House Build Back Better Legislation Advances Racial Equity

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The Build Back Better legislation approved by various House committees would help drive a more equitable recovery by making investments in children, workers, and health care that will enable more people to reach their full potential and share in the nation’s growth. Achieving these goals requires dismantling our nation’s long-standing racial disparities, deeply rooted in racism and discrimination, that have driven starkly unequal opportunities and outcomes in education, employment, health, and housing and have fueled substantial racial income and wealth gaps. The House legislation takes important steps in advancing racial equity, not only by making key investments in programs that can promote opportunity but also by funding these investments with revenues raised through progressive policies from the wealthy and profitable corporations.

The Build Back Better legislation relies on programs and policies that have a substantial track record and a strong base of evidence in the United States and abroad that demonstrate the significant benefits these investments would deliver.

The legislation would:

- **Cut child poverty, narrow long-standing racial disparities in child poverty rates, and help more children reach their full potential**, by, among other provisions, extending the expansion of the Child Tax Credit in the American Rescue Plan, which is estimated to reduce child poverty by more than 40 percent, with the sharpest reductions in the poverty rates for Black and Latino children; and making child nutrition enhancements aimed at addressing long-standing high rates of food hardship disproportionately experienced by children of color.

- **Reduce homelessness and housing instability, particularly through a substantial investment in Housing Choice Vouchers**, which bridge the gap between households’ incomes and the cost of housing. The bill’s expansion of this highly effective program would reduce homelessness and other hardship for people who struggle most to afford a home, with more than two-thirds (71 percent) of those assisted being people of color.

- **Make meaningful, lasting progress toward providing universal health coverage**, by closing the Medicaid coverage gap, which would provide a pathway to coverage for more than
2 million people with incomes below the poverty line — 60 percent of whom are people of color — in states that haven’t adopted the Affordable Care Act’s (ACA) Medicaid expansion. The bill would also permanently increase premium tax credits to make marketplace coverage more affordable and help more uninsured people to enroll.

- **Create a broad-based, comprehensive, and progressive paid family and medical leave program**, addressing a major gap in the nation’s caregiving infrastructure, particularly for workers of color, who are less likely to have access to any family and medical leave, paid or unpaid.

- **Guarantee access to voluntary, free preschool programs for all 3- and 4-year-olds in participating states and make child care affordable for parents with children up to age 5**, advancing equity and opportunity for children, while also making it easier for parents to work.

- **Make higher education more affordable across a range of institutions** by increasing the maximum Pell Grant, eliminating community college tuition and fees in participating states, and supporting institutions dedicated to serving Black, Hispanic, and American Indian students. These policies can lift individuals’ long-term earnings and help close racial gaps in income and wealth.

The House Build Back Better legislation pairs these investments aimed at broadening opportunity with more revenues from high-income and high-wealth households and profitable corporations that too often pay low or no taxes and with strengthened tax compliance efforts so taxpayers pay more of what they owe. These tax policies would generate revenue from the most well-off in the country, who are disproportionately white, and would make the tax code more equitable and adequate without undermining economic growth. Indeed, the investments funded by these revenues will strengthen the economy and broaden opportunity over the long run.

Despite the strength of the legislation, it could be improved by including additional investments that address racial disparities. In particular, Congress should add reforms to modernize unemployment insurance (UI) and Supplemental Security Income (SSI). Now that temporary programs instituted during the pandemic have expired, the nation’s unemployment system will once again feature narrow eligibility rules and low benefits; prior to the pandemic, the unemployment insurance system denied assistance to over two-thirds of those unemployed and covered less than half of lost wages for those who qualified. These weaknesses are particularly acute for workers of color, who face disproportionately higher unemployment rates but who are more likely than other workers to be left out of jobless benefits, leaving them even more vulnerable to significant hardship when they lose employment.

Similarly, SSI is woefully out of date, with key program features that haven’t been updated in decades. Strengthening the program would improve the circumstances of low-income elders and people with disabilities, and would help close gaps in hardship and poverty by race or ethnicity, as a disproportionate share of the population that SSI aims to serve are people of color due to persistent racial disparities in health care and economic opportunity.

In addition, the revenue provisions could be strengthened in two important ways. First, policymakers should tax more of the income of high-wealth households that currently goes untaxed. They can do this by including a Biden Administration proposal to eliminate the “stepped-up basis”
loophole. This loophole allows very wealthy individuals to avoid tax on a large amount of income that has accrued over their lifetime, by wiping out this income tax liability when they die so that neither they nor their heirs owe tax on this income. Similarly, policymakers should tax the benefits shareholders receive when companies buy back stock (rather than issuing dividends) and raise the value of the stock people continue to hold. Eliminating the stepped-up basis loophole and taxing the gains shareholders receive through stock buybacks would lower wealth inequality and provide resources to finance equity-enhancing investments.

The package should also include a Biden Administration proposal to require financial institutions to report certain information to the Internal Revenue Service (IRS), as part of a broader effort to bolster IRS tax enforcement to ensure that more of the taxes that are owed are indeed collected. The information reporting requirements are particularly important for helping the IRS to identify high-income tax cheats who are not accurately reporting their income on their tax return and to better focus its auditing on those at the top of the income spectrum. This would help reverse current audit trends, where some of the highest audit rates in the country are in rural counties in the Deep South with large Black populations. These provisions would reduce racial disparities on their own, and would raise additional revenue that could be used to fund further equity-enhancing investments.

To the extent possible, this report provides data for white, Black, Latino, Asian, American Indian and Alaska Native (AIAN), and Native Hawaiian and Pacific Islander (NHPI) populations. The limited size of some surveys complicates the task of drawing reliable conclusions about smaller populations, including the Asian, AIAN, and NHPI populations. Nonetheless, available data make clear that poverty rates are extremely high for the AIAN population, similar to the Black population. In addition, while Asian poverty rates overall are lower than for other groups, inequality is very high within the Asian population. As a 2015 report by Asian Americans Advancing Justice notes, “lower poverty rates among Asian Americans as a racial group cause many to overlook higher poverty rates among Southeast Asian Americans as distinct ethnic groups.”

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Creating a Pathway to Citizenship

While the House proposal included a pathway to citizenship for Dreamers, people with Temporary Protected Status, farm workers, and other essential workers, the Senate Parliamentarian ruled that this provision cannot be pursued under the special rules of the reconciliation process, which is being used to consider the Build Back Better legislation. The proposal would have created a pathway to lawful permanent residence and ultimately U.S. citizenship for approximately 8 million people who are unlikely to have a clear pathway under current law. The large majority of the people who’d gain access to a pathway are undocumented; most people — 93 percent — who are undocumented in the United States are people of color. The House proposal would break down structural barriers and would provide affected people greater employment and educational opportunities and the ability to live under less fear, allowing them to more fully participate in their communities.

While the Senate Parliamentarian’s ruling appears to close the door for enactment of this proposal through reconciliation, policymakers of both parties should come together to create a pathway to citizenship for immigrants who are an integral part of the nation’s economy and communities.

Investing in Children by Reducing Poverty and Hardship

The Build Back Better plan would reduce poverty and hardship among children through policies such as an expansion of the Child Tax Credit and enhancements in child nutrition programs. These investments will narrow long-standing racial inequities and help more children reach their full potential, particularly children of color who are more likely to have their opportunities shortchanged by poverty and hardship. Owing to historical and continuing barriers to economic opportunity such as discrimination in employment, education, and housing, poverty rates for Black and Latino children are more than twice as high as for white children. Poverty rates are also high for American Indian and Alaska Native children.

Providing stronger, more equitable economic supports for children who face financial hardship and structural disadvantage can make an important difference in their lives now and in the future and benefit the nation by strengthening the health and skills of a generation of future workers, parents, and community members. Strong evidence links financial support for families with better outcomes for children, ranging from healthier birthweights and lower maternal stress to better academic performance, higher rates of high school graduation and college entry, and higher future earnings, all of which benefit the nation’s future strength and prosperity.
Child Tax Credit

The House legislation would extend the American Rescue Plan’s expansion of the Child Tax Credit, which is expected to substantially reduce child poverty and racial inequities. Before the American Rescue Plan, some 27 million children — including roughly half of Black children and half of Latino children, as well as a similar share of children in the nation’s racially diverse rural areas — received only a partial Child Tax Credit or none at all because their families had low earnings or lacked earnings in the year, even as middle- and higher-income families received the full amount. (By comparison, about 20 percent of white children received less than the full credit or no credit at all for this reason.)

The Rescue Plan made the full Child Tax Credit available to those families with little or no earnings (known as “full refundability”), increased the credit amount to $3,000 per child and $3,600 for children under age 6, and included 17-year-olds for the first time, all of which are for 2021 only. These changes are estimated to raise 4.1 million children above the poverty line and reduce the number of children in poverty by more than 40 percent, relative to the poverty rate without the expanded credit. Roughly 87 percent of that anti-poverty impact is due to making the full Child Tax Credit available to children in families with little or no earnings. The House Build Back Better legislation would extend the Rescue Plan’s full expansion through 2025, and would make the full refundability provision permanent. It also would provide the expansion to all the U.S. territories (see Box, “Extending Child Tax Credit Expansions Would Greatly Benefit U.S. Territories”).

Making the Child Tax Credit fully refundable is particularly important for reducing racial disparities in child poverty. Expanding only the maximum credit amount to Rescue Plan levels and including 17-year-olds (but not making it fully refundable) would reduce Black and Latino child poverty rates only by about 1 percentage point relative to the poverty rate without the expanded credit, and so would do little to shrink the significant gaps in child poverty between Black and white children and between Latino and white children that existed prior to the Rescue Plan.

But increasing the credit, adding 17-year-olds, and making it fully refundable would reduce Black and Latino child poverty rates by about 9 percentage points — from 22 percent to 13 percent for Black children, and 21 percent to 12 percent for Latino children — and would reduce the white child poverty rate from 8 percent to 5 percent, relative to the unexpanded credit. (See Figure 1.) As a result, it would narrow the Black/white and the Latino/white differences in child poverty rates by 44 and 41 percent respectively. The full expansion of the Child Tax Credit would also reduce the poverty rate for Asian American children from 13 percent to 9 percent, and for children identified as American Indian and Alaska Native alone or in combination, regardless of Latino ethnicity, from 18 percent to 10 percent, relative to the unexpanded credit.

The Rescue Plan also provided the credit on a monthly basis, which the House legislation would continue. Early data show that parents with low and moderate incomes largely spent their initial monthly Child Tax Credit payments on necessities, including food, utilities, clothing, and housing. The number of adults with children who said their household didn’t have enough to eat dropped significantly after the first payments started.
Extending Child Tax Credit Expansions Would Greatly Benefit U.S. Territories

Building on the American Rescue Plan, the House Build Back Better legislation provides its Child Tax Credit expansions to all the U.S. territories. It would extend full refundability of the credit to all five U.S. territories—Puerto Rico, Guam, U.S. Virgin Islands, Northern Mariana Islands, and American Samoa—including monthly payments. For families in Puerto Rico, monthly payments will start in tax year 2023. This legislation will provide much-needed support to tackle child poverty in the territories, which is much higher than in the rest of the country. To ensure the Child Tax Credit reaches all eligible families, the territories will need support to create awareness about the expansions, given the steep economic challenges, language barriers, and other obstacles to enrollment they face.

Child Nutrition

The Build Back Better plan’s child nutrition enhancements are aimed at addressing long-standing high rates of food hardship that children of color disproportionately experience, and which can have lasting impacts on children’s health and learning. Households of color participate in federal child
nutrition programs at disproportionately high rates, because they have higher poverty rates, which is rooted in historical employment and education discrimination and other structural racism.

Long-standing racial and ethnic disparities in food insecurity widened further during the pandemic. While the share of white households with food-insecure children declined in 2020, the share of Black and Latino households with food-insecure children rose to be more than twice the rate for white households. And, taken together, children in households headed by adults who identify as American Indian, Alaska Native, Native Hawaiian, Pacific Islander, or multiracial were more likely to be food insecure than children in households headed by white adults.

The recovery bill would provide children who receive free or reduced-price school meals during the school year with summer grocery benefits to address the usual summer rise in food insecurity when children aren't in school. It also would expand access to free school meals during the school year in schools that serve large numbers of low-income students and allow states to simplify enrollment by using Medicaid data to enroll children for free or reduced-price school meals. These improvements are designed to reduce food hardship, which is more prevalent among children in Black and Latino households. And because even short periods of food insecurity pose long-term risks for children, these changes would improve the prospects for their future health and well-being.

**Reducing Homelessness and Housing Instability**

The Build Back Better plan’s investments in housing vouchers would reduce racial disparities, and would make major progress in cutting homelessness and housing instability. Our nation’s long history of racism and discrimination has created unequal housing opportunities for people of color and has prevented many people of color from freely choosing where they live. Past and present government policies ranging from discriminatory lending rules to exclusionary zoning have blocked Black people and, to a lesser extent, other people marginalized based on race or religion, from living in the same communities as white people. Racism and the systems and policies that uphold it have put people of color at greater risk of high rental cost burdens, overcrowding, evictions, and homelessness.

More than 580,000 people in communities nationwide were staying in homeless shelters or living on the street in January 2020, even before the pandemic. Over half of those who experienced homelessness in 2020 were people of color: nearly 40 percent were Black, 23 percent were Latino, 6 percent were multiracial, 3 percent were Native American, 1.5 percent were Pacific Islander, and 1 percent were Asian. Black, Latino, Native American, and Pacific Islander people are disproportionately represented among those experiencing homelessness relative to their share of the overall U.S. population.
At the same time, some 24 million people in low-income renter households — 62 percent of whom are people of color — paid more than half of their income for rent and utilities. (See Figure 2.) They include low-paid workers with children, as well as many seniors, people with disabilities, and LGBTQ people, who are more likely to face housing instability and homelessness than straight people. People of color, particularly families with children, have consistently been more likely to report difficulty making rent during the pandemic.

The Build Back Better legislation includes historic investments in key affordable housing programs, preservation of our nation’s public housing stock, significant increases in the supply of affordable and supportive housing nationwide, and substantial expansion of the highly effective Housing Choice Voucher program. Due to inadequate funding, just 1 in 4 eligible households receives rental assistance, and many who ultimately get it wait years. These investments would help create a path toward ending homelessness and significantly reducing housing instability for households with the lowest incomes.

The Build Back Better housing voucher investment would make rents affordable for as many as 750,000 more families and individuals after the housing voucher expansion is fully phased in. This investment would do more than any other housing policy in the legislation to reduce homelessness and other hardship for people who struggle most to afford a home. We estimate that this proposal would help roughly 1.7 million people, and some 71 percent of those assisted would be people of color. (See Figure 3.)
Expanding rental assistance would sharply reduce racial disparities in poverty rates. For example, one study estimated that providing vouchers to all eligible households would reduce the number of people in poverty by 9.3 million.\textsuperscript{18} Poverty rates would drop for all racial and ethnic groups, but most sharply for Black and Latino households, reducing the gap in poverty rates between Black and white households by a third and that between Latino and white households by nearly half.\textsuperscript{19} The Build Back Better plan’s more limited voucher expansion would reduce these disparities by smaller but still substantial amounts. Finally, vouchers also can give people of color, particularly Black and Indigenous people — whose housing choices have long been limited by segregation, redlining, and other structural racism — the option to live in a broader range of communities.

**Extending Health Coverage and Improving Health Outcomes**

The House legislation would make meaningful, lasting progress toward providing universal health coverage, an essential step toward addressing the nation’s persistent pattern of racial inequities in health care and health outcomes. The most important provision in this regard is permanently closing the Medicaid coverage gap, which would provide a pathway to coverage for the more than 2 million uninsured people with incomes below the poverty line who should receive Medicaid but don’t because they live in 12 states that have failed to adopt the ACA’s Medicaid expansion. Most of the people in the coverage gap are people of color, including 28 percent who are Latino and 28 percent who are Black.\textsuperscript{20}

Closing the coverage gap would improve access to health care for a broad group of uninsured adults with low incomes. It is also a key component of efforts to reduce high and increasing rates of deaths and severe health complications among Black people who give birth and to address the behavioral health crisis; people of color are disproportionately likely to face barriers accessing mental health and substance use treatment services, and providing more people with comprehensive health coverage would reduce access barriers.\textsuperscript{21}
Another provision would permanently extend the American Rescue Plan’s temporary increase in the premium tax credit (PTC) for people buying marketplace coverage, which would help more of the uninsured people who are eligible for a PTC to enroll. Before the Rescue Plan was enacted, an estimated 11.2 million people were eligible for PTCs but uninsured, according to federal estimates. About half of this group were people of color, including 30 percent who were Latino; 14 percent who were Black; 3 percent who were Asian, Native Hawaiian, or Pacific Islander; 1 percent who were AIAN; and 2 percent who were multiracial or “some other race.”

About 7 million people would gain coverage in 2022 if Congress enacts both the permanent premium tax credit and coverage gap provisions, the Urban Institute estimates — a nearly one-quarter drop in the uninsured, from about 30 million to 23 million. All racial and ethnic groups would see large declines in the number of uninsured non-elderly adults; Black adults would see the largest gains, with more than 1 in 3 uninsured Black people gaining coverage, Urban estimates.

Additional Medicaid improvements would increase access to health care and narrow racial and ethnic disparities. For example, the package requires that all states cover pregnant people enrolled in Medicaid and the Children’s Health Insurance Program (CHIP) for 12 months following the end of a pregnancy, up from a requirement for 60 days of postpartum coverage. Postpartum health coverage is particularly important because life-threatening conditions during and after pregnancy are distressingly common in the United States. People with low incomes and people of color — especially Black people and American Indians and Alaska Natives — are disproportionately likely to face these conditions. Ensuring that all pregnant people enrolled in Medicaid can get a full year of postpartum coverage is an evidence-based strategy to improve maternal and child health and reduce disparities that have driven this country’s Black maternal health crisis.

The legislation would also allow Medicaid to pay for health care services for people in jail or prison during their last 30 days of incarceration by partially lifting the statutory exclusion on Medicaid reimbursement for services provided to people who are incarcerated. This change would help address gaps in health care and improve health outcomes for the disproportionate number of Latino and Black people who are incarcerated because of deeply flawed and racist criminal justice practices and policies.

The legislation also creates a financial incentive for states to improve the quality of and access to Medicaid home- and community-based services (HCBS), so that people with disabilities can live safely in their homes and communities rather than in nursing homes or other group settings. This funding would help states shore up HCBS and prevent an erosion of services that could undermine future efforts to expand HCBS to all people who need them.

Creating a National Paid Leave Program

The House bill would create a national paid leave program, so families would no longer be forced to choose between their paycheck and caring for their family or their own health. The United States is alone among wealthy countries in its lack of a national paid family and medical leave program. As a result, millions of workers — and particularly low-paid workers, who are least able to accrue substantial savings — struggle to get by when they need time off work because they have a new baby or have adopted a child, become seriously ill, or are caring for ailing family members.
Workers of color are less likely to have access to any family and medical leave, paid or unpaid. Latino workers are particularly unlikely to have access to paid leave. Workers of color also are likelier to have to forgo needed time away from work, mainly because they cannot afford to take an unpaid leave.

The House legislation would address this major gap in our caregiving infrastructure, with an inclusive and progressive plan. Key design features prioritize the needs of low-wage workers, workers of color, and other marginalized groups. The plan would cover the vast majority of workers, as long as they have worked recently. This allows participation by workers whose employers don’t offer robust benefits, such as part-time workers, gig workers, independent contractors, and temporary or part-time employees — which is particularly important for low-paid workers and workers of color. The program would have a progressive benefit structure, replacing at least two-thirds of recent earnings for most workers and a larger share for lower-paid workers, a disproportionate share of whom are workers of color.

**Bolstering Access to Preschool and Child Care**

The Build Back Better legislation would address racial inequities in access to opportunity that become apparent in early childhood by making significant investments in preschool and child care. These investments can lead to improved educational gains for children and help make work possible for more parents.

**Preschool**

The powerful effects of racism on education, family income, and housing have led to a substantial racial gap in school readiness as measured in kindergarten, although it has narrowed somewhat in recent decades. Black children are as likely as white children to be enrolled in preschool programs, but the quality of programs in which Black children enroll is lower on average, resulting in lesser gains for these children. Housing segregation is a substantial factor in this disparity.

Preschool can deliver long-term educational gains to children, particularly if the preschool programs are high quality and adequately resourced, evidence shows. Increasing access to high-quality preschool programs, with a focus on children with the greatest need, will especially benefit Black children, who disproportionately lack access to such programs. In addition, although findings are not uniform, numerous studies have found that children of color gain more in kindergarten readiness from preschool than do white children. Other studies find that successful preschool programs can substantially reduce the Black/white skills gap in reading and math at kindergarten entry.

The House legislation would guarantee access to voluntary, free preschool programs to all 3- and 4-year-olds in participating states, with an outreach priority to enroll children with greatest need. The legislation requires a continuous quality improvement system, skill development for educators, and developmentally appropriate, evidence-based preschool standards. (In states that do not participate in the program, localities and local providers could apply for funds, though the funding available in the current version of the bill could be quite limited.)
Child Care

Child care is least affordable for Black and Latino families, and more than half of Latino and American Indian and Alaska Native families live in areas with an inadequate supply of licensed child care. In the absence of affordable child care, some parents — overwhelmingly women — stop working entirely, often hurting not only their immediate earnings but also their long-term earnings trajectories. When parents do continue to work, they often rely on make-do, unstable child care arrangements that may lead to lost work hours, increased familial stress, and negative impacts for children. Affordable child care assistance both reduces the high cost burden of child care on families and can lead to better employment outcomes, which result in increased income for families and help children achieve better long-term outcomes.

The House legislation would make child care affordable for parents with children up to age 5, with subsidies on a sliding scale based on income, and with an initial focus (as the program grows) on the lowest-income children. The legislation provides for subsidies based on the actual cost of providing high-quality care, supports development of a tiered quality rating system, and requires a living wage, improved training, and a career ladder for child care providers, who are disproportionately women of color and severely underpaid. (Similar to the preschool provision described above, if a state chose not to participate in the program, localities and local providers could apply for funds, though the funding available in the current version of the legislation could be quite limited.)

Making Higher Education More Affordable

Build Back Better legislation has substantial promise to close racial gaps in higher education access and outcomes. College enrollment among Black students has fallen in most states, overall and relative to the college-age Black population. As a result of long-standing disparities in education and employment opportunities that reduce earnings, families of color pay a greater share of their income for college.

To help pay for college, 58 percent of Black undergraduates, 51 percent of American Indian undergraduates, and 47 percent of Hispanic undergraduates received a need-based Pell Grant in 2015-2016, compared to 32 percent of white undergraduates. Yet Pell Grants and other financial aid cover a declining share of total college costs at more institutions today. And due in part to the greater financial challenges, among students who enroll in college, students of color are less likely on average to graduate college. Because post-secondary education substantially lifts individuals' long-term earnings, the racial equity gap in college access and completion contributes significantly to racial income inequality.

The House legislation would make college more affordable across a wide range of institutions by increasing the maximum Pell Grant. In participating states, it would also eliminate tuition and fees for community college, in which Black and especially Hispanic students are overrepresented. A majority (56 percent) of Hispanic students and a plurality (44 percent) of Black students attend two-year public colleges. A majority (51 percent) of public two-year college students were Black, Hispanic, or Asian in 2014. The legislation includes targeted supports for Historically Black Colleges and Universities, Tribal Colleges and Universities, Hispanic-Serving Institutions, and other Minority-Serving Institutions. Finally, the legislation introduced in the House includes funding specifically to support initiatives that promote college completion.
Building a More Adequate, Equitable Revenue System

Income and wealth are highly concentrated at the top of the income spectrum, and white households are overrepresented among wealthy and high-income households. Many wealthy people pay very low tax rates because much of their income (in the form of “unrealized capital gains,” or the rise in the value of assets such as stocks and real estate that they hold) does not face income tax each year or when it is passed on to heirs, and the income that is subject to taxation often enjoys special breaks. The 400 wealthiest families paid an average federal individual income tax rate of just 8.2 percent in recent years, when unrealized capital gains are taken into account, a new analysis from Biden Administration economists estimates. The House legislation raises more than $2 trillion in revenue over the decade from wealthy households and profitable corporations to help offset the cost of its investments.

Looking just at the tax provisions in the legislation, people with low and moderate incomes would receive substantial tax cuts — such as from the expansion of refundable tax credits — while those at the top would see substantial tax increases — such as from higher top income tax rates on individuals and corporations and closing tax loopholes — according to Joint Committee on Taxation distributional estimates. Those earning over $1 million per year would see a 7.1 percentage-point increase in their average tax rate. (See Figure 4.) (It is important to note that these figures substantially overstate the increase in the tax rate among the wealthy because they measure the tax rate against taxable income, and so exclude unrealized capital gains.)
These policies would not only help pay for needed investments but would also push back against rising income inequality. Over the past several decades, high-income and high-wealth households have prospered, including through the pandemic, with their income gains far outpacing the those of low- and middle-income households. The well-off have benefited from repeated tax cuts and preferential tax treatment even as they benefit from public investments including research, education, and infrastructure that support businesses.\textsuperscript{44} The highest-income 1 percent of households received 13.5 percent of the nation’s total household income, after accounting for taxes and government transfers, in 2017, up from 7.4 percent in 1979, according to the Congressional Budget Office.\textsuperscript{45}

The most affluent are disproportionately white. Centuries of racism and discrimination in employment, housing, education, and the criminal justice system have systematically locked Black, Indigenous, and other people of color out of economic opportunities, which is reflected in income and wealth inequality today. Black and Latino households are 30 percent likelier than white households to be in the bottom three-fifths of the income scale, while white households are three times likelier than Black and Latino households to be in the top 1 percent.\textsuperscript{46} American Indian and Alaska Native people also have incomes about 25 percent lower and poverty rates roughly 65 percent higher than the general population.\textsuperscript{47}

The distribution of wealth is even more unequal. The median net worth in 2019 of white families was $189,100, or nearly eight times higher than for Black families and five times higher than for Hispanic families, according to the Federal Reserve’s Survey of Consumer Finances.\textsuperscript{48} (See Figure 5.) About 9 in 10 of the wealthiest 1 percent of households are white.\textsuperscript{49}
The largest contributors to the tax gap — the gap between the taxes that are legally owed and the taxes that are paid — are high-income people, with the top 1 percent of earners responsible for more than 25 percent of the $600 billion annual tax gap.\textsuperscript{50} Meanwhile, some of the highest audit rates in the country are in rural counties in the Deep South with large Black populations. A decade of cuts to the IRS budget has led to large reductions in the number of highly trained audit staff needed to review the returns of the largest corporations and the highest-income filers.

The legislation would address some of the tax code’s flaws and increase the degree to which it leans against racial disparities. It would reduce some of the special breaks wealthy people receive on various concentrated income streams, such as capital gains, dividends, passthrough, and carried interest. It also raises the tax rate on corporate profits — a progressive tax — and provides funding to rebuild the enforcement division of the IRS.

**Recovery Legislation Could Do More to Advance Equity**

Despite the strength of the legislation, it could be improved by including additional investments that address racial disparities. In particular, Congress should add provisions to modernize UI and SSI, and to further push back against inequities in the tax code.
Unemployment Insurance

The Build Back Better legislation omits UI system reform. Congress temporarily responded to the existing gaps and weaknesses in UI that COVID-19 further exposed, but those programs have now all expired. The nation has been left with a system that, prior to the pandemic, denied assistance to over two-thirds of the unemployed and that covers less than half of lost wages to those who qualify for coverage. These weaknesses are particularly acute for workers of color, who face disproportionately higher unemployment rates and who are more likely than other workers to be left out of jobless benefits, leaving them even more vulnerable to significant hardship when they lose employment.

In calling for UI reform, President Biden’s fiscal year 2022 budget points out that “longstanding problems with state-based UI systems and their deterioration over time caused disproportionate harm to Black workers.” For example, while Black workers have been nearly twice as likely to be unemployed as white workers, studies show that a lower percentage of Black applicants receive UI benefits. Latino workers also face significant barriers to receiving unemployment benefits, even as they too face substantially higher rates of unemployment than non-Hispanic, white workers, research has shown.

Workers of color disproportionately live in the states with the lowest UI coverage rates. Workers of color also are more likely to work in jobs from which it is harder to qualify for UI benefits due to outdated criteria that keep low-wage and part-time workers from meeting eligibility requirements.

While they would not address the long-term need for more comprehensive UI reform, Congress should take some basic steps to begin to address these inequities. For example, 14 states do not count workers’ most recent wages when determining their eligibility for UI benefits — an omission that particularly hurts workers of color because they are more likely to have low-wage, part-time, or intermittent work histories. Additionally, after the 2007-2009 Great Recession, ten states cut the number of weeks of regular UI benefits available below the historical norm of 26 weeks. Black workers are particularly hurt by these shorter benefits because their average duration of unemployment is significantly longer than that of white workers.

Congress must begin to address the racial inequities in our UI system as it continues to consider the Build Back Better legislation, even if only limited reform is possible now.

Supplemental Security Income

SSI is woefully out of date, with key program features that haven’t been updated in decades. Strengthening SSI would improve the circumstances of low-income elders and people with disabilities, and would also help close outcome gaps by race or ethnicity. Persistent racial disparities in health care and economic opportunity have led to higher rates of disability and poverty among people of color. As a result, people of color make up a disproportionate share of the populations that SSI aims to serve: low-income seniors and people with disabilities. SSI is a critical source of income for these groups — but the program leaves many people out and others still impoverished.

The maximum SSI benefit is only three-fourths of the poverty line, and 4 in 10 recipients are in poverty. SSI’s income and asset rules have not been updated for decades, and they prevent many low-income seniors and people with disabilities from qualifying for the program. SSI also excludes most immigrants and residents of U.S. territories, most of whom are people of color.
Updating SSI could cut poverty among SSI beneficiaries by more than half and lift over 3 million people above the poverty line, according to new research from the Urban Institute.\(^3\)

### Additional Revenue Provisions

While the House bill will help narrow racial disparities, it could do even more to address the inequities in the tax code. Notably, it should embrace the Biden Administration’s proposal to close the stepped-up basis loophole, which allows wealthy households to pass large amounts of income (in the form of unrealized capital gains) to heirs without it ever facing the income tax.\(^4\) As Roosevelt Institute Fellows Darrick Hamilton and Michael Linden (now Senior Advisor at the Office of Management and Budget) explained, “inheritance is the single variable with the greatest explanatory power of the overall racial wealth gap,” with Black and Hispanic families inheriting far less wealth than white families.\(^5\) As a result, the particular group of taxpayers that the loophole advantages is “a small, mostly White, group of Americans,” Emory University law professor Dorothy Brown has explained, writing that “Congress is passing up a chance to close a tax loophole — and the racial wealth gap.”\(^6\)

Policymakers should also reform the preferential tax treatment of stock buybacks, in which a corporation distributes profits to shareholders by buying back shares, raising the stock’s price and thereby increasing stockholders’ wealth.\(^7\) Stock buybacks are an increasingly popular alternative to dividends but, unlike dividends, do not trigger tax liability for those who benefit from higher share prices. Professors Daniel Hemel and Gregg Polsky have proposed treating stock buybacks similarly to dividends, which would be an incremental step toward taxing unrealized capital gains.\(^8\) Under their proposal, in the case of a stock buyback, shareholders would be taxed as if they had received dividend income. Capital gains accrue disproportionately to the wealthy, but policymakers could make adjustments for households with lower incomes to protect them from tax increases.

The package should also include a Biden Administration proposal to establish new IRS information reporting requirements. The proposed rules would require financial institutions to report flows into and out of bank accounts held by individuals and companies, which would help the IRS uncover unreported income commonly earned by the wealthy and for which there is little third-party information, such as certain business transactions.\(^9\) Strengthening the IRS should be part of an overall plan to reduce racial income and wealth gaps.\(^10\)

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1. Nick Gwyn is a consultant with CBPP and is an expert on unemployment insurance.
3. According to the U.S. Census Bureau’s 2019 American Community Survey public use microdata sample, the poverty rate for people who identify as American Indian and Alaska Native alone or in combination, regardless of Latino ethnicity, was 20.4 percent. By comparison, the poverty rate for people who identify as Black only and not Latino was 21.1 percent.
The House Financial Services Committee estimates that the PBRA expansion would assist 260,000 additional units, so that HUD can provide administrative funding equal to the full amount for which agencies are eligible under the current formula. The bill also includes other measures to expand rental assistance, including $15 billion for the Section 8 Project-Based Rental Assistance (PBRA) program and smaller expansions of rental assistance targeting seniors and people with disabilities. The House Financial Services Committee estimates that the PBRA expansion would assist 260,000 additional units, so


Our 750,000 estimate assumes that HUD will scale up the number of vouchers evenly over the five years and will provide administrative funding equal to the full amount for which agencies are eligible under the current formula. The bill also includes other measures to expand rental assistance, including $15 billion for the Section 8 Project-Based Rental Assistance (PBRA) program and smaller expansions of rental assistance targeting seniors and people with disabilities. The House Financial Services Committee estimates that the PBRA expansion would assist 260,000 additional units, so
the bill overall could provide rental assistance for as many as 1 million added households once the investments are fully phased in. House Financial Services Committee Majority Staff, “Memorandum: September 13, 2021, Full Committee Markup,” September 8, 2021, https://financialservices.house.gov/uploadfiles/hmkp-117-ba00-20210913-sd002.pdf.


18 Sophie Collyer et al., “Housing Vouchers and Tax Credits: Pairing the Proposal to Transform Section 8 with Expansions to the EITC and Child Tax Credit Could Cut the National Poverty Rate by Half,” Columbia University Center on Poverty and Social Policy, October 7, 2020, https://static1.squarespace.com/static/5745308460b5e922a25a6dc7/t/5f7dd00e12dfc51e169a7e83/1602080783936/Housing-Vouchers-Proposal-Poverty-Impacts-CPSP-2020.pdf.


20 CBPP analysis of 2019 American Community Survey. Estimates exclude the estimated population lacking legal documentation and the institutionalized population.


22 “State, County, and Local Estimates of the Uninsured Population: Prevalence and Key Demographic Features,” U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, March 11, 2021, https://aspe.hhs.gov/reports/state-county-local-estimates-uninsured-population-prevalence-key-demographic-features. These estimates exclude those lacking legal documentation. They do not account for whether uninsured individuals have an affordable offer of employer coverage, which also affects eligibility for marketplace enrollment. Latino category may include any race. All other categories are non-Latino. Categories are combined because of data limitations and do not necessarily represent how individuals would like to be categorized.


25 The American Rescue Plan created a temporary option for states to offer up to 12 months of postpartum coverage in Medicaid or CHIP; it starts in April 2022 and is available for five years. However, only about half the states have passed legislation or taken other steps to take advantage of this option, and of these, not all would extend coverage for 12 months. Kaiser Family Foundation, “Medicaid Postpartum Coverage Extension Tracker,” September 23, 2021, https://www.kff.org/medicaid/issue-brief/medicaid-postpartum-coverage-extension-tracker/.


49 Huang and Taylor, op. cit.


