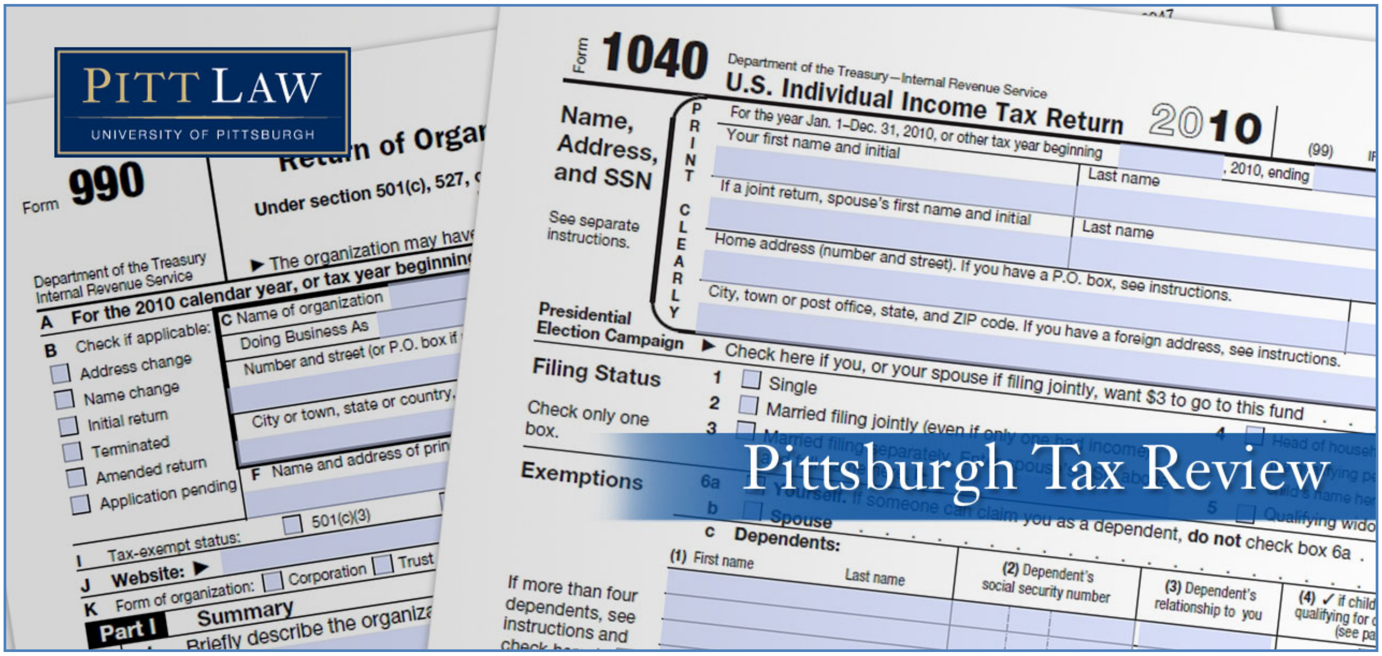

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HIGH-RENT, LOW-WEALTH: ADDRESSING THE RACIAL WEALTH GAP THROUGH A FEDERAL RENTER CREDIT

Brakeyshia Samms, Joe Hughes & Emma Sifre

HIGH-RENT, LOW-WEALTH: ADDRESSING THE RACIAL WEALTH GAP THROUGH A FEDERAL RENTER CREDIT

Brakeyshia Samms,[*] *Joe Hughes*[**] *& Emma Sifre*[***]

For many decades, the United States has experienced growing wealth inequality between the richest and poorest households and between households of different races.[1] While the federal tax code has some policies focused on raising income of low earners,[2] it contains fewer provisions designed specifically to address wealth inequality. The stark economic and racial wealth gap[3] in the country necessitates a policy solution, and tax policy reform provides some innovative possibilities.

Getting to a better tax code first requires understanding the flaws in current approaches. Many features of the tax code contribute substantially to America's wealth gaps. For instance, investment income is taxed at a lower rate than wage income, unsold financial assets can be passed along to heirs without anyone ever paying tax on the income from growth in those assets, enormous estates can be passed along tax free, investment vehicles enable those with extreme wealth to further avoid taxation, and extensive corporate tax breaks reward shareholders.[4]

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[1] Madeline Brown et al., *Nine Charts About Wealth Inequality in America*, URB. INST. (Apr. 25, 2024), https://apps.urban.org/features/wealth-inequality-charts/.

[2] CTR. ON BUDGET & POL'Y PRIORITIES, POLICY BASICS: THE EARNED INCOME TAX CREDIT 1 (2023), https://www.cbpp.org/sites/default/files/atoms/files/policybasics-eitc.pdf.

[3] Joe Hughes & Emma Sifre, *Investment Income and Racial Inequality*, INST. ON TAX'N & ECON. POL'Y (Oct. 14, 2021), https://itep.org/investment-income-and-racial-inequality/.

[4] Carl Davis, *Paying the Estate Tax Shouldn't Be Optional for the Super Rich*, INST. ON TAX'N & ECON. POL'Y (Nov. 9, 2021), https://itep.org/paying-the-estate-tax-shouldnt-be-optional-for-the-super-rich/; Ellis Simani et al., *How These Ultrawealthy Politicians Avoided Paying Taxes*, PROPUBLICA (Nov. 4, 2021), https://www.propublica.org/article/how-these-ultrawealthy-politicians-avoided-paying-taxes; Ben Steverman et al., *The Hidden Ways the Ultrarich Pass Wealth to Their Heirs Tax-Free*,

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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These problems with the tax code also have racial implications—for example, taxing long-term capital gains at lower rates than wage income[5] disproportionately benefits white households, who own a higher share of stocks (18%) than Black households (9%).[6] One study by the U.S. Treasury Department finds that 92% of the benefits of preferential tax rates on capital gains flow to white families, widening the racial wealth divide.[7] Corporate tax breaks mainly benefit owners of corporate stocks, which also widens both economic and racial inequality.[8]

Historic and ongoing racial discrimination—and economic exclusion of Black Americans—has led to deeply entrenched racial wealth inequality, particularly between white and Black households.[9] Wealth gaps also affect other ethnic groups. White households have about six times the average wealth of both Black and Hispanic households.[10] At 67% of household

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BLOOMBERG (Oct. 21, 2021), https://www.bloomberg.com/features/how-billionaires-pass-wealth-to-heirs-tax-free-2021/; Steve Wamhoff, *Everything You Need to Know About Proposals to Better Tax Billionaires*, INST. ON TAX'N & ECON. POL'Y (Dec. 21, 2023), https://itep.org/everything-you-need-to-know-about-billionaire-tax-proposals/; STEVE WAMHOFF, INST. ON TAX'N & ECON. POL'Y, THE ESTATE TAX IS IRRELEVANT TO MORE THAN 99 PERCENT OF AMERICANS 2 (2023), https://sfo2.digitaloceanspaces.com/itep/ITEP-The-Estate-Tax-is-Irrelevant-to-More-Than-99-Percent-of-Americans.pdf/.

[5] Brakeyshia Samms, *Power to the People: How Workers Can Fight Tax Inequity*, 49 A.B.A.: HUM. RTS. MAG., no. 1/2, 2023, at 1, https://www.americanbar.org/groups/crsj/publications/human_rights_magazine_home/labor-and-employment-rights/fighting-tax-inequity/.

[6] Ellora Derenoncourt et al., *Wealth of Two Nations: The U.S. Racial Wealth Gap, 1860–2020*, 139 Q.J. ECON. 693, 734 (2024).

[7] Julie-Anne Cronin et al., *Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department's Race and Hispanic Ethnicity Imputation* 28 (U.S. Dep't of Treasury, Working Paper No. 122, 2023), https://home.treasury.gov/system/files/131/WP-122.pdf.

[8] STEVE WAMHOFF & EMMA SIFRE, INST. ON TAX'N & ECON. POL'Y, CORPORATE TAX BREAKS CONTRIBUTE TO INCOME AND RACIAL INEQUALITY AND SHIFT RESOURCES TO FOREIGN INVESTORS 1–2 (2024), https://itep.org/corporate-tax-breaks-income-and-racial-inequality/.

[9] Derenoncourt et al., *supra* note 6; Brakeyshia Samms, *Tax Policy Is a Part of the Black American Story*, INST. ON TAX'N & ECON. POL'Y (July 16, 2024), https://itep.org/tax-policy-is-a-part-of-the-black-american-story/.

[10] Based on authors' analysis of raw data from the Federal Reserve's 2022 Survey of Consumer Finances (SCF). *Survey of Consumer Finances*, BD. OF GOVERNORS FED. RSRV. SYS., https://www.federalreserve.gov/econres/scfindex.htm (last visited Nov. 15, 2024). The SCF unit of analysis is a household concept called the Primary Economic Unit (PEU), which consists of a primary individual or couple and all individuals in a household who are financially interdependent with that primary individual or couple. Throughout this paper, the authors use the term "household" to refer to the sampling unit in the SCF for simplicity, although we recognize that this concept can sometimes differ from a household

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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population, white households hold 86% of the nation's wealth, while the 12% of households who are Black hold 2% of the wealth, the 9% of households who are Hispanic hold 2% of the wealth, and the 4% of the household population that is Asian holds 7% of the wealth.[11]

A federal tax policy that could benefit low-wealth families is a renter tax credit (RTC). This Essay uses data from the Survey of Consumer Finances (SCF) to show that refundable tax credits geared toward low- and moderate-income renters could offer a targeted means of reaching low-wealth households. Conditioning credit eligibility on both renter status *and* income can ensure that a higher share of the credit will flow to low-wealth individuals than if the credit was conditioned on either of these criteria in isolation. A RTC offers a simple, administratively practical means of reaching low-wealth populations through the federal tax code without requiring a comprehensive measurement of every household's wealth.

I. Recent History of Renter Tax Credit Proposals

Many states provide limited renter tax credits, in large part out of a desire to ensure that state and local property taxes are not unduly impacting low- and moderate-income renters when property taxes are passed along to them by their landlords.[12] In most cases, the credits are either nonrefundable (e.g., Arizona and Maryland), limited to the elderly and/or people with disabilities (e.g., Colorado and Connecticut), or small compared to average

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concept used in other surveys. In addition, we follow SCF practice of using the race and ethnicity of the primary respondent to represent the race and ethnicity of the household. *See* John L. Czajka et al., *Survey Estimates of Wealth: A Comparative Analysis and Review of the Survey of Income and Program Participation*, 65 Soc. Sec. Bull. 1 (2003) ("The SCF collects its most detailed data on the 'primary economic unit,' which includes the economically dominant individual or couple and all others who are financially dependent. The SCF collects very limited data on the collective remaining individuals in the household.").

[11] Based on authors' analysis of raw data from the Federal Reserve's 2022 SCF. *Survey of Consumer Finances*, *supra* note 10. Analysis does not include the SCF category "Other or Multiple Races," which includes a diverse group of racial identifications including Native Americans, Alaska Native, Native Hawaiian, Pacific Islanders, other races, and any respondents reporting multiple races.

[12] Results, Renter Tax Credit Policy Brief 4 (2024), https://results.org/wp-content/uploads/Renter-Tax-Credit-Policy-Deep-Dive_Feb2024.pdf.

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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annual rent payments (e.g., California and Hawaii).[13] At the federal level, however, the tax code lacks any meaningful provisions geared specifically toward renters.

In recent years, several organizations, including the Center on Budget and Policy Priorities (CBPP) and the Terner Center for Housing Innovation, have introduced proposals for federal renter tax credits. Those proposals set the stage for bills that were later introduced in the last eight Congresses.

A. Center on Budget and Policy Priorities Proposal

The CBPP approach[14] would provide capped allocations to be administered by state agencies, similar to other federal tax programs including the Low-Income Housing Tax Credit (LIHTC)[15] and private activity bonds for residential rental projects.[16] The credit would target "extremely low-income" families, defined as households with income below either the poverty line or 30% of the median income in the local area.[17]

This proposal would instruct states to allocate credits for designated housing developments.[18] Renters in these qualifying developments would pay up to 30% of their income in rent.[19] Unit owners would then receive a

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[13] *Id.*

[14] *See* WILL FISCHER ET AL., CTR. ON BUDGET & POL'Y PRIORITIES, RENTERS' CREDIT WOULD HELP LOW-WAGE WORKERS, SENIORS, AND PEOPLE WITH DISABILITIES AFFORD HOUSING (2017), https://www.cbpp.org/sites/default/files/atoms/files/3-9-17hous.pdf.

[15] *See* MARK P. KEIGHTLEY, CONG. RSCH. SERV., RS22389, AN INTRODUCTION TO THE LOW-INCOME HOUSING TAX CREDIT 3 (2023).

[16] GRANT A. DRIESSEN, CONG. RSCH. SERV., RL31457, PRIVATE ACTIVITY BONDS: AN INTRODUCTION 10 (2022).

[17] Chalita Brandly, *Extremely Low-Income: Has the New Measure Made a Difference?*, 21 CITYSCAPE 389, 389 (2019).

[18] Michael Bernier, *Expansion of Low Income Housing Tax Credit, New Neighborhood Homes Investment Credit Included in Biden Administration's FY2022 Budget*, EY: TAX NEWS UPDATE (June 4, 2021), https://taxnews.ey.com/news/2021-1128-expansion-of-low-income-housing-tax-credit-new-neighborhood-homes-investment-credit-included-in-biden-administrations-fy2022-budget.

[19] LIBBY PERL & MAGGIE MCCARTY, CONG. RSCH. SERV., R42734, INCOME ELIGIBILITY AND RENT IN HUD RENTAL ASSISTANCE PROGRAMS: FREQUENTLY ASKED QUESTIONS 2 (2017).

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
DOI 10.5195/taxreview.2024.245 | http://taxreview.law.pitt.edu

credit from the state equal to the difference between the rental payment and the full market rent for the unit.[20]

This approach has the benefit of targeting the very lowest-income or otherwise most vulnerable populations. Given its narrower scope, it would likely be less effective as a *wealth-building* policy, however, than a fully refundable credit capped at a certain level of earnings and returned directly to renters. The latter would allow, for example, a family to seek out a unit that cost *less* than the sum of 30% of their income and the amount of the RTC, allowing that family to save and build wealth. It would also allow low-income families more flexibility in location and household status than if they were required to live in state-designated developments.

B. Terner Center Proposal

The Terner Center for Housing Innovation has proposed three separate options for a "Federal Assistance in Rental" or FAIR credit. All three provide a credit directly to renters rather than landlords, and one provides an additional credit to landlords to assist in reaching families who do not normally file tax returns.[21]

The most ambitious option would provide a refundable credit to families making less than 80% of area median income.[22] The credit would be calculated as the difference between income and 30% of the lower of the gross rent (including utilities) the family pays or the Small Area Fair Market Rent (SAFMR).[23]

The second, more limited option would provide a refundable credit to the same group of families (those making less than 80% of area median income) but would use an income formula to determine the amount a family

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[20] *See* Francis Torres, *Housing Credit Takeaways from the Proposed Bipartisan Deal*, BIPARTISAN POL'Y CTR. (Jan. 22, 2024), https://bipartisanpolicy.org/blog/housing-credit-takeaways-from-the-proposed-bipartisan-tax-deal/.

[21] CAROL GALANTE ET AL., U.C. BERKELEY, TERNER CTR. FOR HOUS. INNOVATION, THE FAIR TAX CREDIT: A PROPOSAL FOR A FEDERAL ASSISTANCE IN RENTAL CREDIT TO SUPPORT LOW-INCOME RENTERS 13–19 (2016), https://ternercenter.berkeley.edu/wp-content/uploads/pdfs/FAIR_Credit.pdf.

[22] *Id.* at 14–15 ("Rent Affordability Option").

[23] *Id.* at 15.

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
DOI 10.5195/taxreview.2024.245 | http://taxreview.law.pitt.edu

could claim.[24] The credit amount would be equal to 12 to 33% of the family's rent or the SAFMR, with the lowest-income households receiving a higher percentage and families closer to 80% of the area median income receiving a reduced percentage.[25]

The final option would combine the second option described in the previous paragraph with a voucher-like credit directed to landlords. The credit would be provided to landlords serving families making less than the federal poverty level or 30% of the area median income.[26] It would be calculated as the difference between 30% of the resident's income and the lower of the rent they paid or the SAFMR.[27] Families making less than 80% of area median income who do not receive assistance through the voucher-credit would still be eligible to receive the rent reduction credit described above.[28]

Each of these proposals would assist significantly more families than the CBPP proposal but at much higher costs. The CBPP proposal is capped at a total of $6 billion in the first year and estimated to assist 720,000 families.[29] The Terner Center proposals would cost between $41 and $76 billion and would assist 13.3 million to 15.1 million families.[30] The costliest option would be of a similar expense to the Earned Income Tax Credit, an existing policy for assisting low-income families.[31]

C. Recent Proposals in Congress

Recent Congresses have seen several proposals to establish a renter tax credit. Representative Barbara Lee introduced bills in the 111th, 112th, and

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[24] *See id.* at 16 ("Rent Reduction Option").

[25] *Id.* at 4.

[26] *Id.*

[27] *Id.* at 15.

[28] *Id.* at 14.

[29] FISCHER ET AL., *supra* note 14, at 2.

[30] GALANTE ET AL., *supra* note 21, at 5.

[31] JOINT COMM. ON TAX'N, JCX-59-23, ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 2023–2027, at 37 (2023).

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
DOI 10.5195/taxreview.2024.245 | http://taxreview.law.pitt.edu

113th Congresses that would establish a renter tax credit similar to the CBPP proposal.[32] The "Pathways Out of Poverty Act" would create a state-administered credit paid to landlords. The credit would be available for renters with income not exceeding 60% of local median income or 150% of the federal poverty line.[33] The credit is equal to the difference between SAFMR and the rent charged to the tenant, capped at the extent to which the rent exceeds 30% of the tenant's income.[34]

Whereas Representative Lee's bills contained features of the CBPP proposal, then-Senator Kamala Harris introduced the Rent Relief Act of 2018 in the 115th Congress that was more in line with the Terner Center proposals. This bill would have provided, for renters with incomes less than $125,000, a refundable credit equal to a percentage of their rent above 30% of their gross income.[35] Households with income below $25,000 would receive the full difference between their rent and 30% of their income.[36] This percentage would decrease for households with greater income. Rent would only be included to the extent that it does not exceed 150% of SAFMR.[37] The bill would also provide a refundable credit to residents of government-subsidized housing equal to one month of rent not subsidized under the program.[38]

This bill was reintroduced in the 116th Congress as the Rent Relief Act of 2019, with a few changes.[39] First, eligible rent would be capped at 100% of SAFMR rather than 150%.[40] Second, the bill would instruct the Treasury to establish a program to provide the credit in advance monthly payments.[41]

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[32] H.R. 5352, 113th Cong. § 801 (2014); H.R. 2721, 114th Cong. § 801 (2015); H.R. 4074, 115th Cong. § 602 (2017).

[33] H.R. 5352 § 801; H.R. 2721 § 801; H.R. 4074 § 602.

[34] H.R. 5352 § 801; H.R. 2721 § 801; H.R. 4074 § 602.

[35] S. 3250, 115th Cong. § 2 (2018).

[36] *Id.*

[37] *Id.*

[38] *Id.*

[39] *See generally* S. 1106, 116th Cong. (2019).

[40] *Id.* § 2(a).

[41] *Id.* § 2(b).

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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Both bills had companion bills in the House of Representatives introduced by Representatives Joseph Crowley and Danny Davis.[42]

After Senator Harris was elected Vice President, Senator Raphael Warnock introduced the nearly identical Rent Relief Act of 2022 in the 117th Congress.[43]

These bills would create more avenues for affordable housing for low-income households but have the same limitations as the proposals from the organizations described above. Capping the credit amount and allocating to landlords via states might help better target the credit, but it would significantly reduce the scale of families able who benefit and would also limit their housing choices. Additionally, requiring verification of income and rent, matched to SAFMR, provides an additional administrative burden to the IRS.

Providing a refundable credit directly to renters is likely to benefit significantly more low-income and low-wealth families, but it perhaps worsens the administrative burden by shifting the duty of informational reporting from the development owner to the millions of eligible families.

An approach similar to Senator Harris's bills but excluding the limit of 100% of SAFMR would reduce administrative complexity; however, it would likely increase costs. The additional cost could be offset by lowering the eligible income range. Limiting the bill to households making less than $80,000 would make the credit available to approximately 60% of households if they are renting.[44]

II. Analysis

Using data from the SCF, this section shows how income and renter status interact as proxies for wealth, and how each interact with race and ethnicity. The data show that using both household income *and* renter status to determine credit eligibility can be an effective way of targeting low-wealth

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[42] *See generally* H.R. 3670, 115th Cong. (2017); H.R. 2169, 116th Cong. (2019).

[43] *See* S. 4728, 117th Cong. (2022).

[44] Based on ITEP analysis of raw data from the Federal Reserve's 2022 SCF. *Survey of Consumer Finances*, *supra* note 10.

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
DOI 10.5195/taxreview.2024.245 | http://taxreview.law.pitt.edu

households, reducing the racial wealth gap and limiting the credit to those with real economic need.

Table 1 shows the difference in median wealth by renter status, income, and race and ethnicity.[45] Perhaps most striking is the wealth gap between renters and homeowners across the entire income distribution and all races and ethnicities. Overall, the median wealth for renters is just $11,400—a fraction of the median wealth of $395,000 among homeowners. In fact, the wealth gap between renters and homeowners is so stark that even renters with comparatively higher incomes often have wealth below their homeowner peers. The median renter has a net worth less than one-twelfth the size of that held by the typical low-income homeowner.

But using renter status as the sole criterion for determining credit eligibility would cast too wide a net. Despite lower wealth across the board, Table 1 shows that there is still substantial wealth among high-income renters. Median wealth among these high-income renters is over $350,000, and it is especially high among high-income white renters who have a median net worth of $613,000.[46] Research also shows that the number of high-income renters is increasing, further divorcing the decision of whether to rent from both income and wealth.[47]

While income and wealth are closely related, household income alone is not a perfect proxy for household wealth. Households may earn little to no income but own assets that make them very wealthy. Consider an elderly couple who no longer works but owns their home and has accumulated retirement assets over their lifetime, or a beneficiary of large amounts of inherited wealth who does not need to work. Income thresholds alone may

[45] Based on ITEP analysis of raw data from the Federal Reserve's 2022 SCF. *Survey of Consumer Finances*, *supra* note 10. The term "renters" is used to describe any survey respondent who reports renting any housing unit, mobile home, or farm. It does not include respondents who report "neither renting nor owning" the place where they live. This report sometimes uses the term "homeowner" to refer to respondents not classified as renters as the vast majority of this group is comprised of homeowners.

[46] Based on ITEP analysis of raw data from the Federal Reserve's 2022 SCF. *Survey of Consumer Finances*, *supra* note 10. Percentiles are based off total income. Data shows that 6.5% of renters have income above $137,050.

[47] Kriston Capps, *The Rise of the Millionaire Renters*, BLOOMBERG (Feb. 10, 2023, 8:08 AM), https://www.bloomberg.com/news/articles/2023-02-10/millionaire-renters-are-on-the-rise-in-high-cost-us-cities.

determine that these households are eligible for the credit despite their substantial economic resources.

Table 1. Median Wealth by Renter Status, Total Income Percentile, and Race and Ethnicity[48]

	Bottom 20th	20th–40th	40th–60th	60th–80th	Top 20th	
2022 Income	**Less than $28,000**	**$28,000–$49,999**	**$50,000–$80,999**	**$81,000–$137,049**	**$137,050 or More**	**Total**
Non-Renters, Total	143,300	262,500	263,500	352,101	1,323,000	394,800
White	168,370	325,800	295,500	374,900	1,423,200	437,300
Black	105,000	167,270	169,120	305,200	672,310	196,800
Hispanic or Latino	75,800	198,200	193,360	263,650	630,190	206,800
Asian	234,630	351,000	484,000	297,970	1,383,500	830,150
Renters, Total	3,940	9,200	23,520	55,100	355,500	11,400
White	6,440	10,040	22,420	87,400	613,000	15,500
Black	570	6,810	23,260	6,700	114,200	4,300
Hispanic or Latino	6,200	9,471	15,060	32,800	291,000	10,000
Asian	60	61,540	55,700	111,240	168,000	61,540
Total Households	17,260	67,400	160,050	281,550	1,260,100	192,700

Because households of color make up a disproportionate share of low-income renters, conditioning credit eligibility on income and renter status can also narrow the racial wealth gap. Table 2 shows the percentage of each race and ethnicity that are renters, by income percentile. White and Asian households are much more likely to be homeowners than Black and Hispanic

[48] This analysis uses the racial and ethnic categories as they appear in the Survey of Consumer Finances. These are White, non-Hispanic, Black or African American, non-Hispanic, Asian, and Hispanic or Latino. The labels appear in the text as short-hand versions for simplicity.

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
DOI 10.5195/taxreview.2024.245 | http://taxreview.law.pitt.edu

households, even in the poorest fifth of the income distribution.[49] Over 70% of low-income Black and Hispanic households are renters, compared to only 47% of similarly situated white households.[50] Put another way, while households of color make up 30% of the bottom 20th percentile, they account for 39% of low-income renters. In contrast, white households make up 56% of the bottom 20th percentile but make up only 47% of low-income renters. Lower-income white households are more likely to be homeowners, and Black and Hispanic households make up a disproportionate share of low-income renters.

Table 2. Renters as a Proportion of Total Households, by Race and Ethnicity and Total Income Percentile

	Percentile					**Total**
	Bottom 20th	**20th–40th**	**40th–60th**	**60th–80th**	**Top 20th**	
2022 Income	**Less than $28,000**	**28,000–$49,999**	**$50,000–$80,999**	**$81,000–$137,049**	**$137,050–or More**	
White	47%	43%	24%	17%	10%	27%
Black	71%	61%	44%	32%	17%	53%
Hispanic or Latino	73%	60%	50%	22%	19%	51%
Asian	43%	33%	31%	39%	12%	26%

[49] Based on ITEP analysis of raw data from the Federal Reserve's 2022 SCF. *Survey of Consumer Finances*, *supra* note 10. Note that wealth held by Asian households is higher than wealth held by white households. Research shows this is driven largely by higher rates of ownership for key sources of wealth such as retirement accounts and financial investments. For a fuller discussion about the wealth of Asian households, see Lowell R. Ricketts & Ana Hernandez Kent, *Wealth and Its Distribution: A Look at Asian American Households in 2022*, FED. RESERVE BANK ST. LOUIS (Aug. 13, 2024), https://www.stlouisfed.org/on-the-economy/2024/aug/wealth-distribution-look-asian-american-households-2022.

[50] Based on ITEP analysis of raw data from the Federal Reserve's 2022 SCF. *Survey of Consumer Finances*, *supra* note 10.

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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This is further demonstrated in Table 3, which shows the percentage of each race and ethnicity that could benefit from a credit targeted based on income and renter status. A credit that targets the bottom 40% of the income distribution, for example, would benefit a majority of all renters, and it would benefit a larger share of Black and Hispanic renters in particular. Out of all Black and Hispanic renters, roughly 71% could benefit.

Table 3. Distribution of Race and Ethnicity, by Total Income Percentile and Renter Status

	Percentile				
	Bottom 20th	**20th–40th**	**40th–60th**	**60th–80th**	**Top 20th**
2022 Income	**Less than $28,000**	**$28,000–$49,999**	**$50,000–$80,999**	**$81,000–$137,049**	**$137,050 or More**
Non-Renters Total	12.9%	15.6%	20.6%	24.0%	27.0%
White	11.7%	14.5%	20.6%	24.8%	28.3%
Black	18.9%	21.3%	25.1%	19.1%	15.7%
Hispanic	14.5%	24.2%	19.9%	26.0%	15.5%
Asian	10.3%	9.2%	12.0%	17.2%	51.3%
Renters Total	32.4%	30.1%	18.9%	12.1%	6.5%
White	28.9%	30.8%	18.3%	13.7%	8.2%
Black	41.4%	30.0%	17.6%	8.0%	3.0%
Hispanic	36.6%	34.1%	18.8%	7.0%	3.5%
Asian	21.4%	12.6%	15.3%	30.4%	20.2%

To further demonstrate this point, Table 4 shows the share of households with wealth below the national median, by different eligibility criteria.[51] This table shows that both income level and payment of rent can serve as strong indicators that someone is likely to have a low level of wealth. It also shows, however, that payment of rent is a better indicator than income, and that pairing these two indicators in a multiprong approach is an exceptionally

[51] Based on ITEP analysis of raw data from the Federal Reserve's 2022 SCF. *Survey of Consumer Finances*, *supra* note 10. Median wealth in the SCF was $192,700 in 2022.

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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strong indicator that someone is likely to have less wealth than the median household.

Looking first at income alone, 71% of households with income below the median also fall into the bottom half of the population in terms of wealth.[52] Put another way, households with above-median wealth would comprise 29% of the beneficiaries of a tax credit conditioned solely on income. This figure plummets to just 11% when we look at renter status alone—that is, nearly nine in ten renters have below-median wealth. Finally, a multiprong eligibility test that considers both renter status and an income threshold would ensure that 96% of credit beneficiaries are relatively low wealth.

Table 4 also shows the racial equity implications of the combined eligibility criteria. Taken in isolation, either renter status or income is relatively good at predicting whether a Black or Hispanic household is likely to be low wealth, but these two measures are comparatively less reliable at making this prediction for white and Asian households. Pairing these two criteria in a multiprong approach yields an eligible population that is overwhelmingly low wealth within all race and ethnicity groups. This is primarily driven by limiting the extent to which high-wealth, low-income households can benefit—a group that is disproportionately white and Asian. Compared to income alone, income and renter status reduces the proportion of white households with above-median wealth from 37% to just 4%. This, combined with the fact that Black and Hispanic households make up a disproportionate share of low-income renters, suggests that a renter credit could be a powerful tool for reducing the racial wealth gap in the United States.

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[52] Based on ITEP analysis of raw data from the Federal Reserve's 2022 SCF. *Survey of Consumer Finances*, *supra* note 10. We use median income as a threshold to illustrate the relationship between income, wealth, and renter status but recognize that the exact income threshold for eligibility is a matter of policy design and subject to debate. Median income was about $63,000 in 2022.

Table 4. Share of Households with Wealth Below National Median

	Total Low-Income Households	Total Renter Households	Low-Income Renter Households
Total	71%	89%	96%
White	63%	86%	96%
Black	84%	95%	96%
Hispanic	81%	94%	96%
Asian	56%	72%	92%

Note: Low-income is defined here as households with income below the national median.

III. Considerations in Designing a Renter Tax Credit

Designing a renter tax credit requires consideration of many factors such as definition of income, size and scope of the credit, verification of rent, and frequency of credit distribution.

First, lawmakers must define income for purposes of determining RTC eligibility. The income measure should be at least as broad as federal adjusted gross income (AGI), which includes not just wage and salary income but also most business, investment, and retirement income. Generally speaking, broader income measures offer a more accurate measure of ability to pay than narrower ones. Michigan, for instance, uses a measure called "total household resources" when determining property tax credit eligibility that considers not just AGI but also various nontaxable income sources.[53] It also excludes business losses, which can cause relatively affluent households to have transiently low incomes.[54] The main downside of utilizing a measure broader than AGI is the potential for increased complexity for taxpayers and the IRS.

Lawmakers must also determine the appropriate size of the credit and the scope of the claimant population. A meager credit amount or scope risks

[53] *Total Household Resources*, MICH. DEP'T. OF TREASURY, https://www.michigan.gov/taxes/iit/tax-time/total-household-resources (last visited Oct. 25, 2024).

[54] *Id.*

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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doing too little to narrow wealth inequality, while a sweeping credit with a high price tag is more likely to face political constraints. For comparison, current antipoverty tax credit programs range from $1,400 per child with the refundable portion of the Child Tax Credit (CTC) to a maximum of $7,830 with the Earned Income Tax Credit (EITC) for households with three or more qualifying children.[55] The size of the credit matters because a larger credit will do more to help low-income households save money and build wealth.

Understanding how much the credit will help with rent means defining who is a renter and documenting how much rent they pay, which will require careful work by the IRS. Lease agreements or monthly bill statements could enable households to demonstrate what they have paid in rent. Lessons learned from the states, many of which already provide tax credits to renters, could be helpful in this regard. A more challenging question is how to verify rent paid for people who are moving frequently, a disproportionate share of whom are low income and people of color.[56] Renters who are cost burdened, meaning they are paying more than 30% of their income in rent, are at record highs and many are people of color with a modest amount of monthly discretionary income.[57] This means renters of color are more likely to move, because of rising rents and other factors that lead to housing insecurity.[58]

Finally, lawmakers must consider whether the credit should be distributed annually or monthly. Rent, of course, is typically paid monthly. One of the drivers of the success of the enhanced CTC in 2021 was its monthly payouts, which helped households pay for childcare and bills in a

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[55] *Child Tax Credit Overview*, NAT'L CONF. OF STATE LEGISLATURES (May 3, 2024), https://www.ncsl.org/human-services/child-tax-credit-overview; *Earned Income and Earned Income Tax Credit (EITC) Tables*, IRS (Aug. 26, 2024), https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-and-earned-income-tax-credit-eitc-tables.

[56] Kathryn Reynolds & Elizabeth Burton, *Almost Half of Renter Households Feel Pressured to Leave Their Homes*, URB. INST. (Nov. 3, 2023), https://www.urban.org/urban-wire/almost-half-renter-households-feel-pressured-leave-their-homes.

[57] JOINT CTR. FOR HOUS. STUD. OF HARV. UNIV., THE STATE OF THE NATION'S HOUSING 2024, at 2 (2024), https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2024.pdf.

[58] Veronica Garrison & Aaron Shroyer, *Pressure to Move and Forced Moves Among U.S. Renter Households: Findings from New Questions in the Household Pulse Survey*, OFF. OF POL'Y DEV. & RSCH.: EDGE (Sept. 19, 2023), https://www.huduser.gov/portal/pdredge/pdr-edge-trending-091923.html.

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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timely manner, thereby reducing the financial hardships they faced.[59] Yearly refundable credits that come at tax time, like the current CTC and EITC, help families make large purchases or pay off larger amounts of debt, which also help build wealth and reduce poverty. The CTC expansion shows that the IRS has the capability to send either monthly or yearly benefits, so the question is less about administration and more about policy goals.[60]

IV. Response to Criticisms of Federal Renter Tax Credits

Critics of RTC proposals have argued that such programs do not address housing shortages that drive up rental costs and would distort the housing market.[61] Others have argued that the benefits would primarily flow to landlords rather than tenants through higher rental prices.[62]

While it is true that RTC proposals do not directly subsidize new developments, they are not intended to be a stand-alone solution to housing shortages. Instead, they should be considered as complements to other policies aimed at increasing housing supply. RTCs address affordability directly, unlike supply-side measures that take months or years to produce more available units. RTCs can provide immediate relief to renters while longer-term supply-side measures take effect.

Further, RTCs that help tenants build wealth can also help them save for a new home or move to areas with more available housing. According to data from HomeAdvisor, the average local move costs $1,714.[63] Low-income

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[59] Daniel J. Perez-Lopez, *Economic Hardship Declined in Households with Children as Child Tax Credit Payments Arrived*, U.S. Census Bureau (Aug. 11, 2021), https://www.census.gov/library/stories/2021/08/economic-hardship-declined-in-households-with-children-as-child-tax-credit-payments-arrived.html.

[60] *Treasury and IRS Disburse Sixth Monthly Child Tax Credit to Families of 61 Million Children*, U.S. Dep't of Treasury (Dec. 15, 2021), https://home.treasury.gov/news/press-releases/jy0533.

[61] Alex Muresianu & Nicole Kaeding, *Senator Harris's Rent Relief Tax Credit Is a Well-Intentioned Misfire*, Tax Found. (July 25, 2018), https://taxfoundation.org/blog/senator-harriss-rent-relief-tax-credit/.

[62] Jeffrey Dorfman, *Democrats Proposed Rent Subsidy Would Enrich Landlords and Fleece Taxpayers*, Forbes (July 22, 2018), https://www.forbes.com/sites/jeffreydorfman/2018/07/22/democrats-proposed-rent-subsidy-would-enrich-landlords-and-fleece-taxpayers/#2327ec7fac05.

[63] *How Much Do Movers Cost?*, HomeAdvisor (July 13, 2022), https://www.homeadvisor.com/cost/storage-and-organization/hire-a-moving-service/.

Pitt Tax Review | ISSN 1932-1821 (print) 1932-1996 (online)
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families may be effectively stuck in higher-rent areas when lower rents are available because they cannot afford the short-term relocation costs of moving to other areas. Though the academic literature on this matter is sparse, it is conceivable that by reducing the financial strain of rent, RTCs may contribute to a more balanced demand across regions.

The argument that the benefits of RTCs would flow primarily to landlords through higher rents is anchored on the concept of inelastic housing markets. Research has indeed found that recent increases in nationwide housing prices is largely driven by increased demand in cities with inelastic housing supply.[64] RTCs can help address disparities between high-elasticity and low-elasticity housing markets by encouraging renters to move to areas with lower demand and higher supply elasticity. This can reduce pressure on inelastic markets by redistributing demand to regions where the housing supply is more responsive.

A final criticism of RTCs is that the cost is quite high.[65] Assuming the cost would be approximately the high-end of the Terner Center proposal—$76 billion annually—it would be equivalent to or less than other federal support measures for low-income families such as the Earned Income Tax Credit ($74 billion in 2024[66]) or the Supplemental Nutrition Assistance Program ($112 billion in fiscal year 2024[67]).

It is undoubtedly a high cost, but potentially much less than the annual cost to the economy from poverty. Child poverty alone was estimated to cost the U.S. economy more than $1 trillion annually in 2015.[68] RTC proposals would not entirely wipe away this drain on the economy but would address the issue and create more avenues for poverty elimination and wealth building.

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[64] Greg Howard & Jack Liebersohn, *Why Is the Rent So Darn High? The Role of Growing Demand to Live in Housing-Supply-Inelastic Cities*, 124 J. URB. ECON., July 2021, at 1.

[65] Muresianu & Kaeding, *supra* note 61.

[66] JOINT COMM. ON TAX'N, *supra* note 31, at 39.

[67] CONG. BUDGET OFF., BASELINE PROJECTIONS 2 (2024), https://www.cbo.gov/system/files/2024-02/51312-2024-02-snap.pdf.

[68] Michael McLaughlin & Mark R. Rank, *Estimating the Economic Cost of Childhood Poverty in the United States*, 42 SOC. WORK RSCH. 73, 73 (2018).

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V. Conclusion

The tax code has immense potential to reduce wealth disparities across both race and class. This remains true even though the current code lacks a formal, comprehensive measurement of household wealth. The analysis in this Essay suggests that renter tax credits offer a meaningful and administratively practical means of tailoring federal tax benefits toward low-wealth households. In particular, a credit conditioned on both income and renter status will see more of its benefits flow to low-wealth households than a credit conditioned on either of these criteria in isolation. Given that parts of the tax code and other features of public policy have deepened economic and racial wealth divides both now and historically, lawmakers should consider remedies through the tax code. A renter tax credit is a promising option.

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