Taxing Identity

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Abstract: Taxation based on identity has a long, often sordid history, and persists to this day, usually with some subtlety. It is a relatively tame cousin of the blatant, violent, and genocidal policies that have targeted people of certain religions, races, and genders for millennia. It is, nevertheless, an issue to be confronted rather than ignored by public finance economists. This is especially true because the concept of identity played a prominent role in the US presidential election of 2024, and is likely to be at least an undercurrent to the policy debates beginning in 2025, including those concerning tax policy. Tax based on identity is difficult, although not impossible, to justify within standard optimal tax analysis, because in that framework the policy objective is usually framed as being anonymous (impartial) and eschews basing policy on disparate preferences. The most promising justification seems to be if, for example, race is systematically correlated with the failure of income to represent ability to pay. It then acts as a tag that can help achieve the desired allocation of tax burden at minimal efficiency cost. For unjustified identity-based tax policy, analysis can help to spot its existence and quantify its social welfare cost.

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1. **Introduction and Motivation**

There is a vast literature on identity in psychology, sociology, the intersection of the two in social psychology, political science, anthropology, and history. Across these fields of study, the concept of identity is defined in different ways. Often it is meant as a straightforward objective descriptor of one aspect of a person. In social psychology, a classic definition is that identity is the part of an individual's self-concept which derives from his knowledge of his membership in a social group. (Tajfel and Turner 1979) In the modern economics treatment of identity, beginning with Akerlof and Kranton (2000), identity is defined as a person's sense of self, which affects the choices people make. In the model they propose, a person's identity is associated with different social categories and how people in these categories should behave. There is a utility cost to deviating from these "norms"; Davis (2010) refers to an individual's effort to keep this cost low as "cognitive dissonance minimization." In this paper I will use both definitions, and try to be clear which I am referring to when it matters for my argument. Note that an individual's identity can be defined in opposition to some other group of people. In social psychology this is termed *negative identity*—when one explicitly or implicitly defines oneself by way of contrast to another party, or group. Sen (2006, p. 2) cautions about the anti-social implications of identity, saying that "a sense of identity can firmly exclude many people even as it warmly embraces others."[1]

It would not be at all surprising or unusual if, upon acquiring political power, a party proceeded to reward its supporters, via tax policy or by other means. When those supporters are characterized on average only by income or wealth class, the path of tax policy is fairly straightforward: to reward higher-income households, the distribution of tax burden would be made less progressive; to reward lower-income households, it would be made more progressive. When the supporters are characterized by identity rather than, or in addition to, income or wealth class, the ability to deliver a favorable outcome may be constrained by a constitutional (or other) prohibition to use identity explicitly in, say, tax law. What if race, religion, or gender cannot be mentioned in the tax code? That doesn't end the conversation, because such constraints could be overcome to some degree by having the tax law favor choices and/or characteristics more likely to be exhibited by people with the

[1] In a similar vein, earlier Kolm (1995, p. 63) noted that "'Social sentiments' such as envy, jealousy . . . compassion . . . are very widespread . . . and play a major role in social . . . and economic life."

favored identities. For example, if White households are more likely to have spouses with disparate earnings, then policy could be designed to resist individual-based taxation of married couples. If Christian families are more likely to be married and have many children, then policy could implement generous marriage "bonuses" and child-related tax credits. If men are more likely to spend their money on alcohol, gambling, firearms, and pick-up trucks, one could reduce the tax burden on these activities.

Critically, an identity-favoring outcome can be achieved by increasing the relative tax burden on households who have non-favored identities. In an approximately balanced-budget context, this will achieve the same objective. For example, policies that reward large families inevitably provide less benefit to families with no children.

Note that a chicken-and-egg conundrum arises here. Is it the behaviors that the party in power favors that matter, regardless of who does them, or is the important goal that more people of some identity just happen to do them? In other words, are the favored people favored because they perform the favored behaviors, or vice versa. Are policies a reward for people, a reward for behavior, or an incentive for the behavior? How does one tell them apart?

Although the economics-based literature addressing aspects of identity is now substantial, economic analysis of tax policy has until recently not paid much attention to the topic.[2] In this article, I consider how the concept of identity enters into tax policy analysis, focusing on race, religion, and gender.[3] I begin in Section 2 by briefly recounting some notable historical episodes in which the tax system has played a role in favoring and disfavoring people of certain identities. In case this issue be considered, and dismissed, just as an historical curiosum, I then discuss in Section 3 existing or proposed identity-related tax policies in the US today. In Section 4, I outline the leading economics model of identity, and how valuing identity might alter individuals' choices, and, in Section 5, I discuss empirical evidence on this subject. I then turn to how identity affects tax policy. In Section 6 I take a positive political

[2] One important exception is Keen (2023), who addresses some of the issues covered here in an insightful way, and addresses some tax identity issues not covered here, such as corporate identity. Legal scholars, under the rubric of critical tax theory, has addressed many of the issues addressed in this paper; a useful introduction is Infanti and Crawford (2009).

[3] Thus, I do not address other identities related to, for example, health status, immigration status, or geographic residence. Many of the issues I do discuss below apply to these categories, although each has its own special aspects and considerations.

economy perspective, asking how identity might affect what policies are chosen. In Section 7, I switch to a normative angle—can tax based on identity be justified within the standard welfare economics framework, and what are the social costs if it cannot. Section 8 suggests some directions for future research on taxing identity, and Section 9 concludes.

2. Some History of Taxing Identity

There is a long, and sordid, history of government actions that have favored or disfavored certain groups. Tax policy has played a role in some of these historical episodes, although, to be sure, the history of tax policy is tame compared to other manifestations of this phenomenon such as mass deportation, violence and, in the extreme, genocide. But a brief recounting of some tax episodes raises many of the recurring issues concerning taxation and identity.[4] What follows in this section draws heavily from Keen and Slemrod (2021), which contains extensive citations.

2.1. Race

The mistreatment of people according to their race has always gone far beyond what tax policy alone could achieve. But race and tax have sometimes become closely intertwined, and nowhere more so than in the United States. The poll tax stands out in this story.

In the early nineteenth century, many states required a tax payment as a prerequisite for registration to vote. But it was after the Civil War had brought slavery to an end that the poll tax became a form of implicit—if wholly transparent—racial discrimination. Following the failures of Reconstruction, by 1890 Federal troops had withdrawn from the South and carpetbaggers, scalawags, and some African-Americans had been replaced in power by White former Southern leaders or their descendants. It was at that time, mainly from 1890 to 1908, that most Southern states hit on the poll tax as a way to deny Black voting rights. Few supporters of the tax bothered to camouflage their intent. In his closing remarks to the 1898 Louisiana constitutional convention, its president defended the poll tax by asking "Doesn't it let

[4] Here, and throughout, I do not address the fact that taxes aimed at differentiating tax burden by identity may be shifted to others through their effect on behavior. The role of incidence in identity taxation is highlighted in Keen (2023).

the White man vote, and doesn't it stop the negro from voting, and isn't that what we came here for?"

The administration of the poll taxes often betrayed their intent. Statutory provisions commonly discouraged, rather than encouraged, their collection. Alabama had no penalties for delinquency: "No bills [are] sent out, and in most places, no effort is made by the tax collector to notify the taxpayers when the tax should be paid." The Mississippi constitution stipulated that no criminal proceedings were to be taken to enforce collection. Some states required the tax be paid in cash, at a time when many Black southerners had low cash incomes, relying instead on barter and credit from merchants and landlords.

The poll tax was a form of implicit rather than explicit discrimination, of course, and it therefore effectively disenfranchised many poor Whites. Some members of the southern elite saw this as an added plus, fearing the growing strength of the largely White-dominated populist parties. The populist Huey Long, however, wanted their votes and so simply paid the $1 poll tax for impoverished White farmers. Many Southern women activists came to view the poll tax as being a gender issue, too, asserting that it violated the 19th Amendment (adopted in 1920) that guaranteed all women the right to vote. They argued that, given the overall low incomes of White families and prevailing gender roles, if a choice had to be made between paying the poll tax to ensure the right to vote of a man or of a woman, the man would almost always win out.

Although the 24th Amendment, ratified in 1964, abolished the use of the poll tax (or any other tax) as a precondition for voting in federal elections, related controversy continues in the United States. One current debate concerns whether requiring a citizen to purchase a state identification card in order to vote is tantamount to a poll tax, effectively barring poor people, disproportionately from minority communities, from voting.

2.2. Religion

Many of the most sordid historical instances of tax discrimination involve the treatment of Jews. After the destruction of the temple in Jerusalem in the year AD 70, the Roman Emperor Vespasian imposed an extra poll tax on Jews throughout the empire, the *Fiscus Judaicus*, which was a fixed sum imposed on all Jews, including women, children, and the elderly. During the Middle Ages, special taxes on Jews were common throughout Europe, in a nasty interplay between anti-Semitism and the attractions of taxing profits associated with Jews' ability to lend money (not being subject to the Christian prohibition on usury). In England, from the late 1190s a dedicated Exchequer of the Jews recorded and regulated the taxation of the Jews. Some historians estimate that, in the 1240s and 1250s, Henry II taxed away half the wealth of the Jewish community (helping to pay for, among other things, the rebuilding of Westminster Abbey) and in 1290 Edward I expelled them from England.[5] The climate did eventually change. Jews began to resettle in England in the 1630s and, in 1689, Parliament voted against a special tax on Jews, for fear of driving them abroad.

In Europe, the French king Louis XII expelled the Jews from Provence in 1498, and to make up for the loss of revenue, in 1512 levied a tax—the "tax of the neophytes"—on those who had remained and accepted baptism. In Hungary the tax on Jews, beginning in 1747, was called a "tolerance tax", based on the German law that a Jew was obliged to remit tax in order to be "tolerated." Even some excise taxes had higher rates for Jews, who were, for example, subject to heavier bridge tolls (called *leibzoll*, or "body tax," in German) than were Christians. They also faced a tax on kosher meat, a marriage tax, and a tax on their synagogues and cemeteries.

But it is not only Jews that have been at the wrong end of this kind of discrimination. Christians have discriminated against Christians. In post-Reformation England, anyone missing church without good reason—and that would mean Catholics—was fined 12 pence each time. That was a lot but, in practice, this provision seems to have been used more for harassment than for wholesale oppression. Robert Walpole introduced a special tax on Catholics, the "papists tax," in 1722 (repealed not until 1867), and Catholics paid double land tax until 1794.

Muslims, too—though historically relatively tolerant of other faiths—have levied discriminatory taxes on nonbelievers. The *jizya* tax targeted the *dhimmi* ("People of the Book"), a category that came to include not only Jews and Christians but also Hindus,

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[5] Notably, the expulsion was part of a compromise with Parliament, which in return granted Edward a tax of £116,000.

Buddhists, Sikhs, and Jains in Moghul India. The precise charge varied over time and place, but generally it was levied on free-born, able-bodied men of military age and bore some rough relation to wealth. Poor people were exempt, as were slaves, women, children, the old, the sick, monks, and hermits (who were presumably pretty hard to collect from anyway). The *jizya* tax was often viewed as a payment in return for protecting non-Muslims (who could not serve as soldiers), and there are indeed examples of the tax being returned when this responsibility was not fulfilled. The twelfth-century sultan of Egypt and Syria, Saladin, is said to have returned the *jizya* to the Christians of Syria when, in the face of the crusaders, he withdrew his army. Moreover, non-Muslims were exempt from the *zakat*, a 2.5 percent tax initially on savings but increasingly income-related that, as one of the five pillars of Islam, continues to be raised in many Muslim countries. The *jizya* lasted into modern times; it was abolished in the Ottoman Empire in 1856, although it was replaced by a tax on non-Muslims in lieu of military service. By the early twentieth century, however, discriminatory taxes on non-Muslims had virtually disappeared.

There is an important difference between the case of religion and those of gender and race. One's religion can be changed, or be made to appear to change, but the others (with rare exceptions, and putting aside, for example, how race is defined) cannot. Discriminatory taxes give an incentive to convert to the favored religion—and that seems in some cases to have been at least one of the objectives (or at least an added benefit), although in other instances the tax also applied to converts. Some evidence suggest that religion-based taxes occasionally had some such effect. In Egypt, monasteries were in 714 forbidden to accept any newcomers—monks being exempt from taxation—to limit this tax-avoiding leap of (reported) faith, and districts in which the poll tax on non-Muslims (applied from 641 to 1856) was more strictly enforced experienced more conversion to Islam among poor Copts.

False ordination for tax purposes survives to this day. In the United States, a contribution to a church, synagogue, or other religious organization is potentially tax deductible, and occasionally phony churches are created as tax dodges. In Hardenburgh, New York, in the mid-1970s, 200 of the 236 property owners in the town were granted religious tax exemptions from property tax liability because their properties were designated as branches of the mail-order Universal Life Church. The IRS did not allow contributions to be tax-deductible, however.

As with gender and race, so religion-based discrimination in taxation can be implicit rather than explicit, even if its intent is absolutely clear. The tax on kosher meat mentioned above is just one example. The Dutch East India Company in Malacca, Malaysia, imposed a tax on pig slaughtering that by its nature would only be levied on non-Muslims, primarily Chinese and Christian households.

Of interest in this context is the model of Saleh and Tirole (2021), who study Egypt's conversion to Islam in the years between 641 and 1170, and address a tax levied on non-Muslims, such that conversions reduced tax revenue. They model the government as facing a tradeoff between raising more money from the disfavored (non-Muslim) group, in this case adherents to a religion, against the perceived social benefit of getting people to renounce the disfavored religion.

2.3. Gender and Sexual Orientation

There has been explicit gender differentiation in the tax code of many countries, well documented in Coelho et al. (2024), following up on the seminal contribution of Grown and Valodia (2010); see also Brooks et al. (2011). For example, some countries (e.g., Netherlands until 1984, the UK until 1984) have provided a higher tax-free allowance to a married man, while others (e.g., India until 2012/3, and Pakistan until 2010) have done the opposite. Higher allowances for women apply in many countries. For example, in Israel, female taxpayers get a higher general tax credit and, in Spain, working mothers are entitled to additional credits, while Ukraine and Israel provide tax advantages to single mothers. Finally, in many countries (e.g., France and Ireland) the responsibility for filing taxes was explicitly the husband's. Coelho et al. (2024) conclude that, in the recent past, most explicit gender tax differentiation created disadvantages for women, especially in terms of filing responsibility or higher allowances for men; most have now been removed, and explicit biases in terms of allowances, credits, thresholds, are now more commonly in favor of than against women.

Gender equality and taxation interacted in the 19th century when the modern movement for women's rights was beginning to notice the dissonance between the (lack of) suffrage and the (presence of) tax burden, and tax resistance was used as a tool in the fight for women's voting rights. At the third National Woman's Rights

Convention held in Syracuse, New York, in 1852, the prominent suffragette Susan B. Anthony read an address from the equally noted Elizabeth Cady Stanton, asserting the duty of property-holding women to refuse to remit taxes when not represented in legislative bodies. In the United Kingdom, the Women's Tax Resistance League took as its slogan "no vote, no tax."

In 2013, the U.S. Department of the Treasury and the Internal Revenue Service ruled that same-sex couples who were legally married in jurisdictions that recognize their marriages would henceforth be treated as married for federal tax purposes. The ruling applied regardless of whether or not the couple lives in a jurisdiction that recognized same-sex marriage. Once the Supreme Court legalized in Obergefell v. Hodges same-sex marriage nationally in 2015, all same-sex couples could file as a married couple at the federal level.

2.4. Lessons from History

Taxes based on identity proliferate in history, and can be implemented in two basic ways. A tax can be explicitly based on one's identity, such as the taxes on Catholics in England or the *jizya* in some Muslim countries. When the target identity was a religion, the authority had to verify whether conversion was real or an act of tax evasion; either way, such actions reduced the revenue collected. Sometimes an existing tax was levied with a differentially higher rate on the targeted minority, such as the bridge taxes or marriage taxes aimed at Jews. Alternatively, identity was targeted for higher tax burden by imposing taxes on activities only, or primarily, undertaken by households of the target identity, such as the tax on synagogues, kosher meat, or pig slaughtering; these taxes did not require the government to determine identity directly.

3. Some Identity-Favoring Tax Policies in the US Today

In this section I discuss some aspects of US tax policy that arguably effectively favor or disfavor some identities over others.[6] In all these cases, the identity is not named in the tax law, regulations, or implementation instructions.

[6] Although here I focus mostly on aspects of the tax code, as briefly discussed below tax enforcement policies can target people of a certain identity. I have in mind the recent report that

3.1. Race

Given the unsavory history of race-based tax, and non-tax, policy in the US, this is the natural place to look first. Brown (2022) argues that the current US income tax system is systematically stacked against Black households. Many of her arguments refer to the fact that important tax subsidy elements disproportionately provide benefit to White households. Prominent examples she cites are the implicit subsidy to home ownership, and employer-provided health insurance and retirement benefits. In such cases, it is crucial to separate what are progressive or regressive tax policies, where the average lower income of Black households affects the tax burden distribution by identity, from policies that favor households by race of given income; some recent research, discussed below, aims to do exactly that. Cronin, DeFilippes and Fisher (2023) revisit the Brown (2022) claims using tax return data, and analyze how the benefits of eight of the largest individual income tax expenditures vary by race and Hispanic ethnicity. They corroborate the finding that, with regard to preferential rates for certain capital gain and qualified dividends, White families have higher benefit rates across a range of income levels. With regard to refundable credits, in general lower-and middle-income Hispanic families (and Black families in the case of the EITC) have higher benefit rates and higher average benefits than White families. Finally, with regard to the mortgage interest deduction, the average benefit is the same or higher for high-income Black and Hispanic families than for high-income White families.

More fundamentally in my view, Brown argues that "Black and white households with the same income simply do not have the same ability to pay", due to "societal race-based discrimination." (p. 209). As a step to rectifying this racial disparity, Brown proposes to eliminate all exclusions and deferrals from personal taxable income, including the preferential treatment of capital gains, to eliminate joint returns, and to enact a one-time refundable wealth-based tax credit. In addition, she advocates that the IRS begin to collect and publish tax statistics by race. Her bottom-line message is that tax policy should not reflect or reinforce a bias that favors White cultural norms over Black cultural norms, e.g. regarding divisions of labor within a marriage.[7]

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the Department of Homeland Security asked the IRS to help with immigration enforcement. (Aleaziz and Duehren, 2025).

[7] Brown (2022) doesn't address Social Security, which has some of these same features, due to racially differential average life expectancies interacting with the annuity nature of the system.

Differential "need" is another way in which income may inadequately reflect ability to pay, or a household's level of well-being. This is the justification for such income tax features as the medical expense deduction. This tax feature may inadequately deal with the fact that certain diseases are correlated with race (or gender), such as Black individuals being more susceptible to sickle-cell disease.

Recent research has uncovered some race-based tax differentials. Avenancio-León and Howard (2022a) show that, holding taxing jurisdictions and property tax rates fixed, Black and Hispanic residents face a 10%–13% higher property tax burden for the same bundle of public services, with over half of the disparity arising between neighborhoods. Avenancio-León and Howard (2022b) find that legislative caps on assessment growth are associated with reduced racial inequality in property taxation, both because Black and Hispanic homeowners are exposed to slightly higher home-price growth within jurisdictions, which leads to a small mechanical reduction of existing inequality, and because caps discipline assessor errors by reducing the correlation between neighborhood amenities and erroneously high assessments.

Elzayn et al. (2025) find that, despite race-blind audit selection, Black taxpayers are audited by the IRS at 2.9 to 4.7 times the rate of non-Black taxpayers, a disparity that cannot be fully explained by racial differences in income An important driver of the disparity is differing audit rates by race among taxpayers claiming the Earned Income Tax Credit (EITC). This is a subtly different case than the property tax assessment issue, in that the IRS auditors made decisions not knowing either the taxpayer's race or the neighborhood of the taxpayer's residence. Rather, the audit disparity among EITC claimants stems largely from a policy decision to prioritize detecting overclaims of refundable credits over other forms of noncompliance. This is an example of "algorithmic discrimination", in which identity-neutral policies can give rise to unequal treatment by identity of individuals who are equally qualified for a given policy. Barocas and Selbst (2016) usefully distinguish between "disparate treatment" and the "disparate impact" of algorithms, and explore how difference between the two can arise.

Alm, Leguizamon, and Leguizamon (2023) quantify the racial disparity in the magnitude of the marriage penalty or bonus using individual micro-level data from the Current Population Survey for the years 1992–2019. They find that Black married couples nearly always face a higher average net penalty compared with White married couples, holding constant family earnings, corroborating the argument in Brown (2022). This occurs primarily because the incomes of Black married couples tend to be more evenly split between spouses than the incomes of White married couples. Note, though, that some recent evidence casts doubt on this finding. Using income tax data and an imputed race indicator, Costello et al. (2024) conclude that White couples are *more* likely to face a marriage penalty than Black and Hispanic couples in several income classes below $100,000, although but Black and Hispanic couples are more likely to face a penalty than White couples in higher-income classes.

How do these cases of apparent identity-based taxation come about, and persist? It may be that, rather than conscious racial bias, across legislative sessions when tax policies are considered, politicians on average value the impact on their White constituents more than they do their Black constituents, and so at the margin White-favoring policies are viewed, and voted on, more favorably. In favor of this view, Brown (2022) argues that the income tax changes that benefited equal-earner couples reflected the rise of such couples in White households. This occurs even though, in the modern era, important non-tax-policy attempts have been made to limit or, in some cases, redress past racial discrimination. I have in mind the Civil Rights Act of 1964, the Voting Rights Act of 1965, the Fair Housing Act of 1968, and more recently affirmative action and minority set-aside programs. This raises the questions of how, if at all, identity-relevant policy within the tax system reacts, and should react, to changes in non-tax identity-based policies.

3.2. Religion

Many observers opined that, in the 2024 campaign, both parties leaned into what is called identity politics. The following statement from Jake Auchincloss, Democratic congressman from Massachusetts, exemplifies the view: "The Republicans engage in identity politics that is intertwined with Christian nationalism. The Democrats engaged in identity politics that is intertwined in evaluating individuals based on group identity, rather than as individuals." (Rashomon, 2024) To the extent this is true, the Republicans having won the presidency and control of both houses of Congress, one would expect to see identity-based policies to move toward favoring the first, and deemphasizing the second, aspect of identity. Here I focus on the former, although I note that, had Democrats achieved political control, undoubtedly there would be pressure for different identity-based policies. Indeed, some defenders of the Trump administration's identity-related policies would argue that they are designed to *eliminate* race and religion preferences from federal policy. For example, the Executive Order of January 21, 2025 that eliminated Diversity, Equity, and Inclusion programs championed by the Biden administration justified it on the grounds that Americans "should not be stigmatized, demeaned, or shut out of opportunities because of their race or sex." Clearly, the baseline against which to measure identity-based taxation is crucial.

As background, it is worth noting that religious Christians, religious non-Christians, and atheists differ on average in key demographic characteristics. According to the 2014 Pew Research Center Religious Landscape Study, they are on average older (49 years of age versus 40 for non-Christian religious and 34 for atheists), less educated, defined as having a college degree (25% versus 50 and 43), less likely to be higher-income, defined as greater than $100,000 annually (25% versus 50 and 43), female (55% versus 46 and 32), more likely to be married (52% versus 46 and 36), and have bigger families, defined as number of children of those age 40 to 59 (2.2 versus 1.8 and 1.6).

What policies would a pro-Christian-identity policy want to promote? Based on the demographic differences, policies that favor married households with more children and policies that disfavor higher education and high incomes, would be attractive. Regarding the former, it is worth noting that, in the US presidential race of 2024, both candidates proposed a substantial expansion of the child tax credit, which differed in notable ways. Kamala Harris proposed a larger credit that was higher for younger children, fully refundable, and phasing out at higher incomes; J.D. Vance's proposal was a fixed amount per child that would not phase out with higher income, with its refundability not specified. Based on religious beliefs per se, one would expect policy that opposes abortion, restricts gay rights (including the ability to adopt), and perhaps is anti-gambling, anti-alcohol, anti-cigarettes, and anti-drugs. On the pro-side, one would expect support for religion and prayer in public schools, home schooling, funding for religious private schools, and restrictions on books in schools and libraries. fewer restrictions on government funding for religious charities; with regard to tax, attention might be directed to further loosening the taxation of the income of religious organizations, which is now generally exempt from income tax except for income from an unrelated business. One might also see support for an implicit religious test for immigrants, such as the 2017 "travel ban" that blocked entry from several predominantly Muslim countries, extended in 2025 to fully restrict entry from 12 countries and partially restrict entry from 7 other countries.

Some of these policy objectives have an obvious tax angle, and others do not. For an example of the former, consider the "Johnson amendment", named after its original sponsor, then-Senator Lyndon B. Johnson, enacted in 1954, which says that religious organizations that engage in activities to influence elections can lose their tax exemption. Donald Trump has pledged to undo it, which could happen via legislative action, executive action, or by involving the Department of Justice in an ongoing lawsuit filed against the IRS to rule the Johnson amendment unconstitutional. In July of 2025, the IRS issued a new interpretation of the tax code that allowed houses of worship registered as tax-exempt nonprofits to endorse political candidates to their congregations.

One other policy issue touches both on religion as an identity and on another possible identity identification, with (or against) elite secular universities. In Donald Trump's first term, the Tax Cuts and Jobs Act of 2017 enacted an excise tax levied on annual private university endowment profits at a rate of 1.4%. It applied only to private colleges and universities with 500 or more students with an aggregate fair market value of assets of at least $500,000 per student of the institution. In December, 2023, then-Senator from Ohio, now Vice President, J.D. Vance introduced a bill that would increase the tax rate to 35% for schools with at least $10 billion in total endowment, but would apply only to an institution "that is not religious in nature;" this clause would move the proposed legislation from having an implicit religious identity to having an explicit one. The 2025 tax legislation replaced the flat 1.4% tax rate with a multi-tiered rate structure of up to 8%, with larger endowments subject to the highest rate. Schools with less than 3,000 tuition-paying students are exempt, regardless of their endowment size, and there is no exemption for schools that are religious in nature.

Before leaving this topic, allow me one more observation on the relationship between religion and tax policy. The Republican party has staunchly opposed the allocation of an additional $80 billion in funding over the next decade to the IRS passed in 2022, succeeding in 2024 to cutting it to $60 billion, and since pledging to eliminate it entirely. There is a large literature on the (positive) connection between religiosity and tax compliance; a recent example is Hwang and Nagac (2022). Would constraining tax enforcement be consistent with a pro-Christian-identity policy? It could go either way. More tax-compliant households might resent the hassle of greater audit coverage. On the other hand, a successful enforcement policy would on average transfer money from tax-noncompliant households to tax-compliant households.

3.3 Gender and Marital Status

These days, few tax systems in the world explicitly differentiate by gender, though exceptions persist. In the US income tax, gender is now absent but, as Lin et al. (2025) note, the basic personal income tax Form 1040 and accompanying instructions were not always gender-neutral after the introduction of joint filing in tax year 1948. In 1948, the form asked for "your name" and below that asked for "wife's (or husband's) name", and referred to "wife (or husband)" in other places. The instruction booklet had a section entitled "Exemptions for You and Your Wife." The instructions retained the wife language until 1973, when both the instructions and form began to refer only to a "spouse". Thus, gender did not affect tax liability, but it appeared in the form and instructions in a way that presumed that the husband was "doing the taxes." During the late 1940's, in the debate over whether the income tax system should be individual-based or joint-income-based, norms about the proper role of men and women played a role. In the individual-based system, there was a tax advantage for income to be earned by both spouses; that advantage disappeared under joint filing. As one scholar of the debate put it, '[the change to joint filing] was viewed as a way of conserving traditional gender roles and power relationships" (Jones 1988, p. 296).

Although gender does not enter the tax code currently, Lin and Slemrod (2024) find that unmarried women face a significantly lower average US federal income tax rate than unmarried men, 6.3% versus 10.9%.[8] Some of the difference arises because women have lower income on average and the tax system is progressive, but tax progressivity accounts for less than 60% of the gender tax rate difference, leaving the rest being explained by gender differences within income classes. Most of the gender tax difference within income classes arises because unmarried women are more likely to live with dependents, making them more likely than unmarried men to be eligible for child-related tax benefits. More generally, of interest is how the gender-related aspects of tax systems affect the well-being of dependent children. The answer depends in part on how the tax system affects the real control of household resources. Because women spend a higher fraction of income under their control on goods such

[8] The US joint system of personal income taxation complicates assessing the tax burden imposed on married individuals by gender.

as food, education, and health care that improve the lot of their children, it is possible that changing the gender aspects of taxation can matter a lot to children.

Some other potential sources of implicit gender discrimination through the tax system have not been systematically explored.[9] Women are more likely to enter and exit the labor force, for instance, so tax features that make this behavior less attractive will negatively affect them relatively more. Some common tax features disfavor men. Men smoke more and go to more sporting events than do women, so excise taxes on these things burden them relatively more. Lower tax rates on medical services have the same effect, as men on average use them less than do women.

How the sales taxation of tampons may affect gender tax equality is hardly implicit. Minnesota was the first state to eliminate sales tax on menstrual products, having done so in 1981. By 2024, only 21 states still taxed menstrual-related products at their standard sales tax rate.

4. Modelling Identity

The previous sections make clear that using the tax system to target people of a certain identity, explicitly or implicitly, has a long history, and often arises in tax policy issues of today. In this section, I step back to consider what role identity plays in positive and normative economic analysis of tax policy.

I begin by laying out the model of identity proposed by Akerlof and Kranton (2000). In this model, an individual's utility depends on their own actions, the actions of others, and the utility value of their identity, which in turn depends on the individual's assigned, and to some extent chosen, social categories. Relating to a category with higher social status may increase the value of one's identity, and the utility value of one's identity depends on the extent to which one's own given characteristics match the "ideal" of the category. Akerlof and Kranton emphasize how relating to an

[9] The Social Security system also displays implicit gender differences. Because women on average live longer, its annuity nature disproportionately benefits women. Because women on average have lower income, the progressive payroll tax formula does the same. A related issue arose during the pandemic, when the issue was how to prioritize vaccine eligibility. Some argued that it was reasonable to put essential workers ahead of older adults, in part because they are disproportionately minorities; see Goodnough and Hoffman (2020).

identity affects individual behavior: a person with an identity might eschew actions that would otherwise raise their utility if this action does not comport with the behavior of their reference group, and may favor actions that otherwise would reduce utility if they match the group's actions.

Shayo (2020) offers a related, alternative version of how identity affects utility. In it an individual's utility depends on the material payoffs of their own actions, the perceived distance of these actions from those of a group they identify with, and the status of that group. The status of a group depends on the material payoffs of that group, other determinants of the group's status, such as its history, cultural influence, or prestige, and the material payoffs of a potentially endogenous negative reference group. Notably, the status of identifying with a group depends negatively on the material payoffs of a reference group, a phenomenon we might call malevolent or oppositional identity, and may reflect "aggression between different groups; in spiteful, envious, or competitive behavior; or in simply denying help to the outgroup." (p. 359) Two group-identity-oriented strategies are available to a person who cares about identity. For a given identity, one can increase the material payoffs of one's own group, or reduce the payoffs of the negative reference group. Also, one can take actions that reduce the perceived distance between themselves and the group norm, or try to change the mean behavior of other members of the group. One advantage of this approach is that it emphasizes the *choice* of which group to identify with, which involves a trade-off between perceived group status and perceived distance from the group. People are more likely to identify with groups they perceive are more similar to them, and to groups they perceive to have high status. As discussed later, exogenous events can influence the choice of identity by directly or indirectly affecting the cost of identifying with different groups. Moreover, in some situations political elites may purposely construct antagonistic ethnic or racial identities in order to solidify their hold on power. In sum, in these models identity is a constraint on behavior that would otherwise increase utility when it conflicts with one's sense of identity. It is also an explanation for behavior that enhances the personal value of identity, either by increasing the closeness to the group or increasing the esteem of the group, or by doing the reverse for a negative reference group.

These models make several assumptions for the sake of simplicity. They presume that identification with any group is an either-or choice, and do not explore partial identification. Although Shayo (2020) proposes that distance to the group and the esteem of the group enter utility additively, it seems more natural that they would enter multiplicatively, with distance mattering more the higher is the group's esteem, and esteem mattering more the closer one is to the group. Perhaps most importantly, the models focus entirely on actions, and not at all on beliefs. This seems to unnecessarily narrow the range of motivations that people have for identifying with others, as shared beliefs might be the commonality that some people value the most. Addressing this possibility raises a number of delicate issues, some of which are addressed below. Most prominently, one's beliefs might lead one to be offended (i.e., to sacrifice utility) by other people's beliefs as well as their actions. And, as already discussed, in general beliefs are harder to verify than actions, although they are correlated.

5. Empirical Evidence on the Role of Identity in Individuals' Choices

Akerlof and Kranton (2000) stress how considerations of identity can explain many empirical regularities that models without identity cannot explain. For example, the asymmetry of male and female contribution to housework, they argue, is due to identity prescriptions circa 2000 that men do not do "women's work" in the home, and that men should earn more than women. A recent finding, intriguing but hardly policy-impactful, is Lin et al. (forthcoming), who find that married couples filing a joint return put the male name first 88.1% of the time in tax year 2020, down from 97.3% in 1996. The man's name is more likely to go first the larger is the fraction of the couple's allocable income that goes to him, and the older is the couple. Based on state averages, putting the man's name first is strongly associated with conservative political attitudes, religiosity, and a survey-based measure of sexist attitudes. Measures of risk-taking and tax noncompliance are each associated with the man's name going first.

The role of identity in tax compliance behavior is particularly intriguing. For example, Hallsworth et al. (2017) find that tax payments increase when people are told that most people pay on time, a descriptive norm, or when people are told that everyone should pay on time, an injunctive norm. The effects were especially strong when the message referred to "people in your local area" or "people with a debt like yours." Cullen, Turner, and Washington (2021) documents that, as turnover elections move voters in partisan counties into and out of alignment with the party of the president, when aligned with that party (i) taxpayers report more of easily evaded forms of income; (ii) suspect EITC claims decrease; and (iii) audits triggered, and audits found to owe additional tax, both decrease.

The role of patriotism—identifying with one's country—in tax compliance has been addressed, as well. Analyzing cross-country data, Konrad and Qari (2012) find a robust positive association between patriotism and tax compliance. Feldman and Slemrod (2009) investigate the relationship between citizens' willingness to comply voluntarily with tax obligations and the perceived military threat to a country as well as their attitudes toward ongoing military action. The results suggest that positive attitudes toward tax compliance increase with the number and length of conflicts that a country faces, but decrease in the number of fatalities incurred in these conflicts. These findings are broadly consistent with the idea that military conflicts promote positive attitudes toward tax compliance, but that this response can be eroded as fatalities grow.

Entertaining the possibility that a taxpayer's identity might affect their tax compliance behavior raises the question of whether those who identify as Republicans might evade more if they internalize Donald Trump's statement in 2016 about his own tax avoidance—that it made him "smart."[10] He was referring to actions that were arguably (legal) avoidance, although I note that in 2022 the Trump Organization was found guilty of criminal tax fraud.

The causal role of identity and norms in choices is difficult to test with non-experimental data because identity is correlated with many other factors such as socioeconomic status, opportunity sets, and peer pressure. Benjamin, Choi, and Strickland (2010) offer a methodology to get around this problem by experimentally triggering identity effects that can temporarily make a social category more salient. They find evidence that such cues cause Asian-Americans to make more patient choices, and cause Black Americans (but not women) to become more risk-averse. Using a similar research design, Donkor et al. (2024) find that identity distorts individual investment choices toward "identity-congruent" investments—those for which investors have some affiliations or identification. This research design might usefully be applied to the issues discussed here. More generally, in traditional empirical analysis using archival data, it might be instructive in certain situations to explore whether behavioral response elasticities vary by the person's identity.

[10] Diaz (2016).

Atkin, Colson-Sihra, and Shayo (2021) provide evidence from multi-religious, multi-cultural India about the endogeneity of identity choice. They show that increased salience of religious identity, as measured by reports of inter-religious conflict in the national media, led to increased adherence to religious taboos among Hindus and Muslims—Hindus became more likely to abstain from beef and Muslims from pork. Moreover, a rise in the status of one's religion was associated with increased adherence to that religion's taboos. In a similar vein, Montero, Yang, and Yentzen (2025) show that relative price changes that reduced the attractiveness of being a Seventh-Day Adventist in Sub-Saharan Africa resulted in lower membership growth and lower satisfaction with the church among existing members, and in church policy changes that reduced the negative impact of these price changes. In principle, tax policy itself can affect some people's choice of identity.

How identity affects decisions matters for tax policy in part because behavioral response, under some assumptions encapsulated by the elasticity of taxable income, is a central parameter for characterizing optimal income tax rates and for other aspects of the fiscal system. To the extent that identity considerations mute behavioral responses, the efficiency cost of taxation may be lower than otherwise. Another notable implication is that shifts in the income distribution directly affect both the status of the poor and the rich, as well as the distance between them, and therefore affect decisions (Shayo 2009, Grossman and Helpman 2018). Similarly, shifts in gender composition may alter the perceived status of different occupations (Goldin 2014), and migration flows can affect both group composition and the salience of different attributes, thereby changing perceived distances to different groups (Fouka et al. 2018).[7] All of these changes can feed back to affect individual decisions.

6. How Identity Affects Political Outcomes—The Case of Redistribution

The role of voter identity in assembling a winning political coalition is a familiar theme in political science;[11] Bawn (1999) and Shayo (2009) are notable examples. It was also clearly an issue in the 2024 US elections, as reflected by the fact that the television ad that the campaign of Donald Trump spent more money on than on

[11] Philosophers have also weighed in on the role of identity in politics. See, for example, Heyes (2024).

housing, immigration, and the economy combined had the tag line "Kamala is for they/them, President Trump is for you." (Barrón-López et al. 2024). It's not immediately clear what is particularly advantageous about tax policy in building an identity-based political coalition, as there are more direct ways than taxation to achieve identity favoritism. But history suggests that taxation is often an attractive part of attaining such an objective, and there might be political advantages to doing so indirectly. In addition, tax policy might provide greater granularity to horizontally-differentiated policies.

One political outcome of special interest to tax policy is the extent of redistribution. Shayo (2020) models the political equilibrium of redistribution when identity matters within the median voter framework. He focuses on the choice people have between identifying with their country or their economic class, and shows that in this model the extent of desired redistribution for the working class is lower if they identify with their nation than if they identify with their class. This conclusion runs counter to the thesis of liberal nationalism, as promoted by Gustavsson and Miller (2019), which holds that national identities serve as a source of unity and solidarity, thereby promoting redistribution. Shayo (2009) offers empirical evidence that contradicts this idea, finding that, in most advanced economies, people who more strongly identify with their nation tend to prefer less redistribution, controlling for income and education.

Moreover, in contradiction to the standard median voter model result, higher inequality doesn't necessarily increase redistribution. Under any given identity, higher inequality implies higher demand for redistribution by the median voter, as the increased disparity between the rich and the working class means that distance from fellow nationals is higher. However, as Shayo (2020) shows, higher inequality also means that the relative status of the working class is diminished, so that identifying with one's nation may now confer relatively more status. Thus, an increase in inequality could shift the working class toward national identification, making the overall effect on the level of redistribution theoretically ambiguous. Luttmer (2001) provides empirical evidence that individual preferences for redistribution depend on the characteristics of the people around them. People increase their support for welfare spending as the share of recipients from their own racial group increases. Tabellini (2020) provides evidence that immigration reduces redistribution, especially when immigrants are culturally distant from the natives, and even when immigration has positive economic effects on the natives.

The foregoing discussion involves the choice individuals make between identifying with one's country and one's economic class, where one's class has clear implications for how one is affected by progressive, redistributional tax policy. A more general issue is the relationship between redistribution and identities not strictly defined by one's economic stratum. This is particularly, but not exclusively, relevant for race-related policies, because Black households on average have lower income (and wealth) than white families. Thus, redistributional policies that are race-blind will inevitably benefit Black households more than white households. A more informative way to detect and measure race-non-neutral policies is to calculate the effects by identity, holding income constant. Slemrod (2022) suggests a simple method for doing this, which is implemented in Lin and Slemrod (2024) for gender and in Gale et al. (2025) for race.

Before leaving this topic, note another implication of the idea of identifying with one's country. This implies that one's utility depends on one's perceived utility of the country's citizenry. To the extent this is relevant, then taxpayers may be internalizing the benefit to everyone else of their tax remittance, and so what looks like a tax is less of one in the sense of a burden. A lower perceived net burden reduces the disincentives of the tax structure, and also reduces the perceived net benefit of tax evasion.

7. How Identity Affects Normative Tax Analysis

7.1. Identity in Social Welfare Analysis

The previous section addresses how issues of identity may affect the policy a jurisdiction will choose. In this section I turn to a central issue in the economics of taxation--how identity *should* affect policy.

First, some background. In the canonical normative framework of public finance, the objective of policy is to maximize a social welfare function (SWF), the arguments of which are the utility levels of the members of the society; the utility levels of individuals depend, possibly *inter alia*, on their vector of consumption goods. In a simple utilitarian SWF, the maximand is just the sum of individuals' utilities.[12] With a generalized utilitarian SWF, these utility levels are multiplied by a social welfare weight

[12] The concavity of the cardinal utility functions may matter, as well.

that reflects the egalitarian preferences of the society, where as long as there is some social value of a more equal distribution, these weights are inversely related to the level of utility: additional utility for more well-off households is given less weight. The more concave are these weights, the more egalitarian are society's social preferences—the more it is willing to trade off the sum of utilities for a more equal distribution of utilities.

Two conditions that matter crucially for the subject of identity are usually placed on the SWF. The first, more important, condition is anonymity, also referred to as impartiality. Anonymity implies that social welfare depends only on the profile of utilities, not *whom* those utilities are associated with: exchanging consumption baskets between people does not change social welfare. Favoring or disfavoring people based on their identity is *a priori* inconsistent with the anonymity requirement, as it implies that the marginal social welfare depends on who the person is, in addition to his or her utility level.

The other condition is that the utility functions that convert individuals' consumption baskets into utility are identical. This allows one to sidestep difficult ethical questions such as whether misanthropes who do not easily achieve happiness from material goods thereby should receive less material goods.[13] Favoring or disfavoring people based on their identity is also inconsistent with this standard assumption, for example because an individual's inequality aversion might be restricted to that individual's in group.

Might we move outside of the standard formulation of the SWF, and abandon anonymity and uniformity? To be sure, some welfare theorists would "launder" preferences to exclude utility from satisfying some negatively interdependent preferences; see, for example, Adler and Posner (2006). Kaplow and Shavell (2002, pp. 418-431) provide a trenchant assessment of how best to handle what they refer to as "objectionable" preferences, cautioning against broadly ignoring them. They argue that the appeal of welfare economics lies in promoting the actual well-being of people, not in advancing some hypothetical notion of satisfaction that is distinct from that of the individuals who are the object of concern. They go on to say that employing a "cleaned" version of preferences rather than actual preferences may lead one to favor policies that make everyone worse off. Finally, they argue that standard welfare

[13] Although see Lockwood and Weinzierl (2015), who derive optimal tax formulae in the presence of heterogeneous preferences for consumption relative to leisure.

economics addresses many kinds of objectionable preferences because it takes into account any harm inflicted on people because of those preferences.

Saez and Stantcheva (2016) offer an approach that goes beyond the standard formulation that relies on "generalized" marginal social welfare weights that do not depend only on the (relative) utility levels of individuals.[14] They describe what these weights might depend on: individual characteristics "that society considers potentially *fair to redistribute across* [italics in original] and to compensate for." (p. 27) This leaves open whether individual identity qualifies. Examples they entertain include differences in health status or disability if they affect the disutility of work, family background, and past discrimination. They acknowledge that it "may be impossible or unacceptable to condition the tax system on them." (p. 27) They also say that horizontal inequities are acceptable only if they help the group discriminated against..., which they argue "dramatically limits the scope for non-income based tags." (p. 27)[15]

Another fundamental issue of welfare economics must be addressed. As Sen (1970) highlighted, when one aspect of some people's identity involves preferences over other people' choices, problems with social choice rules may arise. In particular, he explored the potential inconsistencies that arise between a liberal viewpoint, defined as a belief that people should have the right to make at least some choices, and the Pareto principle—that society should always prefer outcome A to outcome B if no one prefers B and at least one person prefers A. As Sen (1980, p. 82) notes, "[P]ublic policy is often aimed at imposing on individuals the will of others even on matters that may directly concern only those individuals." He uses suppression of homosexuality or pornography as examples of such a point of view. Denying liberalism seems, according to Sen, to deny even the most limited expressions of individual freedom and also to deny privacy. The paradox may also call the Pareto principle into question, as "it may be argued that it is not merely important to know who prefers what, but also *why* he has this preference." (p. 83).

[14] Sher (2024) critiques this formulation, arguing that whenever welfare weights do not have a utilitarian structure, the implicit global comparisons of tax policies are inconsistent. See also the discussion in Kaplow (2024)

[15] Note that the originator of much of the canon, Vilfredo Pareto, addressed how to assign weights to individuals in a social welfare function. In his book (1935, pp. 1469–1470), he noted that if government assigns different weights to the preferences of thieves, victims and humanitarians, it necessarily arrives at different optimal criminal justice systems.

Most people take it for granted that it's acceptable to care about some aspects of other people's behavior, e.g., abhorring murder. Is this because others' abhorrent behavior enters our own utility, or is it an instrumental concern that reflects our belief that a consequence of a legal system that sanctions murder provides more security for ourselves and our loved ones? After collecting your thoughts on this, apply them to abortion. To some people, abortion is murder, period, and this view cannot easily be justified by the instrumental argument that a world with little or no abortion would provide security widely. Similar reasoning applies to views about homosexuality, although some who abhor it argue that it undermines society.

Finally, a rigorous social welfare analysis would also have to address the fact that when identity matters, a host of externalities naturally arise. My behavior affects the perceived archetypical behavior of any identity with which I am associated, and thus affects the utility of everyone who associates with those identities, either positively of malevolently; Bernard, Hett, and Mechtel (2016) address this phenomenon. Standard welfare analysis suggests that, in principle, this web of relationships calls for appropriate Pigouvian taxes and subsidies.

7.2. The Efficiency Case for Identity-Based Taxation

There are two efficiency-based arguments for differentiating tax burden on the basis of identity. The first is if some observable aspect of identity is a tag, in the sense of Akerlof (1978), meaning that it is correlated with some other characteristic that is significant but not observable to the tax authority, holding constant other observables. The classic example of such a characteristic being underlying, immutable ability. Such ability would be an ideal base for taxation, its immutability implying that taxing it would cause no behavioral responses and therefore no efficiency cost. If, though, one's height (to use the striking but not particularly policy-relevant example featured in Mankiw and Weinzierl (2010)), is correlated with ability, then adjusting the income tax rate schedule downward but linking tax liability (positively) to height, one could reduce the efficiency costs of taxation while achieving the desired level of redistribution. In this way, the differentiation of tax burden by identity would be tolerated. A more policy-relevant example goes back to an issue raised by Brown (2020). Recall that she argues that Black individuals with the same income as white individuals do not have the same ability to pay, due to race-based discrimination. If this is true, it provides a tagging argument for preferential tax based on race.

The second efficiency-based argument arises if the behavioral responsiveness of individuals is associated with an aspect of identity. This issue has come up most often with respect to gender, based on considerable evidence that the labor supply of women with respect to their net-of-tax wage is higher than that of men. This implies that the efficiency cost of taxing women at a given rate is higher than for men, and other things equal an optimal tax system would feature a lower tax rate schedule for women; gender is a tag that indicates a lower efficiency cost from taxation. This argument was made by Boskin and Sheshinski (1983), and more recently by Alesina, Ichino, and Karabarbounis (2011).[16]

7.3. The Social Cost of Identity-Favoring Policies

Let's say that, after considering the arguments raised above, we reject that identity should be a factor in normative tax policy analysis. In principle, with suitable micro data one could calculate the loss in social welfare, calculated anonymously and with uniform utility functions and with an assumption about the standard utility-based marginal welfare weights, that arises due to favoring certain identities. One could also back out what identity weights justify current, or proposed policies, in the spirit of an inverse optimum approach as discussed in Hendren (2020).

Another exercise would quantify the loss of horizontal equity—equal treatment of equals--due to implementing identity-based tax policies, along the lines of Auerbach and Hassett (2002). Whether such policies constitute a violation of horizontal equity depends on how seriously one takes the "myth of ownership" argument of Murphy and Nagel (2002) -- that the neutrality of the pre-tax distribution of income is a myth. They write that "[p]eople do have a right to their income, but its moral force depends on the background of procedures and institutions against which they have acquired that income." (p. 74) For example, if the current pre-tax distribution has been affected by centuries of racial discrimination, and worse, then we should question whether a pro-Black policy, such as reparations, is a violation of horizontal equity. Before embarking on such an exercise, one is advised to carefully consider the argument of Kaplow (1989, 2000), who shows that, with a standard social welfare function, considering horizontal equity as a distinct criterion for evaluating policy inevitably clashes with the Pareto principle—that is, it can favor policies that make some people

[16] This argument is distinct from the observation made earlier that individuals with a strong sense of identity might be less responsive to the net-of-tax price or return because they get utility from adhering to norms established by the behavior of those with whom they share the identity.

worse off but no one better off. He would counsel to stick to the evaluation of alternative policies using an anonymous, concave social welfare function, and concludes that the intuitive dislike of horizontally differentiating tax policy would be better served by an injunction against unacceptable tax bases. Such an exercise also depends on whether one can ignore how identity affects people's utility, either positively or negatively.

8. A Research Agenda

Many of the empirical exercises suggested in the previous section require micro data that contain a measure of well-being such as income or wealth as well as potential identity indicators such as race, religion, and gender, among others. In the US, much recent policy analysis has been based on individual tax return data. The tax filing process does not ask for these identity indicators, and law severely limits the extent to which these tax data can be linked to more demography-rich data such as from the Census. But some progress has been made. Gender, or at least gender at birth, has been linked to tax return data using data from the Social Security Administration in several studies, for example Lin and Slemrod (2024); once gender is known, same-sex marriages can be determined. Studies of race and taxation have used race data from the Current Population Survey, as in Alm, Leguizamon, and Leguizamon (2023), and then make do with much less granular income data. Fisher (2023) uses a set of explanatory variables, including total income, filing status, age, number of dependents, sex, first name, last name, and the ZIP code of the residence, to make inferences about a taxpayer's race and Hispanic origin. Obtaining reliable religion data is the most problematic. In principle, it could be inferred from the volume and recipients of a household's charitable donations, but only for those who itemize their deductions, which until 2017 was about one-third of tax returns, but post-2017 is closer to one-tenth of tax returns. Family status is the easiest to characterize, as income tax filing status, and the claiming of dependents, is revealed on tax returns. A serious constraint on the construction and availability of such data is concern over taxpayer privacy. Many people would not want certain of these indicators of identity publicly known, known to the government, or even available to researchers. Slemrod (2025) discusses the issues that arise with privacy of tax data.

The most difficult, and central, issue is an ethical one. If Saez-Stantcheva style generalizations to a standard social welfare function are allowed, and are allowed only for individual characteristics "that society considers potentially fair to redistribute across and to compensate for", which characteristics, and in particular which aspects of identity, qualify? Saez and Stantcheva seem to leave the door open for identity-favoring policies when they make the case for generalized marginal social welfare weights as long as they are consistent with "justice." In my view, it seems that this should encompass the Brown (2022) point that Black and White households with the same income do not have the same ability to pay due in part to race-based discrimination, if we accept that marginal social welfare weights should be based on ability to pay, and the inadequacies of income as a measure of well-being are race-based. Establishing the extent to which identity may be correlated with ability to pay, conditional on observable aspects of income, is an important agenda for empirical research.

9. Conclusion

Taxation based on identity has a long, sordid history, and persists to this day, usually in implicit ways. It is a relatively tame cousin of the blatant, violent, and genocidal policies that have targeted people of certain religions, races, genders for millennia. It is, nevertheless, an issue to be confronted rather than ignored. This is especially true because the concept of identity played a prominent, if often subtextual, role in the US presidential election of 2024, and is likely to be at least an undercurrent to tax policy debates in the near future, including those concerning tax policy.

In the leading economics model, individuals may derive utility from identifying with one or more groups, and then forego some utility if they deviate from the norms of behavior or beliefs of those groups. This may constrain their responsiveness to tax-inclusive prices. Taxes (and subsidies) based on identity are difficult, although not impossible, to justify within standard optimal tax analysis, because in that framework the policy objective is usually framed as being anonymous (impartial). But in principle identity might serve as an efficiency-enhancing tag if it is correlated with underlying ability and therefore level of affluence, for example if race is systematically correlated with the failure of income to represent ability to pay. For unjustified identity-based tax policy, analysis can help to spot its existence and quantify its welfare cost.

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