Did the TCJA Reduce Wealth Inequality?

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Wealth Inequality in the U.S. (SCF)
Possible Causes

• Possibility #1: Booming economy

• Possibility #2: Policy outcome
TCJA Impact: Housing Subsidies

• Capped SALT at $10,000 (property and real estate components)

• Reduced MID cap

• Expanded standard deduction
Avg. Housing Deduction (IRS): 2017 vs 2018
Avg. Housing Subsidy: 2017 vs 2018
Aggregate Asset Composition
Assets by Quintile
Theory

- TCJA reduced regressive housing subsidies
- Home valuations of higher income/wealth households should decline (relatively)
Home Values by Income, 2016 vs 2019
Home Values by Wealth, 2016 vs 2019
Wealth and Housing Inequality
Further Evidence

• Tong (2021): SALT cap reduced growth rate of home prices by nearly 1 ppt if:

• High SALT counties

• High valued homes
Conclusion

• Limiting housing deductions likely reduced wealth inequality.

• More research on tax policy and wealth inequality.
Thank you!