A PATH FORWARD

LET'S PROMOTE—NOT REDUCE—EQUITY IN OUR TAX CODE

CLASP
The Center for Law and Social Policy

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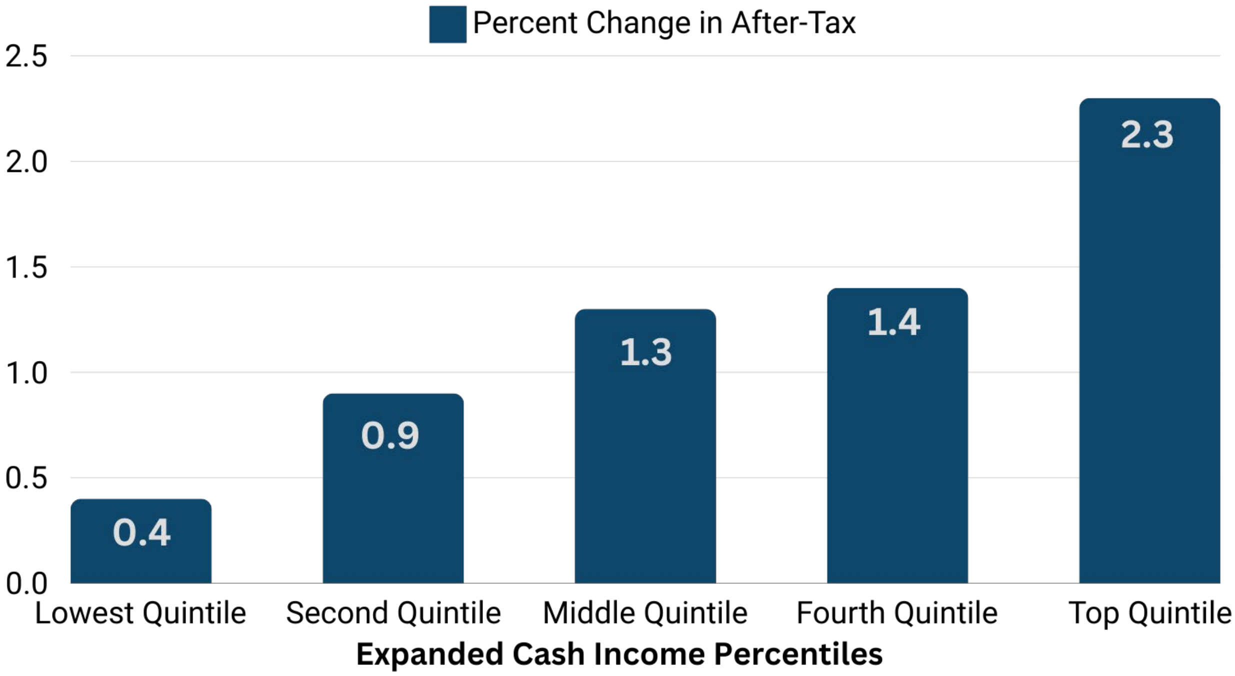
What's at Stake?

Our nation's tax code can be designed to secure revenue for critical public goods and to promote gender and racial equity by investing in families and workers. Many personal income tax provisions expire at the end of 2025, and policymakers will take the opportunity to reform our tax code. National policymakers enacted these provisions through the Tax Cuts and Jobs Act (TCJA) of 2017, which increased the deficit by about **$1.9 trillion** over 10 years. In addition to increasing our national debt, the TCJA largely **benefited the wealthy and corporations**. Lawmakers should promote equity in any upcoming tax package and increase revenue – not continue the unaffordable and regressive provisions that increase inequality and reduce needed revenues.

The very wealthy often **pay a lower tax rate** than teachers in America, and this is just one example of how the tax code benefits the wealthiest people. The wealth gap, and the racial wealth gap, have widened in recent decades, and the TCJA **furthered this divide**. Nearly 80 percent of the tax cuts provided to individuals in the TCJA went toward white households, who represent only **67 percent** of American taxpayers. And the wealth of billionaires has **nearly doubled** since the enactment of the TCJA.

Distribution of Change in After-Tax Income for the Tax Cuts and Jobs Act, 2025 [1]



1. TPC Staff. *Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act* (Tax Policy Center, 2017), 4, Table 2.

Recent Progress

Investments in the IRS and Expansions of Tax Credits for Families

In recent years, lawmakers have invested in the IRS and temporarily expanded critical tax credits that support workers who are paid low wages and their families. These investments illustrate how our tax code can promote economic stability and opportunity for individuals and families.

Under the American Rescue Plan Act in 2021, Congress temporarily expanded the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC). The CTC expansions increased the size of the credit, especially for younger children; made the credit fully refundable; and allowed families to get the credit monthly. The IRS developed a non-filer portal to assist families who do not normally file a tax return in claiming the expanded CTC. The EITC expansions increased the credit available to workers without dependent children and expanded the ages of eligibility for the credit. These temporary changes dramatically **reduced child poverty**, **promoted food security**, and **improved other metrics of well-being** for families and workers. Lawmakers should permanently make the CTC fully refundable and increase the EITC available to workers without dependent children. These changes would invest in children and workers throughout the nation.

In 2023, Congress invested $80 billion into the IRS to update technology infrastructure, improve customer service, and better equip the agency to complete complex audits of wealthy tax filer returns. These investments were sorely needed and **effectively expanded** the capacity of the agency. The funding for enforcement has allowed the IRS to collect **more than $520 million** from millionaires with tax debt or who have not filed. Lawmakers should continue substantial investment in the IRS in future government funding bills. The IRS administered a free, Direct File tool pilot in 2024 for select states. Unlike sometimes-predatory private sector alternatives, this tool is a free, easy-to-use option allowing people to file their taxes directly with the IRS. By reducing the cost, burden, and time required to file – and by connecting more filers with tax credits they are eligible for – the Direct File tool can **promote equity for tax filers**. The IRS should expand this program.

Potential Threats

Risk of Continuing or Worsening the Inequities Within our Tax Code

If lawmakers extend or provide even more tax breaks for the wealthiest Americans and corporations in a 2025 tax package, they will further widen the racial wealth gap and inequities within our tax code. Continuing to implement tax breaks that benefit the wealthiest, rather than promote revenue, will restrict opportunity for Americans by leaving us with less money to invest in critical infrastructure and other public goods and services. The Congressional Budget Office estimates that extending the TCJA would increase deficits by **$4.6 trillion over 10 years.** The **Urban-Brookings Tax Policy Center has calculated** that nearly half of the benefits would go to households with income over $450,000.

Many of the provisions in the TCJA expire in 2025. This provides an opportunity for lawmakers to ensure that corporations and individuals making over $400,000 annually pay a higher share of their income in taxes. It's also an opportunity to promote equity in the tax code and produce more revenue for essential public goods, like the care economy.

The Path Forward

A 2025 tax package should create revenue for our nation, not cost us trillions of dollars. That revenue should come from requiring the very wealthy to pay their fair share. Doing this will allow our nation to make critical investments in important areas such as child care, a national paid family leave policy, home- and community-based services for people with disabilities, access to debt-free college, affordable health care for all, and guaranteed benefits for the elderly. For example, the Congressional Budget Office estimates that extending the expiring TCJA business provisions, including the 20 percent pass-through deduction on certain business income, would **cost $953 billion in revenue** over 10 years – **enough to implement** a universal paid and family medical leave policy and expand home and community-based services for people with disabilities.