Taxing Identity

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February 5, 2025

Early draft. Not for quotation without permission.

Abstract: 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, 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 welfare cost.

I am grateful to Sara LaLumia for insightful comments on an initial draft.

1. Introduction and Motivation

After the 2024 US presidential election, many observers suggested that the winning coalition of voters would be best characterized by their sense of identity rather than the historical differentiation of party based on economic class. The set of identities discussed centered on race, religion, gender and sexual orientation, and family status.[1]

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 literatures the concept of identity is defined in very different ways. For the purposes of this essay, I will for the most part follow the modern economics treatment of identity due to Akerlof and Kranton (2000), who addressed how identity, defined as a person's sense of self, affects economic outcomes. In the model they propose, a person's identity is associated with different social categories and how people in these categories should behave, and there is a utility cost to deviating from these "norms". Davis (2010) refers to this as "cognitive dissonance minimization." Akerlof and Kranton argue that this model can explain otherwise surprising aspects of gender discrimination in the workplace, the economics of poverty and social exclusion, and the household division of labor. 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."

Although the economics-based literature addressing aspects of identity is now very large, analysis of tax policy has not paid much attention to its implications, at least not described as such. One exception is the tax compliance literature, which includes studies of how priming of identity affects behavior. 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 effect was especially strong when the message referred to "people in your local area" or "people with a debt like yours."

In this essay, I consider how the concept of identity might enter tax policy analysis, focusing on the three aforementioned aspects of identity of race, religion, and gender. I consider this issue mostly from the perspective of how the tax system may, and should or should not, discriminate against or favor certain identities, but also touch on

[1] Other identities may be important for some issues, such as age or identifying as being an environmentalist or a feminist.

how people's sense of identity moderates or exacerbates the behavioral response to taxation.

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 neither race, religion, nor gender or sexual orientation can be mentioned in the tax code? That doesn't end the conversation, because such constraints can be overcome to some degree by having the tax law favor choices and/or characteristics more likely to be exhibited by people with the favored identities. If White households are more likely to have spouses with disparate earnings, then resist individual-based taxation of married couples. If Christian families are more likely to be married and have many children, then have generous marriage "bonuses" and child-related tax credits. If men are more likely to spend their money on alcohol, gambling, and pick-up trucks, lower the excise taxes on these activities.

Critically, identity-favoring policy 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. Policies that reward large families inevitably provide less benefit to families with no children.

This motivation is distinct from that engendered when individuals' identity is defined in opposition to some other 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. xv) says "With suitable instigation, a fostered sense of identity with one group of people can be made into a powerful weapon to brutalize another." 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."

Note also a chicken-and-egg conundrum that arises here. Is it the behaviors that the party in power favors, regardless of who does them, and 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 to tell them apart?

2. Some History of Taxing Identity

There is a long, and sordid, history of policies that disfavored certain groups. Tax policy played a role in some historical episodes, although of course, 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 issues concerning taxation and identity.[2]

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. Carpetbaggers, scalawags, and some African-Americans had been replaced in power by White former Southern leaders or their descendants. It was then, mainly around 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 the White man vote, and doesn't it stop the negro from voting, and isn't that what we came here for?"

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[2] What follows in this section draws heavily from Keen and Slemrod (2021), which contains extensive citations.

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 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.

"You are kept apart that you may be separately fleeced of your earnings," the famous Georgia populist leader Tom Watson told a crowd of Black and White laborers in 1892. Poor Whites had no real stake in maintaining slavery; instead, they witnessed daily how slavery drove down their wages and effectively nullified their bargaining power as laborers. As Merritt (2018) concludes, even the poorest White farmer was better off than any slave in terms of their freedom. Many supported the system because it provided a power structure that prevented their low paying jobs, and status, being threatened by Black equality. As Catte (2024) puts it, "For some White people, the reality of experiencing a social status closer to poor Black people than middle-class or well-to-do Whites intensifies feelings of shame."

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 70, the 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. 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, Louis XII, King of France, 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 nonetheless remained and now 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 12d 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, 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, 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. Religion-based taxes do seem to occasionally have 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 early 1980s, 200 of the 236 property owners in the town were granted religious tax exemptions because their properties were designated as branches of the mail-order Universal Life Church.

As with gender and race, so with religion, 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. Relatedly, both religion and taxation played a prominent role in the US experience with alcohol prohibition. The 18th Amendment banning sales, manufacture, transportation and import/export of alcoholic beverages (but not consumption) was promoted by the Women's Christian Temperance Movement and the largely religious-group-supported Anti-Saloon League. The ratification of the 16th Amendment in 1913 that allowed a federal income tax allowed government to ban alcohol without reducing tax revenue.[3] One might think prohibitionists would oppose an income tax if it led to a reduction of demand-inhibiting taxes on alcohol. But many prohibitionists believed that taxes on alcohol legitimized the alcohol business, and that the revenues it produced—about 30 percent of all federal receipts in 1910—made the government an invisible partner in the immoral business, unwilling to see it founder.

Of interest in this context is the model of Saleh and Tirole (2021) who, in studying Egypt's conversion to Islam the years 641 and 1170, pose the government facing a tradeoff between raising more money from the disfavored 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

[3] Are tariffs now taking the place of the income tax in 1913—providing revenue cover for reducing the income tax?

At much the same time, 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 pay 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, will 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 tools or marriage taxes levied on Jews. Alternatively, identity was targeted for higher tax by imposing taxes on goods only, or primarily, consumed by households of the target identity, such as the tax on synagogues, kosher meat, or pig slaughtering; such taxes did not require the government to determine identity directly.

The American poll tax is a special case, as it did not mention race nor single out race-based behavior, but rather was as instituted not to impose a higher tax burden on Black households but, because it was regressive and its payment was tied to the ability to vote, to disenfranchise those with this identity. It did also effectively disenfranchise poor White households.

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. In all these cases, the identity is not named in the tax law, regulations, or implementation instructions.

3.1. Race

Given the unsavory history of race-based tax, and other, policy, in the US, this is the natural place to look first. Brown (2022) argues that the 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 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, does exactly that.

More fundamentally in my view, she 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 (2002) proposes to eliminate all exclusions and deferrals from personal taxable income, including the preferential treatment of capital gains, eliminate joint returns, and 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.[4]

More 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

[4] Brown (2022) doesn't address Social Security, which has some of these same features, due to racially differential life expectancies.

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 jurisdiction, 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. 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. The authors conclude that a policy that instead maximized the detection of underreported taxes would not lead to Black EITC claimants being audited at higher rates.

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 marriage penalty compared with White married couples, holding constant family earnings. 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.

How does the tax favoritism come about, and persist? Rather than conscious racial bias, I suspect that across legislative sessions when tax policies are considered the 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. This occurs even though, in the modern era, some 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--government contracts that are reserved for small businesses or businesses owned by disadvantaged groups, such as minorities. This raises the question of how, if at all, identity policy within the tax system reacts to changes in non-tax identity-based policies.

3.2. Religion

Many observers noted that in the 2024 election, the Republican party leaned into views associated with Christian nationalism. 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) 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, concept of identity. Here I focus on the former.

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 older (49% 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; JD Vance's proposal was a fixed amount per child that would not phase out with higher income, with tis 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. One might also see support for an implicit religious test for immigrants.

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 by National Religious Broadcasters, two Texas churches and the group Intercessors for America that seeks to rule the Johnson amendment unconstitutional.

One other policy issue touches both on religion as an identity and another possible identity identification, with (or against) elite secular universities. In Donald Trump's first term, the Tax Cuts and Jobs Act of 2017, an excise tax was 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 calendar year 2023, this tax raised $381 million from 56 returns. There are indications that this tax will be expanded. For example, in January, 2025, Congressman Troy E. Nehls (R-TX) introduced a bill called the Endowment Fairness Act, which would raise the tax rate fifteenfold from 1.4% to 21%. This bill would target large, rich unities, but would not favor religious ones. But note that, in December, 2023, then-Senator from Ohio, now Vice-President, JD Vance introduced a bill called the College Endowment Accountability Act 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."

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 Marital Status, Family, Gender and Sexual Orientation

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. (2024) 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 the late 1940's 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 presently, 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%. 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 to be eligible for child-related tax benefits relative to unmarried men. 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. Empirical studies suggest that the answer to this question is yes. Because women spend a higher fraction of income under their control on goods such 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.

Other potential sources of implicit gender discrimination through the tax system have not been systematically explored. Women are more likely to enter and exit the labor force, for instance, so tax features that make this behavior less attractive will affect them relatively more. Some common tax features, however, 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 period products at their standard sales tax rate.

4. How Does Identity Affect Individual Decisions?

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 that men do not do "women's work" in the home and men should earn more than women.

Other research documents similar phenomena. Ke (2021) provides evidence of a large positive gap in stock market participation between households with a financially sophisticated husband and households with a wife of equal financial sophistication, suggesting that the wife's influence on financial decision-making is constrained by gender norms. The stock market participation gap is correlated with traditional gender role attitudes, measured in a variety of ways. Lin et al. (forthcoming) 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. Risk-taking and tax noncompliance are both associated with the man's name going first.

An (2002) argues, both theoretically and empirically, that identity plays an important role in taxpayers' tax compliance decision. In a cross-state empirical analysis, he uses questions from the 1987 Taxpayer Opinion Survey to proxy for identity: is the federal income tax system fair or not? 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 easily evaded forms of income; (ii) suspect EITC claims decrease; and (iii) audits triggered and audits found to owe additional tax decrease. Entertaining the possibility that a taxpayer's identity might affect their tax compliance behavior raises the question of whether Republicans might evade more if they internalize Trump's statement in 2016 about his own tax avoidance—that it made him "smart."[5] Here I use the term (legal) avoidance, although I note that in 2022 the Trump Organization was found guilty of criminal tax fraud.

The causal role of identity/norms in choices is difficult to test with nonexperimental 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. This research design might usefully be applied to the issues discussed here. 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.

5. Models of Identity

Akerlof and Kranton (2000) and Shayo (2020) both offer models that can explain that when people care about their identity, it can change their decisions, Costa-i-Font and Cowell (2015) is a nice survey of these and related models.

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[5] Diaz (2016).

I begin with the model proposed by Akerlof and Kranton (2000), who posit a utility function for individual j of the following form:

$$U_j = U_j(\mathbf{a}_j, \mathbf{a}_{-j}, I_j), \quad (1) \qquad dU/dI>0$$

where $\mathbf{a}_j$ indicates a vector of actions of oneself, and $\mathbf{a}_{-j}$ is the vector of others' actions. The notation I_j represents the individual's identity, which can be written as:

$$I_j = I_j(\mathbf{a}_j, \mathbf{a}_{-j;}\, \mathbf{c}_j, \varepsilon_j, \mathbf{P}), \quad (2)$$

where the vector $\mathbf{c}_j$ represents the individual's assigned (or to some extent chosen) social categories. Being assigned a category with higher social status may increase I_j, which increases U_j. The utility value of one's identity depends on the extent to which one's own given characteristics ε_j match the "ideal" of the category, as indicated by the prescriptions **P**. Akerlof and Kranton emphasize that 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.

Shayo (2020) offers a simpler version of how identity affects utility, as follows:

$$U_{iJ}(a) = \pi_i(a) - \beta_i d_{iJ}(a) + \gamma_i S_J(a), \quad (3)$$

where a are actions, π_i is individual i's material payoffs, d_{iJ} is i's perceived distance of these actions from those of group J, and S_J is the status of group J. The parameters β_i and γ_i determine the personal value of distance and status. Whereas in Akerlof and Kranton (2000), identity enters directly into one's utility function, in Shayo (2020) it enters indirectly through status.

The status of a group is

$$S_J = S(\Pi_J, \Pi_{R(J)}, \sigma_J), \text{ where } \partial S/\partial \Pi_J>0 \text{ and } \partial S/\partial \Pi_{R(J)}<0 \qquad (4)$$

where R(J) denotes the (potentially endogenous) reference group of J, Π_J measures group J's material payoffs, and σ_J captures other determinants of group J's status, such as its history, cultural influence, or prestige. The fact that $\partial S/\partial \Pi_{R(J)}<0$, which we might call malevolent or oppositional identity, may reflect aggression between different groups; in spiteful, envious, or competitive behavior; or in simply denying help to the outgroup." (Shayo 2020, p. 359)

A social group is characterized by the archetypical attributes of its members, which Shayo assumes to be the mean across group members of its relevant attributes denoted by a vector q, i.e., $q_J = E[q_i | i \in J]$. Shayo posits that the perceived distance between individual i and social group J can be represented by a weighted Euclidean distance function as follows.

Two group-identity-oriented strategies are available to a utility-maximizing 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 another 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 addresses why and how one can change which group to identify with--by maximizing expression (3). The choice revolves around a trade-off between perceived group status and perceived distance from the group. Events can influence the choice of identity by directly or indirectly affecting the cost of identifying with different groups. People are more likely to identify with groups they perceive are more similar to them, and to groups they perceive to have high status. Atkin, Colson-Shra, 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.

One notable implication of this set-up 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 (Shayo 2009, Grossman and Helpman 2018). Other examples are that shifts in gender composition may alter the 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).[6]

[6] Note the relationship to, and differences with, the Becker (1957) concept of taste-based discrimination, which assumes that discriminating agents incur a utility cost when they interact with (living near or working with) individuals from the group that they discriminate against. Compare statistical discrimination theory, which is based on the premise that employers or customers have beliefs about the out-group members' characteristics relevant to the social interaction that is considered.

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 one's reference group(s).

The models make several assumptions for the sake of simplicity. They presume that identification with any group is an either-or choice, and does 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. 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.

6. How Identity Affects Political Outcomes

The role of voter identity in assembling a winning political coalition is a familiar theme in political science;[7] Bawn (1999) and Shayo (2019) are notable examples. It was also clearly an issue in the 2024 US elections, as reflected by the fact that the television ad that Donald Trump spent more money on than any other in the campaign combined, including ones on housing, the economy had the tag line "Kamala is for they/them, President Trump is for you." (Barrón-López et al. 2024). I'm not sure what is unique or even special about tax policy in building an identity-based political coalition. There are more direct ways than taxation to achieve identity favoritism. But there might be political advantages to doing so indirectly. In addition, tax policy might provide easier access to horizontally differentiated policies.

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[7] Philosophers have also weighed in on the role of identity in politics. Two I learned from are Appiah (1996) and Heyes (2024).

Shayo (2020) works through the political equilibrium of redistribution with identity 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. Of particular interest is the finding that, among the rich, national identity could, depending on the parameters of the model, increase support for redistribution. 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. Although 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 higher status. Thus, an increase in inequality could shift the working class toward national identification, and therefore the overall effect on the level of redistribution is theoretically ambiguous. Luttmer (2001) provide 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 economic effects on the natives.

7. How Identity Affects Normative Tax Analysis

7.1. Identity in Social Welfare Analysis

The previous section addresses how issues of identity affect the policy a jurisdiction will get. 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, subject to a budget constraint. In a simple utilitarian SWF, the maximand is just the sum of individuals' utilities.[8] With a generalized utilitarian SWF, these utility levels are multiplied by a social welfare weight that reflects the egalitarian preferences of the society, where as long as there is some value put on a more equal distribution, these weights are inversely related to the level of utility: additional utility for 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 for the subject of identity are usually placed on the SWF. The first condition is anonymity, also referred to as impartiality. Anonymity implies that social welfare depends only on the profile of utilities, not *who* those utilities are associated with: exchanging consumption baskets between people does not change social welfare. Favoring or disfavoring people based on their identity is 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 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. Favoring or disfavoring people based on their identity is also inconsistent with this standard assumption, for example because an individuals' inequality aversion might be restricted to that individual's ingroup.

Might we move outside of the canonical formulation of the SWF, and abandon these two aspects? To be sure, some welfare theorists would "launder" preferences to exclude utility from satisfying such negatively interdependent preferences; see, for example, Adler and Posner (2006). What kinds of preferences deserve to be disregarded?

On the surface, Saez and Stantcheva (2016) offer an approach, as they argue for the usefulness of considering what they call "generalized" marginal social welfare weights,

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

that is ones that don't depend only on the relative utility levels of individuals. They circumscribe what these weights might may depend on: individual characteristics "that society considers potentially *fair to redistribute across* [italics in original] and to compensate for." (p. 17). This leaves open whether individual identity qualifies. Examples they entertain include differences in [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 allowed only if they help the group discriminated against..." (p. 43)[9]

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 arise. In particular, he explored the potential inconsistencies that arise between a liberal viewpoint, defined as people should have the right to choose 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) says, "[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 well, 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).

We 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 an instrumental concern that reflects our belief that a consequence of a legal system that sanctions murder provides more security for ourself and our loved ones? After collecting your thoughts on this, apply them to abortion. To some religious people, abortion is murder, period, and this view cannot easily be justified by

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[9] Note that the author 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.

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 also make arguments 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 perhaps should be recognized. 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 this web of relationships calls for appropriate Pigouvian taxes.

7.2. 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 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 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 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. Such an exercise also depends on whether one can ignore how identity affects people's utility, either positively or negatively.

8. A Research Agenda

The empirical exercises of 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. 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 (2022); 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. 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 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 of generalized marginal social welfare weights, when they are consistent with "justice." In my view, it seems that this should encompass the Brown (2020) point that Black and White households with the same income do not have the same ability to pay due 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. I don't see much justification outside this scenario.

9. Conclusions

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 and sexual orientations 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 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 welfare cost.

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