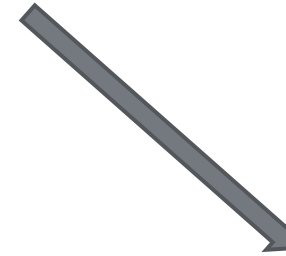
High-Income Homeowners



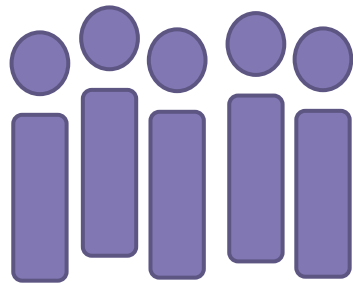
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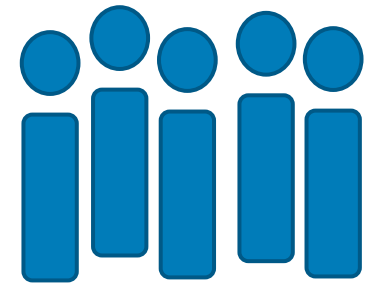
Government Income Tax Revenue



E.g: Section 8 Vouchers



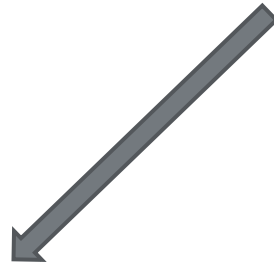
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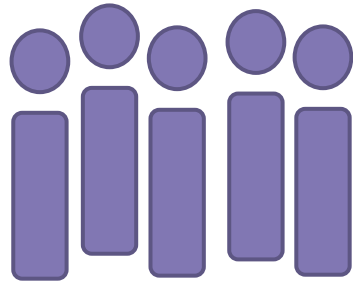
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Government Income Tax Revenue



E.g.: Real Estate Tax Deduction



High-Income Homeowners

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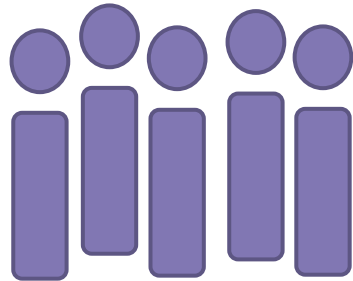
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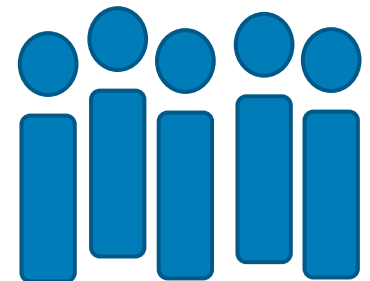
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High-Income Homeowners

SAME RESULTS

E.g.: Section 8 Vouchers



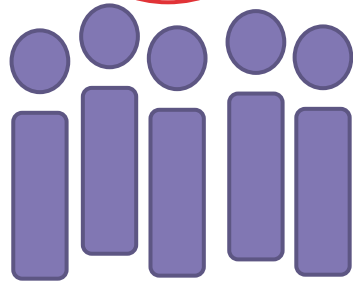
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High-Income Homeowners

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Low-Income Renters

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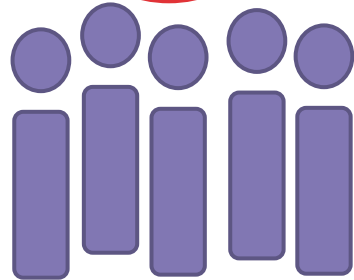


Housing Example: Tax vs Budget Spending

Government Income Tax Revenue

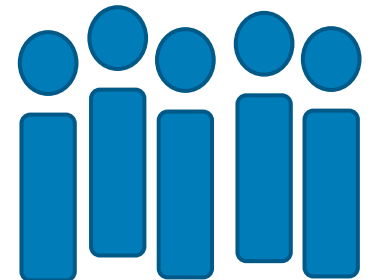


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Low-Income Renters

SAME RESULTS



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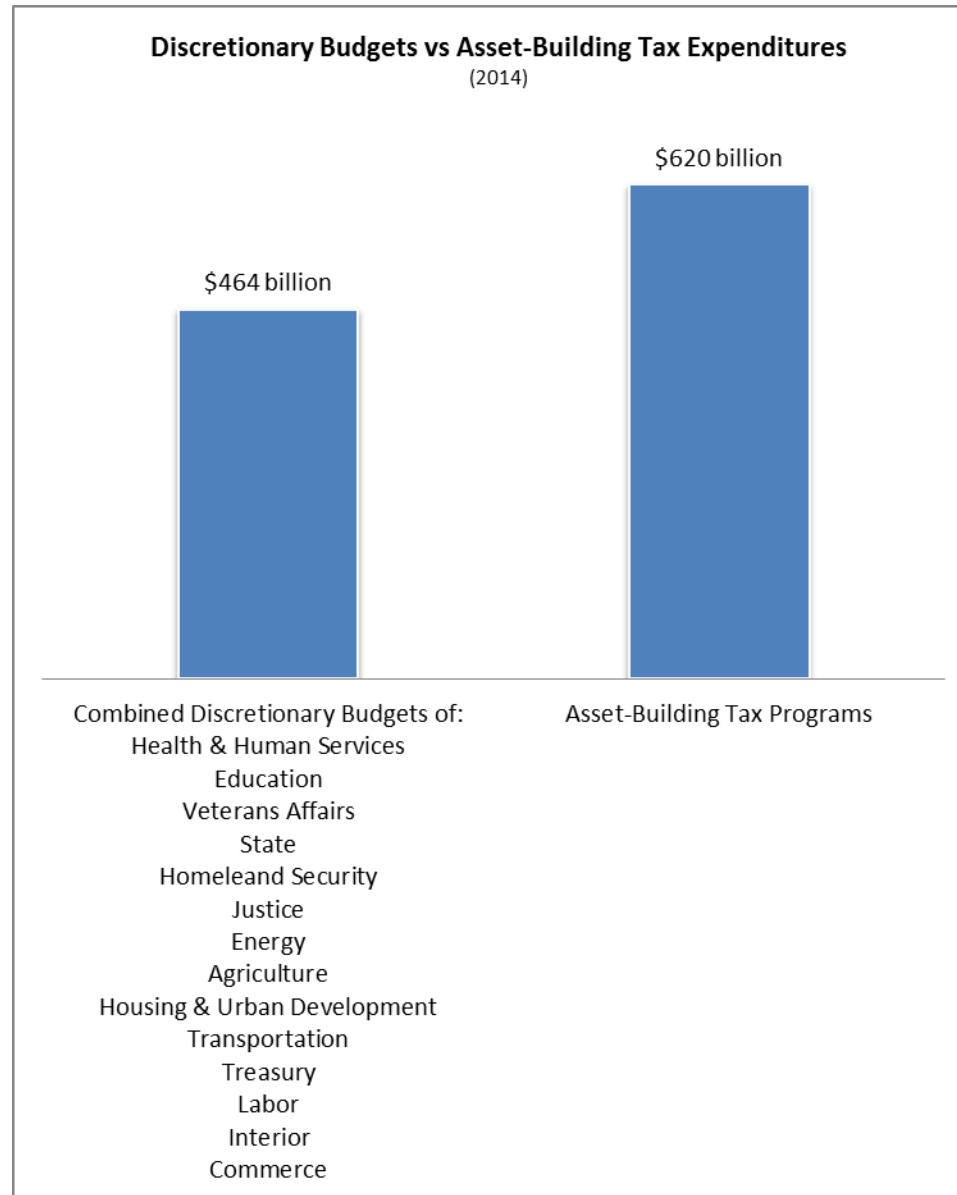
How big are tax expenditures?

Tax expenditures for building wealth in 2014

- **Savings/Investment: \$225 Billion**
- **Housing: \$215 Billion**
- **Retirement: \$146 Billion**
- **Education: \$34 Billion**

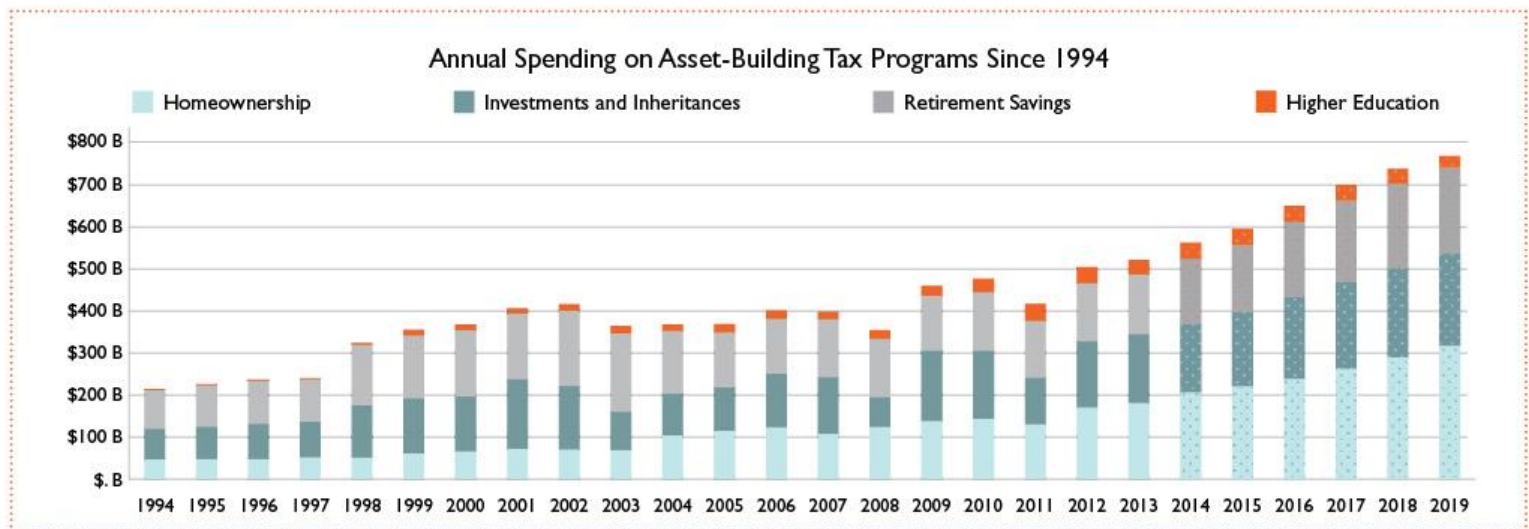
Total: \$620 Billion in 2014

Tax expenditures for building wealth in 2014



Tax expenditures for building wealth in 2014

From 2014-2019, the federal government will spend more than \$4 trillion on tax programs to boost savings, investments, and wealth



Author's calculations based on [Office and Management and Budget](#) data compiled by [National Priorities Project](#). Inflation-adjusted 2015 dollars. American Opportunity Tax Credit data updated to include refundable portion. Excludes forgone revenue from reduced rate on estates.

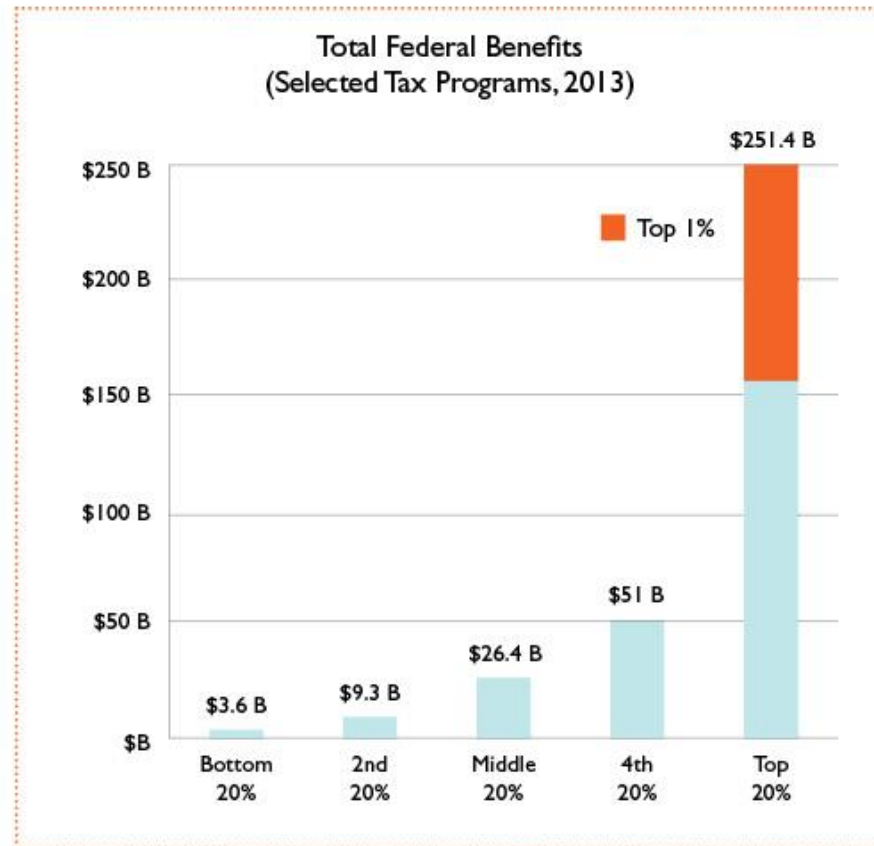
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**Who benefits from these
tax programs?**

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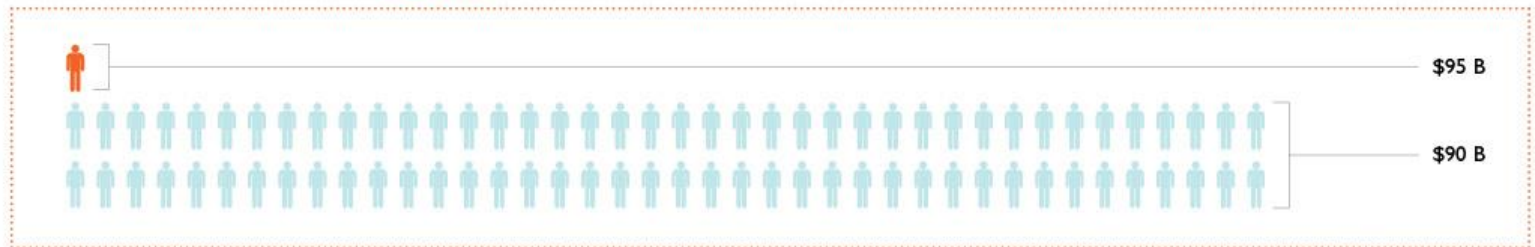
Upside Down: Most Americans receive little support from these tax programs



Author's analysis based data from the [Tax Policy Center](#) (2014) and [Congressional Budget Office](#) (2013). Includes roughly 60% of total federal spending on asset-building tax programs.

Who benefits from these tax programs

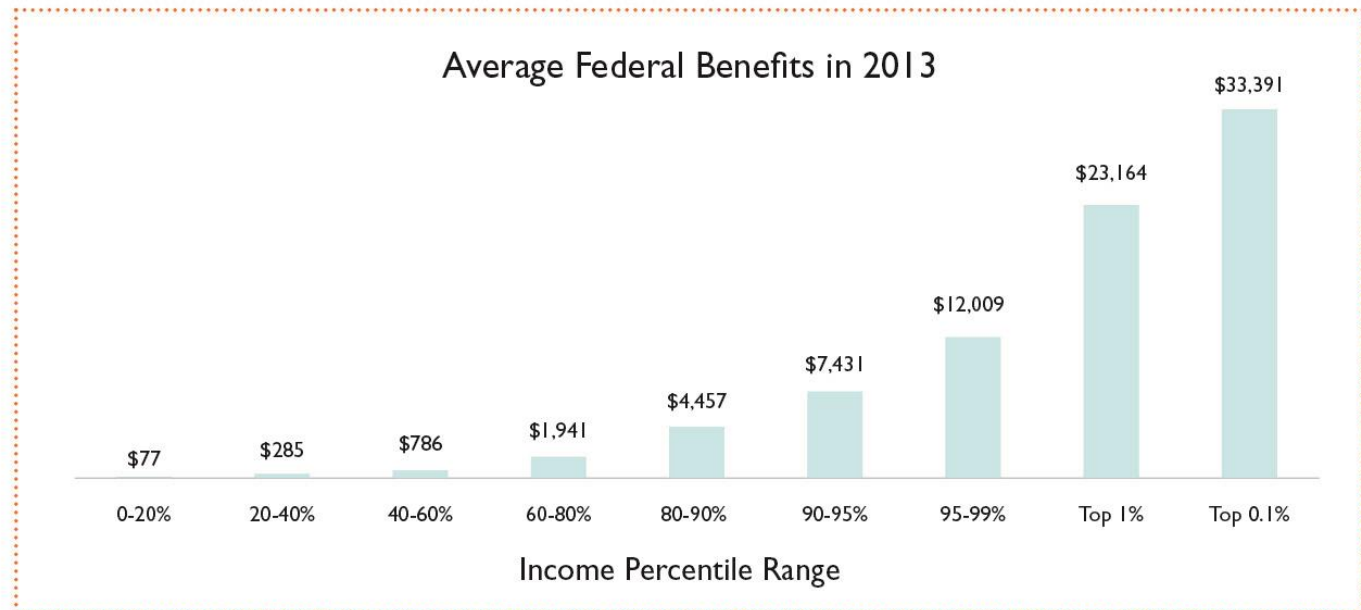
The **top 1%** receive more support than the bottom 80% combined



Author's analysis based data from the Urban Institute (2014) and Congressional Budget Office (2013). Includes roughly 60% of total federal spending on asset-building tax programs.

Who benefits from these tax programs

A top-income family could buy a Cadillac with their annual benefits
A bottom-income family could barely fill the gas tank



Author's calculations based data from the [Tax Policy Center](#) (2014). Includes selected tax programs for homeownership, retirement and higher education. Note that this analysis does not include any tax programs for investment and inheritances, which are even more upside down than other tax programs.

Conclusion

Four Takeaways

- 1. Wealth inequality is extreme and is growing**
- 2. Tax expenditures are government spending**
- 3. Spending on these tax programs far outweighs most other government welfare spending**
- 4. Much of this spending goes to the high-income, exacerbating wealth inequality**

Federal Policy Reforms

Federal policy reforms to boost savings, investment, and wealth by turning tax programs right-side up

HOMEOWNERSHIP

- Replace the mortgage interest and real estate tax deductions with a simple, flat refundable homeownership credit.
- Establish a first-time homebuyer's credit to help new homebuyers afford closing costs of a first home.
- Help families save for a first home down payment.
- Institute meaningful caps on homeownership tax support and use savings to promote primary homeownership for all Americans.

SAVINGS

- Establish a regenerating "Opportunity Fund," by reinstating historical tax rates on estates and inheritances. The fund would link two generations, with the wealth of one investing in the opportunity of the next.
- Support liquid savings through an add-on to the EITC or a new credit for low- and moderate-income workers.
- Reform taxation of investment income, and use the federal revenue to support wealth-development programs for all workers.

RETIREMENT ACCOUNTS

- Replace existing upside down support for retirement savings with a flat refundable retirement savings credit; and reform the Saver's Credit.
- Establish universal, automatic enrollment retirement savings accounts for all workers.
- Apply meaningful caps to tax-supported retirement accounts and use the saved federal revenue to expand retirement savings support for all workers.

HIGHER EDUCATION

- Eliminate the higher education deduction and use savings to create a college savings account for every child at birth.
- Reform the American Opportunity Tax Credit to support college savings directly.
- Eliminate public benefit asset limits for savings into children's savings accounts.
- Expand the Saver's Credit to support college savings.