Racial Equity Implications of Housing-Related Income Tax Policies

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Tax policies may often appear race-neutral, but they can significantly exacerbate – or reduce – inequitable racial disparities in income and wealth.[1] This is particularly true for housing-related tax policies.

In the arena of housing, specifically, legacies of policies and practices that were explicitly or implicitly racist have blocked many individuals of color, particularly Black individuals, from opportunities to become homeowners or sustain homeownership. These include historical policies and practices such as redlining and racial covenants, which blocked access to federally-insured mortgages, and in turn blocked access to the housing benefits of the GI Bill, thus preventing Black families and other families of color from benefiting from key federally-supported opportunities to enter homeownership[2] – as well as more recent practices such as racial targeting of subprime mortgages leading up to the Great Recession, pushing more homeowners of color to lose their homes to foreclosure.[3] Past and ongoing discriminatory practices across a variety of domains, including education, employment, and the justice system, also directly contribute to relatively lower incomes for individuals of color, particularly Black and Hispanic individuals, as well as less accumulated wealth, both within and across generations. Lower incomes and less wealth translate in turn into reduced ability to secure home loans and become homeowners.[4] All of these factors contribute to substantially lower homeownership rates for individuals of color, particularly Black and Hispanic individuals, compared to white individuals – in New York and in the United States overall.[5]

At the same time, both federal and state tax policies provide significant tax subsidies for homeowners, in the form of the mortgage interest deduction and real property tax deduction.[6] These tax benefits disproportionately benefit individuals and families who are white because they are more likely to own homes, and offer less benefit to individuals and families of color, who are more likely to be renters. In addition, as non-refundable tax deductions, these policies also provide the most benefit to tax filers with higher incomes, again benefiting individuals of color collectively less than white individuals even among homeowners.

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[1] Leachman, M., et al. (2018). "Advancing Racial Equity with State Tax Policy." Center on Budget and Policy Priorities.

[2] Bhutta, N., et al. (2020). "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 28, 2020, DOI: 10.17016/2380-7172.2797; McIntosh, K., et al. (2020). "Examining the Black-White Wealth Gap." Brookings Institution; Hardy, B., et al. (2018). "The Historical Role of Race and Policy for Regional Inequality." In Shambaugh, J. & Nunn, R. (eds.), *Place-Based Policies for Shared Economic Growth* (The Hamilton Project); Callahan, D. (2013). "How the GI Bill Left Out African Americans." Demos.

[3] Faber, J. (2013). Racial Dynamics of Subprime Mortgage Lending at the Peak. *Housing Policy Debate* 23(2), 328-349. DOI: 10.1080/10511482.2013.771788; Rugh, J. & Massey, D. (2010). Racial Segregation and the American Foreclosure Crisis. *American Sociological Review* 75(5): 629-651. DOI: 10.1177/0003122410380868.

[4] Bhutta, N., et al. (2020).

[5] Hermann, A. (2023). "In Nearly Every State, People of Color Are Less Likely to Own Homes Compared to White Households." Joint Center for Housing Studies of Harvard University.

[6] Kimberlin, S. (2023). "A Renter's Tax Credit to Curtail the Affordable Housing Crisis: Implications for New York State." Presentation to the New York State Child Poverty Reduction Advisory Council, March 7, 2023.

There are no significant federal tax benefits for renters, and only limited renter tax benefits at the state level in New York and some other states [7] – but where they exist, renter-specific tax benefits like renter's tax credits can play a role in reducing racial inequities in who benefits from tax subsidies, and more broadly can be one tool to address inequitable disparities in incomes and wealth. This is particularly true for refundable credits, which do not exclude tax filers with low incomes. Individuals of color are disproportionately likely to be renters, so are especially likely to benefit from renter's tax credits.

The figures below illustrate these points, by showing the racial distribution of individuals in families potentially eligible to benefit from the federal mortgage interest deduction, versus individuals in families eligible for the refundable renter's tax credit modeled in Kimberlin, Tach, and Wimer (2018),[8] compared to the racial distribution of individuals in the overall population. Figure 1 shows data specific to New York State, while Figure 2 shows a similar pattern in data for the United States overall. In both cases, white individuals are disproportionately likely to benefit from the mortgage interest deduction, while the modeled refundable renter's tax credit particularly benefits Hispanic, Black, and (in New York specifically) Asian individuals.

[7] Kimberlin, S. (2023).

[8] Kimberlin, S., Tach, L., & Wimer, C. (2018). A Renter's Tax Credit to Curtail the Affordable Housing Crisis. *RSF: The Russell Sage Foundation Journal of the Social Sciences* 4(2): 131-160. DOI: 10.7758/RSF.2018.4.2.07.

Figure 1

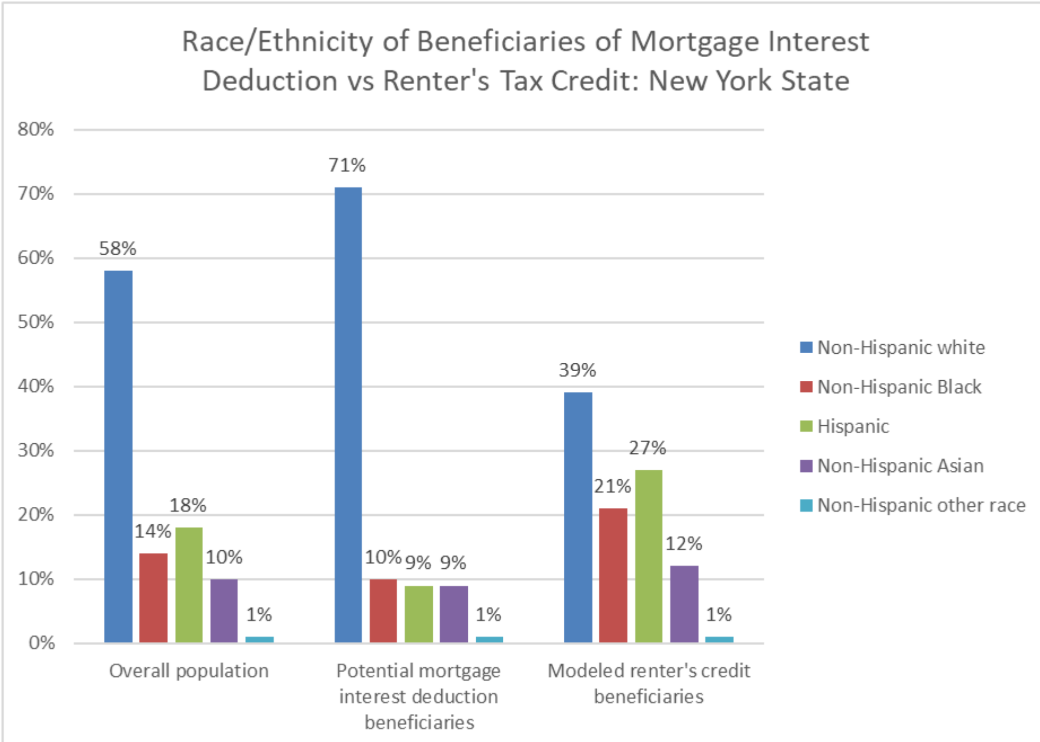
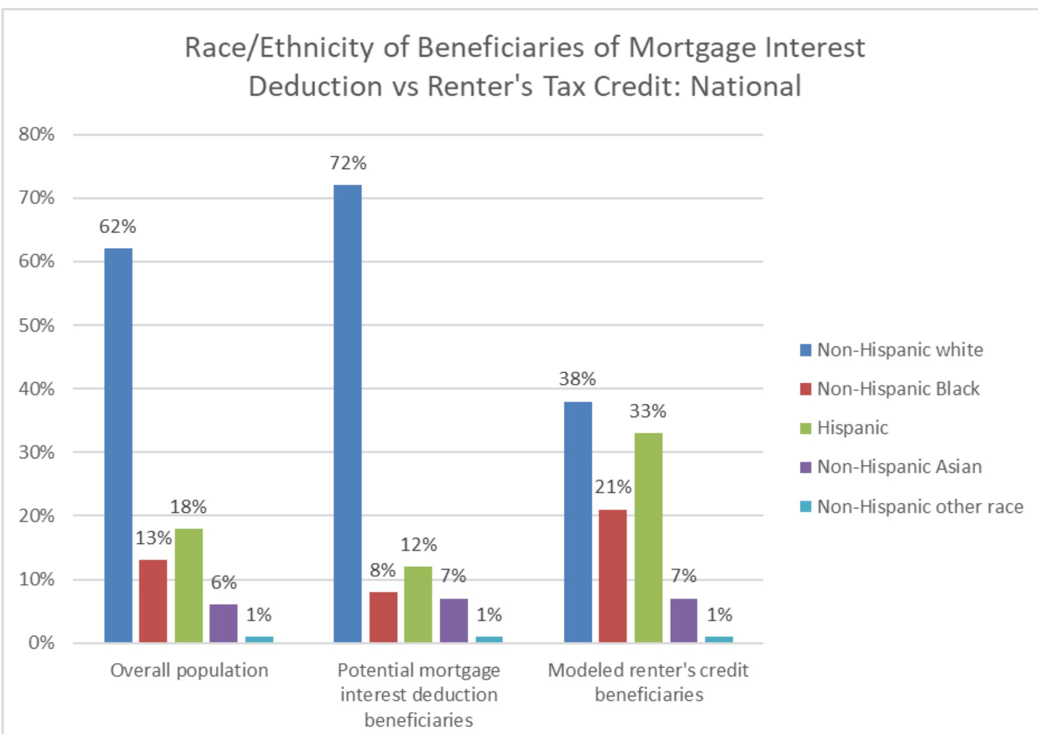


Figure 2



Source: Author's calculations in US Census Bureau, Current Population Survey public-use microdata for 2014-2016 downloaded from IPUMS-USA (University of Minnesota, www.ipums.org).

Note: Beneficiaries include all individuals in families (SPM poverty units) that include tax units eligible for tax benefits. Families identified as potentially eligible to benefit from mortgage interest deduction include those living in homeownership housing with a mortgage that include tax units with federal income tax liability before credits. Modeled refundable renter's credit described in Kimberlin, Tach, & Wimer (2018).