

Taxes Explained: Envisioning a More Equitable Tax Code in 2026

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Introduction

Tax Day is now behind us, marking the end of the first tax season after a conservative-led Congress pushed through a series of policy changes that skewed an already inequitable tax code further in favor of corporations and the ultra-wealthy. And we are already seeing the impact. That series of policy changes spent trillions of dollars in public funds to cut taxes for wealthy households and profitable corporations while making daily life more expensive for everyday Americans.¹ A middle-income household, for example, will see its taxes go up by \$900 on average, while a household in the richest one percent will see its taxes go down by nearly \$9,000.²

In response to the deepening inequality, some members of Congress are proposing legislation that would make the tax code more progressive by providing financial relief to everyday people while raising taxes on the ultra-wealthy. One bill aims to primarily benefit middle-income people. Another would tackle extreme wealth inequality by imposing a tax on billionaires while implementing a version of guaranteed income. The bills offer different visions and mechanisms for achieving the goal of a more equitable tax code.

Given the Republican-controlled Congress, these bills are very unlikely to pass. But these policy proposals are an opportunity to start envisioning and fighting for a tax code that equitably distributes our country's vast resources. We can have a tax system that adequately taxes corporations and the wealthy, uses the revenue to pay for public goods (such as schools, libraries, and modernized energy and transit systems), redresses racial inequality in our economy, and ensures economic security for all people. These bills point us in that direction.

Background

The One Big Beautiful Bill Act (OBBBA) of 2025 set the country on a course toward greater economic disparity. It slashed social infrastructure funding while delivering major tax benefits to wealthy households and corporations. The bill will cost \$4.5 trillion over the next decade, and over \$117 billion in tax cuts will go to households whose incomes approach or exceed \$1 million a year.³

To finance these tax cuts for the wealthy, Congress cut funding for the Supplemental Nutrition Assistance Program (SNAP) and Medicaid. The \$1 trillion cut to Medicaid alone will leave an estimated 11 million people without health coverage.⁴ Congress also chose not to renew enhancements to the Affordable Care Act Premium Tax Credit, meaning that an additional four million people, almost half of whom are Black or Latino, will lose the ability to afford their health coverage.⁵ That means that four percent of the U.S. population is losing access to affordable health insurance.⁶

Proposals in Congress Would Make the Tax Code More Equitable

In reaction to deepening economic inequality, some members of Congress are proposing bold tax policy changes in an effort to swing the country toward a more equitable tax code and economy.

The progressive fiscal policy proposals on the table would make parts of the tax code more equitable, either by raising taxes on those with the most resources and allocating that revenue to fund critical social programs or by reducing tax liability for households with low or moderate incomes.

Currently, the tax code primarily benefits white households by giving preferential tax treatment to wealth. Generations of policies and practices have excluded Black and brown people from the opportunity to accumulate wealth that white people have accessed for centuries.⁷ As a result, white taxpayers hold a disproportionate share of wealth in the United States and hold almost every type of wealth-bearing asset at higher rates than Black or brown households.⁸

Reforming the tax code to create a federal wealth tax while also increasing taxes on the ultra-wealthy would make the tax code more racially equitable.

Creating a Wealth Tax

Today, the federal government levies taxes on income from things like work, interest, renting out real estate, and government income supports like Social Security. Wealth, the net value of a household's assets and debts, is not taxed. There are roadblocks to taxing wealth, like questions about the constitutionality of wealth taxes. But wealth disparity is widening as billionaires see their wealth grow at a faster and faster pace: In the last six years, billionaire wealth has increased by 81 percent.⁹ This exponential rate of accumulation makes wealth an important site for taxation.

Two bills introduced in the Senate would tax extreme wealth to curb the growing wealth divide and raise revenue for public goods.

The **Make Billionaires Pay Their Fair Share Act** introduces a five percent wealth tax on billionaires. The wealth tax would calculate the value of a household's entire net assets, including capital gains, and impose the new tax on the wealth above \$1 billion.¹⁰ This tax would apply to just 938 people but would raise about \$4.4 trillion.¹¹

This policy proposal uses a few different mechanisms to distribute the additional revenue from the wealth tax toward economic security for families with moderate and low incomes. In the first year that the tax would go into effect, each person (regardless of age) earning under \$150,000 would receive a one-time cash payment of \$3,000. The bill also establishes a \$60,000 minimum salary for all public elementary and secondary school teachers.¹²

In addition to bolstering incomes for working people, the revenue from this bill would also go to strengthening social programs. The bill would reverse the \$1.1 trillion in cuts to the country's health care programs and expand Medicare to include dental, vision, and hearing benefits for seniors. Recognizing the increasing unaffordability of child care, the bill also introduces a sliding-scale mechanism based on family income to ensure that no family is paying more than seven percent of their income on child care.¹³

A Wealth Tax Could Pay for Goods and Services that Benefit Us All

Programs that could be funded using \$4.4 trillion in revenue over 10 years from the “Make Billionaires Pay Their Fair Share Act”

	In Billions
Free universal pre-k and expanded access to child care	\$600
Establish paid family and medical leave	\$325
Expand the Child Tax Credit	\$310
Permanent enhancement for ACA premium tax credits	\$273
Expand Medicaid coverage	\$200
Free 2-year community college tuition	\$ 90
Expanded Earned Income Tax Credit	\$163
Funding for Historically Black Colleges and Universities	\$ 30
Green New Deal for Public Housing	\$234

Sources: Budget of the U.S. Government Fiscal Year 2025. United States Office of Management and Budget. March 2024. https://bidenwhitehouse.archives.gov/wp-content/uploads/2024/03/budget_fy2025.pdf

The **Ultra-Millionaire Tax Act of 2026** would impose an annual two percent tax on households with net worth or trusts above \$50 million and an additional one percent tax (for a total of three percent annual tax) on net worth over \$1 billion. This tax would apply to the wealthiest 0.15 percent (just 260,000 households), and would generate \$6.2 trillion in revenue over the next 10 years.¹⁴ This bill also includes provisions to prevent wealthy households from avoiding paying the tax, including increased resources for tax enforcement for the IRS and a 40 percent “exit tax.”

What is the Difference Between “Income” and “Wealth”?

What is “Income”?

Income is money that someone receives, either from work or investments. Most people in the U.S. receive their income from a paycheck. Very wealthy people receive a higher percentage of their income from their wealth, including from capital gains and dividends on investments.

The federal government taxes regular income (from wages and paychecks) through individual income taxes and payroll taxes. It also taxes income from wealth via methods like the federal estate tax that is levied on inherited wealth, and capital gains taxes that are levied on the profit one receives after selling an investment or asset.

What is “Wealth”?

Wealth is the net value of a household’s assets and debts. This can include real estate, stocks, cash, businesses, and other financial assets. The federal government does not currently tax wealth itself.

Reforming Income Tax

Some of the bills before Congress are designed to make income taxes more progressive, aiming to cut taxes and boost incomes for households with low and moderate incomes while raising taxes on households with incomes over \$1 million.

Tax Cuts for Middle-Income Earners, Increased Taxes for Millionaires

The **Working Americans' Tax Cut Act (WATCA)** is designed to lower income taxes for middle-income earners by changing the way income tax liability is calculated. The legislation sets two income thresholds that are dependent on a household's filing status: a "cost-of-living exemption" threshold and an "eligibility" threshold.¹⁵ (See Table 1.)

Households earning *under* the "cost-of-living" exemption threshold would not owe any income taxes.

Households with incomes above the "cost-of-living" exemption threshold but below the "eligibility" threshold would calculate their income tax obligation under the standard rules and under an alternative calculation (25.5 percent of their household income above the cost-of-living exemption amount). Their income tax liability would equal whichever amount is lower.¹⁶

Households earning above the eligibility threshold but below \$1 million would see no change to their income tax obligations. In short, no household earning under \$1 million would pay more than they do today, and most middle-income households would pay less.

TABLE 1

Working Americans' Tax Cut Act Proposes Income Tax Cut for Middle-Income Earners

Filing Status	"Cost-of-Living Exemption" Threshold	"Eligibility" Threshold
Single filer	\$46,000	\$ 80,500
Head of Household	\$64,400	\$112,700
Married couple, filing jointly	\$92,000	\$161,000

Source: Working Americans' Tax Cut Act (Introduced), S. 4083, 119th Cong., 2nd sess. (March 12, 2026), Tax Notes.

To offset the lost revenue from the tax cut for middle-income households, this Working Americans' Tax Cut Act introduces additional taxes on households earning more than \$1 million. Like the standard income tax brackets, the surtax rates are graduated marginal rates, which means that each rate applies only to the portion of income falling within that specific bracket, not to the taxpayer's total income. (See Table 2.) For example, if someone earns \$2.3 million in a year, the first \$1 million will be taxed at the existing rates, the income between \$1 million and \$2 million will be taxed at an additional five percent (on top of the existing 37 percent marginal rate), and the remaining \$300,000 above the \$2 million mark will be taxed at an additional 10 percent. This surtax includes provisions to prevent filers from using tax deductions to reduce their taxable income in order to avoid the surtax.

TABLE 2

Surtax (Additional Tax) Rate

	5%	10%	12%
	Income Above (In Millions)		
Threshold level for Single Filers and Heads of Households	\$1.0	\$2.0	\$5.0
Threshold level for Married couple, filing jointly	\$1.5	\$3.0	\$7.5

Source: "Working Americans' Tax Cut Act: Revenue and Distributional Effects," Penn Wharton Budget Model, March 16, 2026, <https://budgetmodel.wharton.upenn.edu/p/2026-03-16-working-americans-tax-cut-act-revenue-and-distributional-effects/>

Expanding Income Supports for Workers With Low Incomes

Members of Congress in both the Senate and the House of Representatives introduced versions of **The Tax Cut for Workers Act**, legislation designed to expand eligibility and increase the amount of tax credits for certain workers.¹⁷ Currently, only workers between the ages of 25 and 64 can claim what is called the “child-less Earned Income Tax Credit (EITC),” with a maximum credit amount of around \$66 in 2026.¹⁸ This legislation would increase the maximum credit to about \$1,500. The bill would also expand eligibility for the EITC to certain workers who are under 25 years old or over 64 years old.¹⁹

The **American Family Act**, introduced in April last year, would significantly expand the Child Tax Credit (CTC). The Child Tax Credit is a partially refundable credit that allows families with U.S. citizen (or qualifying noncitizen) children under the age of 17 to claim a credit of up to \$2,000. Currently, the CTC is a “partially refundable” tax credit, meaning that if the credit is greater than the amount of taxes a family owes, they will get some, but not all, of the difference back as a tax refund. The **American Family Act** would increase the value of the CTC from \$2,000 to \$6,360 for newborns, \$4,320 for children ages one through six, and \$3,600 for children ages six through 17. It would also make the CTC fully refundable, meaning that families with low incomes would receive the full value of the credit, regardless of their tax liability.

A tax credit directly reduces a person’s actual tax liability, or tax bill. Unlike deductions (which reduce income before calculating tax), credits directly subtract from the amount of tax you owe after all calculations are complete.

Equity Impact

Racial Equity in the Tax Code Must Include Wealth Taxation

Because of the way that U.S. tax code is currently designed, working people often pay a higher tax rate than billionaires because billionaires own forms of wealth that the U.S. does not tax at all or taxes at much lower rates than income.²⁰ The rapid accumulation of untaxed wealth by the richest Americans is one of the greatest drivers of economic inequality today.²¹ The wealth tax proposals under the **Make Billionaires Pay Their Fair Share Act** and the **Ultra-Millionaire Tax Act of 2026** would make progress toward making the tax code more racially equitable and reversing that economic inequity.

The structure of the U.S. tax system has allowed the ultrarich to exponentially grow their wealth and pass it on without ever paying taxes, which deepens the wealth divide. Due to our history of systemic racism and discrimination in the public and private sectors, policymakers passed a host of economic policies—related to taxes, housing, banking, and credit—that enabled mostly white families to accumulate fortunes, some of them massive, while excluding others from economic opportunity. As a result, white families disproportionately hold almost every type of wealth-bearing asset such as stocks or real estate.²² The resulting racial wealth divide is extreme: In 2020, the combined wealth of America’s 400 wealthiest billionaires exceeded the total wealth held by all 10 million Black American households.²³

By instituting significant wealth taxes, these bills would start closing the racial wealth divide and drastically cut back on wealth hoarding. An analysis from economists at the University of California, Berkeley, illustrated how a wealth tax could do this: They found that if a five percent billionaire wealth tax had been implemented in 1980, the net worth of the 10 wealthiest Americans would be about one-third of the wealth that they currently own, reducing the outsized power and influence of these individuals and allowing these assets to be public dollars that could be used for the benefit of us all.²⁴

Changes to Income Taxes and Income Supports Should Directly Target Racial Inequalities

The federal individual income tax structure is progressive, meaning that higher earners pay a higher percentage of their income in taxes. The proposed changes from the **Working Americans' Tax Cut Act**, the **American Family Act**, and the **Tax Cut for Workers Act** would make the income tax code more progressive (and therefore more equitable) by increasing taxes for the wealthy and lowering taxes for middle- and low-income households.

An analysis of all three of these bills from ITEP found that the changes from the middle-income tax cuts, plus the expansion to the CTC and EITC, would mean a tax break of between approximately \$1,400 to \$2,000 for the bottom 80 percent of taxpayers, or those earning less than \$153,600 per year.²⁵ For households with low incomes, this change would put much-needed money back in families' pockets to help cover the increasing costs of basics like food and childcare.

While the changes from the **Working Americans' Tax Cut Act** would not give much benefit to the poorest households, who already pay little or no federal income tax, the bill would benefit households in the middle 60 percent of income earners, or those earning between \$27,000 and \$153,300 per year.²⁶

However, the proposed changes to the Child Tax Credit under the **American Family Act** would significantly improve the program for families with the lowest incomes. Because of racial disparities in income, the current "partial refundability" of the CTC disproportionately harms Black and brown children.²⁷ As a result, only half of Black and Hispanic children are eligible for the full CTC, compared with three-quarters of white children.²⁸ The changes in this bill would enable low-income families to access the full amount of the expanded CTC and ameliorate racial inequality.²⁹

The surtax on income over \$1 million proposed in this bill also makes strides to improve racial equity in the tax code. Because of generations of economic exclusion, exploitation, and discrimination, Black and brown people, immigrants, and women make up a disproportionate share of workers in low-wage and undervalued

industries.³⁰ As a result, median incomes for Black and Hispanic workers (\$56,020 and \$70,950, respectively) are significantly lower than for white workers (\$88,010).³¹ A tax on millionaires would fall on the highest-income earners, the vast majority of whom are white.

As noted above, one provision in the **Make Billionaires Pay Their Fair Share Act** aims to improve economic security for K-12 teachers by setting a minimum salary requirement of \$60,000. Teacher pay is 26.4 percent lower than the wages for college graduates working in other professions.³² This pay gap continues to worsen, as wages have also not kept pace with inflation.³³ Seventy-seven percent of teachers are women, making this salary increase an important policy intervention for addressing the gender pay gap.³⁴ A more racially just version of this bill would include livable salary minimums for childcare workers, not just public school teachers. Childcare workers make \$32,050 annually, and 44 percent of child care workers are workers of color.³⁵

Policy Recommendations

Economic policy choices under the current administration, including the tax policy changes under OBBBA, have directly caused increased economic hardship for everyday people while handing over massive benefits to wealthy households and corporations. The bills summarized above offer real alternatives that would help people who are struggling to make ends meet, while also working to close the vast racial wealth divide and raising the needed revenue to pay for critical public goods. This is a crucial time for economic and tax policy decisions that are bold, innovative, and responsive to everyday people's demands. To win the fight for a more just tax code, we must commit to:

- **Right-sizing tax responsibility for the wealthy and corporations.** The current tax code allows the rich to get richer by failing to adequately tax wealth. Changes from OBBBA are slashing corporate tax bills even as they rake in record profits: Amazon's tax bill dropped from \$7 billion to \$2.8 billion this year.³⁶ Our tax system needs reform to make sure that corporations and wealthy households are paying adequate taxes to support a healthy, equitable economy for all.
- **Using increased revenue to invest deeply in public goods.** The revenue raised from a combination of the bills above could massively expand programs and services for all people. The \$6.2 trillion raised from the **Ultra-Millionaire Tax Act of 2026**, for example, would be sufficient to fund free universal pre-k and expanded access to childcare, a paid family and medical leave program, and expanded Medicaid coverage while still having over \$5 trillion left for other major investments to modernize the country's infrastructure to improve quality of life, expanding economic opportunity for all.³⁷

Households across the country are feeling increased pressure from the cost-of-living crisis. This crisis is not an accident; it is the result of policy decisions, including inequitable tax policies, that have failed to prioritize economic well-being for everyday families, leading to vast income and wealth disparities. Changing the tax code to adequately tax wealth would not only help curb extreme wealth concentration but would also raise revenue to be invested in public goods that enable everyone—but particularly Black and brown people who have been excluded from economic opportunity and generational wealth building—to thrive.

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About Dēmos

Dēmos is a non-profit public policy organization working to build a just, inclusive, multiracial democracy and economy. We work hand in hand to build power with and for Black and brown communities, forging strategic alliances with grassroots and state-based organizations.

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