



The Great Polarization
Economics, Institutions and Policies in the Age of Inequality

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Tax Preference as White Privilege: Historical Perspective on the Racial Wealth Gap

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Abstract

Thanks to the capital gains tax preference – part of the U.S. income tax code since 1921 -- households keep more of their income from investment after taxes than they keep from their wages and salaries. Because the wealthiest households earn the bulk of capital gains every year, the tax code's preference for this form of income overwhelmingly benefits the rich. In 2016, 78% of all capital gains went to the top 1% of households, according to the Tax Policy Center. [96.2% of those households are white.](#) Preferential treatment for capital gains meant [that the federal government forewent \\$109.5 billion in taxes in 2016](#), a give-away second only to the tax exclusion for employers' contributions to employees' health plans.

It's true that the tax code's preferential treatment of capital gains reflects the fact that both Democrat and Republican policymakers have prioritized the interests of the wealthiest in recent decades. But that's not why the capital gains preference exists in the first place. Nor does it explain its remarkable endurance.

For nearly a century, the tax code's preference for investment gains has enjoyed the support of shifting and often surprising coalitions. For nearly a century, the tax break for capital gains persisted because it advanced the accumulation of white wealth.