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"Income Tax Compliance and the Black-White Disposable Income Gap"

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Abstract

The U.S. Government has detailed historical knowledge of income tax compliance differences by categories of income taxpayers. Wage and salary earners know that information returns precede their tax filing with the Internal Revenue Service (IRS), and they respond with high-level compliance. Because shareholders are the residual claimants for corporate income, and because corporations have access to legal means to avoid tax liabilities, corporate employees have little incentive to misreport corporate income. The IRS also receives information returns for partnership distributions; therefore, noncompliance on partnership income tax is constrained. However, the IRS receives no information returns for income earned by operators of proprietorships, and this class of income taxpayers is the least compliant. This paper explores how variation in tax compliance and Black Americans' disproportionately low representation in a high tax noncompliance income category disadvantages Blacks and contributes significantly to the Black-White disposable income gap.

Introduction

The U.S. Government has detailed historical knowledge of income tax compliance differences by categories of income taxpayers. Wage and salary earners know that information returns precede their tax filing with the Internal Revenue Service (IRS), and they respond with high-level compliance. Because shareholders are the residual claimants for corporate income, and because corporations have access to legal means to avoid tax liabilities, corporate employees have little incentive to misreport corporate income. The IRS also receives information returns for partnership distributions; therefore, noncompliance on partnership income tax is constrained. However, the IRS receives no information returns for income earned by operators of proprietorships, and this class of income taxpayers is the least compliant.[1] This paper explores how variation in tax compliance and Black Americans' disproportionate representation in a high tax compliance income category disadvantages Blacks and contributes significantly to the Black-White disposable income gap.

This research flows mainly from existing statistics on tax compliance; from efforts by the U.S. national accountants (the U.S. Department of Commerce, Bureau of Economic Analysis (BEA)) to prepare comprehensive estimates of gross domestic income; from examination and interpretation of the "equal protection" clause of the U.S. Constitution; and from computations of hypothetical tax liabilities using 2009 U.S. Federal Income Tax Returns.

We are motivated to pose the following questions: "In order to practice fairness, should not the government enforce compliance evenhandedly vis-à-vis the three main classes of income taxpayers: (1) Recipients of *Compensation* (i.e., wage and salary earners); (2) recipients of *Property Income* from rentals or from corporations; and (3) *Entrepreneurial Income* (i.e., operators of proprietorships and partnerships)? If it does not, then does government discriminate? If discrimination is occurring, then does it impact mainly a class of taxpayers in which Black Americans are disproportionately represented (i.e., wage and salary earners)? If so, then tax compliance discrimination could be an important contributor to the Black-White disposable income gap.[2]

The paper unfolds in five sections. First, we provide background information. Second, we examine details concerning proprietorship income and taxes. Third, we identify the data used in our analysis and outline our empirical strategy. Fourth, we present our empirical findings. We provide our conclusions in section five.

Background

Why have differing levels of income tax compliance evolved and why are varied compliance requirements imposed? First, different classes of taxpayers are associated with differing capacities to lobby (rent seek) the U.S. Congress to shape the outcomes that are desired.

[1] The IRS (2007) reports that business income associated with individual income tax returns (i.e., income by the self-employed) accounted for $109 billion of the $345 total gross tax gap. This is essentially 32% of the tax gap, the largest proportion of any major class of taxpayers.

[2] DeNavas-Walt, Proctor, and Smith (2011) report that the 2010 median White-Black household income gap was $22,552

Whereas many corporations have the resources to lobby congress directly for favorable tax provisions, lone non-corporate firms may not possess such capacity.[3] However, many small entrepreneurs form associations and pool resources to lobby Congress for favorable tax provisions or to minimize enforcement of tax laws.

Second, technological developments enable the IRS to enforce tax compliance through differing requirements. For example, government regulation of a relatively small number of corporations that were large employers with large receipts initially enabled reporting to the IRS of employee wages and salaries and interest and dividend distributions using paper filings. Today this reporting occurs electronically, and these information return reporting requirements have been extended to proprietorships and partnerships.

Although the technology is available to impose greater compliance on proprietorships, the U.S. Government has not required that this class of firms report sales and/or receipts automatically and electronically. Just as corporate firms include computerized and automated systems for reporting receipts (especially in retail establishments), a similar type of system could be operationalized for proprietorships to report to the IRS. Admittedly, small firms could configure two cash registers: One "on the books" and one "off the books." Unfortunately, such reporting requirements would constitute only a partial solution to the tax compliance problem. The problem of accurate reporting of expenses would remain.

It is in this context that we examine the national economic accounting derivation of disposable personal income:

- *Compensation* (wages and salaries and related supplements); *Entrepreneurial Income* (farm and non-farm proprietors' and partners' income); *Property Income* (rental income and income receipts on assets (interest and dividends), *Personal Current Transfer Receipts* (government social benefits to persons and current transfer receipts from business). This income is reduced by *Contributions to Social Insurance*.
- Less: *Personal Taxes*
- Equals: *Disposable Personal Income*

The foregoing derivation of *Disposable Personal Income*, when analyzed appropriately, will reveal that even this process is rife with opportunities for Whites to supersede Blacks. Although it is not true, for the moment, let us assume that Whites and Blacks with comparable incomes are treated equally when it comes to taxes.[4] Let us also adopt an invalid assumption that Whites and Blacks face comparable opportunities to expend their income on personal outlays by facing comparable prices.[5] Under these assumptions, the only point for inequality to arise is through the

[3] Corporate employees serve as the agents of shareholders, who require that net income is optimized. This is achieved by corporate lobbying of Congress for favorable tax provisions. For corporations, fully legal and favorable tax provisions replace illegal income misreporting as a method for ensuring that shareholders receive optimal income from investment.

[4] The issue of uneven treatment when it comes to taxes is the crux of this article. We will pick this topic up in later sections.

[5] As just one example of Whites and Blacks facing unequal price profiles, Ayres and Siegelman (1995) shows that Black males and females pay higher prices for automobiles than do White males and females. In more simplistic terms, we should note that because Blacks usually live further away from shopping malls that offer discount prices,

generation of income. In that regard, wage and salary discrimination is a well-known and present fact.[6] When it comes to farm and nonfarm proprietor's income, the record is clear that favorable access to capital and other requirements predispose Whites to entrepreneurial opportunities.[7] Finally, with respect to property income from physical (rental income) or financial capital (interest or dividend income), we complete the circle by noting that Blacks are far less likely to derive income from these sources than Whites.[8] Therefore, Blacks face an uphill battle in seeking to achieve income equality with Whites.

Entrepreneurial Income and Taxes

The U.S. Census Bureau's (2010B) report from its 2007 *Survey of Business Owners*, which we will explore in more detail below, indicates that Blacks have ratcheted up their entrepreneurial activities. However, the data show clearly that the vast majority of Black businesses are sole-proprietorships; i.e., they have no employees. In other words, Blacks continue to face barriers to developing businesses that are large enough to hire employees. Consequently, on a proportionate basis (enterprises per capita) and on a size basis, Blacks lag far behind Whites when it comes to self-employment.

Importantly, there is one aspect of self-employment that provides Whites with an opportunity to extend their disposable income over Blacks. Here, we are referring to tax compliance. As already noted via our reference to the IRS (2007), research reveals that the self-employed are the least compliant of the three important classes of taxpayers. In this case, entrepreneurs report less net income than they earn and, because compliance is lax, are able to pay a fraction of the taxes that are actually due. Because Blacks are disproportionately included among the wage and salary class of taxpayers, and less so among the self-employed, they have fewer opportunities to benefit from underreporting income and a reduced tax bill. Therefore, Whites and Blacks with equal net incomes (with Blacks earning that income as recipients of compensation and Whites earning that income as self-employed) are subject to conditions under which Whites can extend the Black-White disposable income gap.

Data and Empirical Strategy

This section presents data on U.S. entrepreneurship mainly using data from the 2002 and 2007 quinquennial censuses based on the *Survey of Business Owners* (U.S. Census Bureau (2010B) and (2006)). These data enable us to see the great disparity between Black and White entrepreneurship both on a *per capita* and on a per-business-income basis. Afterwards, we consider data on tax compliance from the IRS, U.S. Department of the Treasury. We present the latter data as a precursor to analyzing how the combination of relatively low Black entrepreneurship and dismal tax compliance among the self-employed work together to

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their increased transportation cost to access lower priced goods means that they ostensibly pay more for goods and services than do Whites due to transportation costs when they seek to avail themselves of lower priced goods and services.

[6] From the vast literature on income inequality, see De Anda and Hernandez (2007) and Mason (1998) as examples of scholars who use extensive control variables in their efforts to explain wage inequality.

[7] See Blanchard, Zhao, and Yinger (2008).

[8] The data underlying Bucks *et al* (2009) report on the Survey of Consumer Finance reflects the disparity in flows derived from various types of tangible and financial assets for Whites versus Hispanics and Nonwhites.

disadvantage Black Americans when it comes to deriving more disposable income. That is, because Blacks are disproportionately represented among wage and salary earners and underrepresented among proprietors, and because proprietors are able to skirt tax compliance, Blacks are subject to a higher level of tax compliance, while Whites are able to amass an unfair volume of disposable income. The subsequent analysis leaves no doubt that "tax compliance discrimination"—inadvertent though it may be—contributes significantly to an extension and expansion of the Black-White disposable income gap.[9]

Entrepreneurship

Table 1.—Black- vs. White-Owned Business in the U.S., 2002 and 2007

Categories	2007		2002	
	Black	White	Black	White
Total nonfarm businesses (millions)	1.9	22.6	1.2	19.9
Employers	0.1	4.6	0.1	4.7
Nonemployers	1.8	18.0	1.1	15.2
Total receipts (billions)	$137.5	$10,234.5	$88.6	$8,277.8
Employers	$98.9	$9,400.0	$65.8	$7,603.7
Nonemployers	$38.6	$834.5	$22.8	$674.1
Receipts per business (thousands)	$71.5	$452.9	$74.0	$416.0
Employers	$925.4	$2,043.5	$696.2	$1,613.7
Nonemployers	$21.3	$46.4	$20.7	$44.4

Sources: Census Bureau 2010B and 2006

Table 1 provides evidence concerning the disparity in Black- versus White-owned enterprises based on data from the 2002 and 2007 Economic Censuses' *Survey of Business Owners*. The view apparent from the table is that total Black nonfarm businesses are less than 10% of the number of White businesses; that far less than 10% of Black businesses are large enough to employ workers compared with over 20% for White businesses; and that the average receipts earned by the smallest (nonemployers) of Black business would place the owner of those receipts near the poverty line for a family of four, while small White businesses reflect receipts that are more than twice as large. Therefore, Black entrepreneurial operations are a mere shadow of their White counterparts. On a per capita basis, and taking 2007 as a case study, there was just one Black business for every 19.7 members of the Black population, while there was one White business for every 8.7 members of the White population.[10]

Blacks as Mainly Recipients of Earned Income

While Table 1 and just-presented text provide clear evidence that the number of Black entrepreneurs is relatively small, for argument sake, it is critical that we also show that Blacks

[9] Unfortunately, the IRS does not track income and the related taxes by ethnicity. Therefore, although there are volumes of data on the White-Black income gap, there are no such data on the White-Black disposable income gap. In many respects, the latter is most important because it is essential to determining the capacity to produce and increase well-being.

[10] The U.S. Census Bureau (2010C) reports that there 37,369 thousand Blacks and 196,252 thousand Whites in the population.

are primarily recipients of earned income—not entrepreneurs. Table 3, which primarily reflects data from the U.S. Department of Labor, Bureau of Labor Statistics (2003 and 2008), proves this fact:

Table 2.—Black vs. White Entrepreneurs and Recipients of Earned Income, 2002 and 2007

Categories	2007		2002	
	Black	White	Black	White
Labor force (millions)	17.5	125.5	16.7	120.1
Employed persons (millions)	16.0	119.9	14.8	113.9
Entrepreneurs* (millions)	1.9	22.6	1.2	19.9
Recipients of earned income (millions)	14.1	97.3	13.6	94.0
Earned income recipients as a percentage of employed persons (percentage)	88.1%	81.1%	91.8%	82.6%

Sources: Bureau of Labor Statistics (2003 and 2008) and Table 1.
*--From Table 1; assumes that entrepreneurs own only one enterprise.

The bottom row of Table 2 reveals that there are significantly higher percentages of Black recipients of earned income when compared to Whites.[11] Consequently, any benefits that might accrue to entrepreneurs will be disproportionately denied to Blacks because of their relatively low representation among the entrepreneurial class of workers.

If entrepreneurship inures such benefits, it is important to inquire why Blacks self-select disproportionately for the wage-earner class. More generally, it is important to understand why more workers of all races do not become entrepreneurs. We have already provided a partial explanation for this outcome; namely the lack of access to the capital required to engage in entrepreneurship (Blanchard, Zhao, and Yinger (2008)). There is also the hurdle that "someone else's ice is colder." That is, Black entrepreneurs often find that fellow Blacks prefer to transact with non-Blacks and/or Blacks find that their products elicit a lower price than identical products that are sold by White entrepreneurs (Ayres, Banaji, and Jolls (2011)). Another key reason that was highlighted more than a decade back by Borjas (1999) is that most Blacks and many Whites have no "cultural capital," which predisposes them to the requirements and nuances of operating businesses and they, therefore, are unmotivated to pursue entrepreneurship. Although, on an increasing basis, Blacks are becoming trained to run businesses, they either fail to start businesses or they undertake very small businesses due to the aforementioned barriers.[12]

Tax Compliance

U.S. Government information on the history and current state of tax compliance is primarily the product of the IRS.[13] The statistics provide evidence that the proprietorship class of income

[11]The standard errors of the relevant estimates in Table 2 are small. Therefore, we can state with great assurance that the proportional difference between Black and White wage earners is significant.
[12]National Center for Education Statistics' (2010) reports that Business/Management was the number-one field (19.5%) for Black holders of a bachelor's degrees or higher in 2001
[13] For details on tax statistics and operations, budgets and compliance, see IRS (2010).

taxpayers has a long history of being the most noncompliant of the three major classes of income taxpayers.

"Rogue proprietors" who evade or avoid full tax compliance could infer suboptimal tax administration. Consistent with the "optimal tax" literature, especially Slemrod and Yitzhaki's (2002) effort, we conclude that public sector officials should administer taxes in order to equilibrate the social marginal benefit of funds ($SMBF_i$) and the social marginal cost of funds ($SMCF_i$) of the ith tax instrument that is at their disposal. We have adapted the following formulaic approach to this equilibrium from Slemrod and Yitzhaki (2002). Afterwards, we provide an interpretation in the context of the existence of "rogue proprietors."

Equation 1

$$SMBF_i = SMCF_i = DC_i * \frac{\gamma(X_i - MR_i) + C_i + MR_i}{MR_i - A_i}.$$

Where i=1..n and the variables on the right hand side of the second equal sign have the following meanings:

- DC_i The distributional characteristics of the ith item to be taxed (i.e., the relative importance of the taxed item across all households in the tax system). In this case, following Slemrod and Yitzhaki (2002), we assume that these characteristics sum to 1.
- γ The utility of the social value lost by taxpayers in order to forego paying a marginal tax dollar.
- X_i Potentially, the additional amount of tax revenue available by applying tax instrument i.
- MR_i The marginal revenue actually paid by the taxpayer and collected by tax authorities.
- C_i The additional cost to taxpayers for complying involuntarily to meet tax requirements.
- A_i The additional administrative costs that are associated administering the ith tax instrument.

Equation 1 can be interpreted to mean that $SMBF_i$ (valued by the benefits obtained from the expenditure of the marginal dollar collected via tax instrument i) should be equal to the $SMCF_i$, which is equal to: DC_i, (assumed to be a small constant due to the wide variety of tax instruments); times the utility of the value lost while avoiding taxes (i.e., the difference between potentially collected taxes and the amount actually collected (X_i – MR_i)); plus the cost of involuntary compliance (C_i); plus the tax that is actually collected (MR_i); all over the additional tax revenues from instrument i that end up in the tax coffer (i.e., collected taxes (MR_i) less the administrative costs (A_i). Notably, the numerator in the expression to the right of the second equal sign in Equation 1 is the total additional social cost imposed on taxpayers when the ith tax instrument is implemented, while the denominator is the marginal revenue available after administrative costs; combined they account for the marginal social cost of funds.

If Equation 1 exemplifies the optimal tax system, yet we contend that "rogue proprietors" exist, then either the tax system is optimal with respect to the taxing of proprietors' income or it is suboptimal. If the former, then, given the existing high level of leakage (X_i – MR_i), the SMBF derived from spending proprietors' income tax revenues must be high at relatively low levels of spending.[14] If the latter and $SMBF_i > SMCF_i$, then $SMCF_i$ can be increased by increasing compliance costs (C_i) and administrative costs (A_i). If, on the other hand, $SMBF_i < SMCF_i$, then $SMCF_i$ can be reduced by reducing A_i and C_i. Given the state of the nation, and the high valued need for tax revenues, it seems that we are faced with a case where $SMBF_i > SMCF_i$. As indicated, an equilibrating move would be to increase SMCF by increasing C_i and A_i, thereby raising greater tax revenues from proprietors' income.

What is clear is that income tax noncompliance occurs differentially across income sources. For example, BEA (2010) uses IRS findings on tax noncompliance when preparing estimates of gross domestic income, and reflects the value of tax misreporting (avoidance and evasion) on its National Income and Product Account (NIPA) reconciliation tables.[15] Specifically, NIPA Table 7.18 reports that 2008 wages and salaries of $6,141.8 billion were adjusted by $91.1 billion (1.5%) to account for income misreporting. NIPA Table 7.14 reports that 2007 proprietorship and partnership net profits (less losses) of $626.5 billion was adjusted by $494.6 billion (78.9%) to account for misreporting. Finally, NIPA Table 7.16 reports that 2006 corporate total receipts less deductions of $1,900.3 billion was adjusted by $300.0 billion (15.8%) to account for misreporting. These temporally staggered statistics reflect the staggered availability of source data by income source, and the application of IRS misreporting statistics, which were developed from earlier IRS Tax Compliance Measurement Program studies. Finally, these statistics make it clear that noncorporate business (mainly proprietorships) reflects the highest level of tax noncompliance.

Unequal Treatment

The "equal protection" clause in the 14th Amendment to the U.S. Constitution requires that the U.S. Government ensures equal protection for each of its citizens. However, equal protection should not be misconstrued to mean "equal treatment." There is no constitutional provision for equal treatment. Is it reasonable that citizens should expect laws and regulations to be applied equally and without bias? Equal treatment would go a long way toward producing equal outcomes. Certainly, failure by a U.S. Government agency—in this case the IRS—to create equal outcomes for different classes of taxpayer citizens may be viewed as discriminatory because, as Yinger (1998) explains, it is consistent with a standard of discrimination that is based on "disparate" or "adverse" impacts on the members of a protected class.

To show the disparate outcomes that result from the U.S. Government's uneven enforcement of tax compliance for the three main classes of income taxpayers, we first provide the following information about all U.S. and Black-owned firms:

- According to the Table 728 of the U.S. Census Bureau (2010A) *Statistical Abstract*, there were 18.9 million proprietorships, 2.2 million partnerships, and 5.3 million corporations in 2002. For 2007, Table 745 of the U.S. Census Bureau (2011) Statistical Abstract, there were 23.1 million proprietorships, 3.1 million partnerships, and 5.9 million corporations.

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[14]Here we assume that SMBF is high at low levels of spending and low at high levels of spending, which is consistent with the concept of diminishing marginal benefits as spending/revenues increase.
[15] For an early and thorough analysis of BEA's use of IRS tax compliance data, see Parker (1984).

- According Table 1 above, there were 1.2 and 1.9 million Black firms of all types in 2002 and 2007, respectively.
- For 2002 and across the three main types of business establishments (proprietorships, partnerships, and corporations), Black firms comprised just 4.5% of all U.S. firms. Average (mean) sales and receipts of Black firms ($74,018) was just 8.7% of the average sales and receipts of all U.S. firms ($852,960).
- For 2007 and across the three main types of business establishments, Black firms comprised just 8.3% of all U.S. firms. Average (mean) sales and receipts of Black firms ($71,518) was just 6.9% of the average for all U.S. Firms ($1,034,000).

Blacks were significantly underrepresented in number and in the value of average receipts because they accounted for 12.8% of the population in 2002 and 12.6% in 2007.[16]

Analytical Assumptions

Considering the relatively small number of Black firms and the small value of their receipts in the context of tax noncompliance, what are the tax implications for Black Americans? In response to this question, we make the following assumptions and perform the following computations for individual taxpayers that derive income from the three major classes of firms:

- We assume that the three taxpayers have the following actual sources of taxable income: Taxpayer 1 has compensation income ($50,000 in wages and salaries); Taxpayer 2 has property income in the form of distributions from corporations ($25,000 in interest income and $25,000 in ordinary dividend income); and Taxpayer 3 has entrepreneurial net income ($50,000 from a nonfarm proprietorship).
- We assume that the three taxpayers report the following adjusted gross income to the IRS, which is consistent with a U.S. Department of the Treasury (2007) study for tax year 2001.[17] Taxpayer 1 reports 98.8% of the wages—the employer transmits a W-2 information return to the IRS. Taxpayer 2 reports 96.35% of the interest and dividend income—the distributing corporations provide Forms 1099-INT and 1099-DIV information returns the IRS. Taxpayer 3 reports 42.9% of the proprietorship net income to the IRS—the IRS receives no information return from the proprietorship.
- We compute tax liabilities for the three taxpayers using IRS Form Schedule 1040. We assume that all three taxpayers were born after 1950, are single, have no dependents, do not itemize deductions on their tax returns, and have no other forms of income.

<u>Empirical Findings</u>

We compute income tax liabilities for the aforementioned three taxpayers. Beginning with reported adjusted gross incomes, we subtract the 2009 allowable standard deductions and

[16] See U.S. Bureau of the Census (2010C) and (2003).

[17] The U.S. Department of the Treasury (2007) reports the following "net misreporting percentages" for 2001: Wages, salaries, and tips – 1.2%; interest and dividend income - 3.6% and 3.7%, respectively; and nonfarm proprietor income – 57.1%. Here, we assume that misreporting percentages are unchanged through 2009; even if they change, the assumption is that the relative differences across major income classes does not change substantially.

personal exemptions, which take us to taxable incomes. We use IRS tax tables for 2009 to compute the tax liabilities on the taxable incomes. Table 4 provides the results of our tax liability computations:

Table 3.—Tax Liability Computations for Three Classes of Taxpayers

Line No.	Categories	Taxpayer 1	Taxpayer 2	Taxpayer 3
1	Actual adjusted gross income/net income	$50,000	$50,000	$50,000
2	Reported adjusted gross income/net income	$49,400	$48,175	$21,450
3	Standard deduction	$5,700	$5,700	$5,700
4	Personal exemption	$3,650	$3,650	$3,650
5	Table income	$40,050	$38,825	$12,100
6	Tax liability	$6,194	$5,894	$1,394
7	Disposable income	$43,806	$44,106	$48,606

Source: Values computed by the author.

Table 3 reveals that Taxpayer 3 risks misreporting income and walks away with a $4,800 lower tax liability and $4,800 higher disposable income than Taxpayer 1. This outcome is likely to prevail as long as Taxpayer 3 maintains an accounting system that is consistent with tax reporting, and as long as that tax reporting is consistent with norms that are reflected by proprietorships that operate in the same or similar industries and in locations with comparable characteristics.

The higher level of disposable income for Taxpayer 3 ($4,800) is substantial. Assuming that Taxpayer 3 is White and Taxpayer 1 is Black, what would this mean broadly for Black versus White disposable income? Going back to Table 2, and recalling the fact that there is only a 7% difference in the probability that White versus Black proprietors (18.9% versus 11.9%) have the potential to benefit from tax avoidance and evasion. Therefore, in this case, we must conclude that the average White taxpayer would only benefit from $336 (i.e., 7% of $4,800) in additional disposable income from tax noncompliance. However, because our case study begins with $50,000 in actual and $21,450 in reported net income for Taxpayer 3 (the proprietor), while Table 1 indicates that White nonemployers proprietor reported $46,400 in net income, we can be assured that our case study understates the magnitude of tax noncompliance and the White-Black disposable income gap. Moreover, Slemrod and Yitzhaki (2002) emphasize that noncompliance increases with income. This is a particularly salient point when one considers the gap in average incomes between Black and White proprietors.

Conclusion

Racial discrimination in private-sector fora may be an acceptable outcome. Individuals have preferences and they are expected to express them within environments that fall inside of their legal jurisdictions. However, racial discrimination within public sector environments is not acceptable.

Rarely, but from time-to-time, we hear of efforts to correct hiring discrimination within the public sector. Increasingly, efforts are undertaken to right discrimination within the public criminal justice system, which finds a disproportionate percentage of Blacks being incarcerated. Very rarely, however, are efforts undertaken to challenge Federal agencies' discriminatory practices. A successful example is an effort to have the U.S. Department of Agriculture treat Black farmers equal to their White counterparts.

This paper reveals that the IRS has a long-standing practice of permitting proprietors to escape the long arm of the tax man. Given that Whites comprise a disproportionate share of proprietors who have the worst tax compliance record, the IRS leniency toward proprietors allows the latter to walk away with higher levels of disposable incomes. This is an unacceptable outcome because it disadvantages Blacks and facilitates an extension and expansion of the chasm in disposable income and well-being that separates Blacks and Whites.

Improved tax compliance by proprietors through increased enforcement by the IRS could help reduce the Black-White disposable income gap and help improve the nation's fiscal position going forward. Most importantly, it would take the nation beyond equal protection under the law and toward equal treatment under the law.

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03/17/11