

## Asset Funders Network – Tax Policy Project September 2014

### Project Background and Overview:

The primary purpose of the U.S. tax system is to generate public revenue; but it also serves as a vehicle to advance public policy goals, such as encouraging household savings and investment in order to increase families' long-term economic security and strengthen the national economy. The tax code includes provisions to encourage homeownership, savings for higher education and retirement, and other asset-building goals through tax credits, deductions, exclusions and preferential rates; but these tax policies – collectively known as “tax expenditures” – reduce government revenues and disproportionately benefit wealthier households relative to low- and moderate-income families and families of color.

Research by the Congressional Budget Office shows that of the top ten major tax expenditures, totaling *more than \$900 billion* in fiscal year 2013, more than half of the benefits went to the wealthiest 20% of households (the top quintile) and less than a third to the bottom 60% (the bottom three quintiles).<sup>1</sup> Research by the national nonprofit CFED shows that only \$500 in annual tax benefits accrued to the average middle-class family (making \$50,000/year); while an average of \$95,820 accrued to households making over \$1 million.<sup>2</sup>

The Great Recession resulted in an enormous loss of household wealth and lower-income households and households of color are still struggling to get back on their feet;<sup>3</sup> yet they are unable to access federal tax subsidies designed to encourage savings and investment. For example, more than two out of three American households – including 99% of households in the bottom quintile – do not itemize so they are unable to take advantage of tax deductions, such as the home mortgage interest deduction;<sup>4</sup> and fewer than 20% of households – including only one in ten African-American or Latino households – are able to benefit from preferential tax rates for dividends and capital.<sup>5</sup>

Deliberations about reforming the federal tax code – including discussions about the cost and benefits of various tax expenditures – are underway in Congress. These discussions provide an opportunity for advocates to call for a more *inclusive, progressive and equitable* tax code – one that significantly expands savings and investment incentives for low- and moderate-income households and households of color.

In 2013, the Asset Funders Network (AFN) established the Tax Policy Project (TPP) and began convening asset-building advocates, tax reform experts, researchers, representatives of organizations of color and grassroots constituents and others to identify near- and longer-term policy priorities to expand savings and investment opportunities for low- and moderate-income households through reform of the U.S. tax code. Today, the TPP [Tax Policy Advisory Group \(TPAG\)](#) is a cohesive cohort of leaders from 35 organizations who have established shared principles; identified [policy options and priorities](#), informed by Urban-Brookings Tax Policy Center research; worked to educate and engage their networks; and supported AFN to educate the funding community about why tax reform is crucial to building the long-term economic security of families, communities and the national economy.

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<sup>1</sup> *The Distribution of Major Tax Expenditures in the Individual Income Tax System*, Congressional Budget Office, May 2013, <http://www.cbo.gov/publication/43768>.

<sup>2</sup> *Upside Down: The 400 Billion Federal Asset-Building Budget*, CFED, 2010, [http://cfed.org/knowledge\\_center/publications/savings\\_financial\\_security/upside\\_down\\_the\\_400\\_billion\\_federal\\_asset\\_building\\_budget/](http://cfed.org/knowledge_center/publications/savings_financial_security/upside_down_the_400_billion_federal_asset_building_budget/).

<sup>3</sup> *An Uneven Recovery, 2009-2011—A Rise in Wealth for the Wealth; Declines for the Lower 93%*. Pew Research Center, April 23, 2013, <http://www.pewsocialtrends.org/2013/04/23/a-rise-in-wealth-for-the-wealthydeclines-for-the-lower-93/>.

<sup>4</sup> Ben H. Harris and Amanda Eng, “The Benefits of Mortgage Interest and Property Tax Deductions,” Tax Notes: Tax Facts from the Tax Policy Center, August 26, 2013, <http://www.taxpolicycenter.org/UploadedPDF/1001693-TN-benefits-of-MID-and-property-tax-deduction.pdf>.

<sup>5</sup> Dorothy A. Brown, “The 535 Report: A Pathway to Fundamental Tax Reform,” 40 *Pepperdine Law Review* 5 (2013), <http://digitalcommons.pepperdine.edu/plr/vol40/iss5/2/>.

With the first phase of the Project complete, AFN has begun the process of transitioning the initiative to nonprofit leadership, in collaboration with the TPAG. A new team, comprised of TPAG members CFED and PolicyLink, has been selected to take over as co-hosts of Project. Planning for the next phase – focused on the TPAG priorities of communications, stakeholder education and engagement and policy/advocacy – is now underway.

**AFN Tax Policy Advisory Group (by member organization):** AARP; Arent Fox LLP; Aspen Institute/Initiative on Financial Security; Center for American Progress; Center for Community Change; Center for Household Financial Stability/Federal Reserve of St. Louis; Center for Public Policy Priorities; Center for Social Development; Center on Budget and Policy Priorities; CFED; Color of Change; Emory Law School; Global Policy Solutions; Greenlining Institute; Insight Center, Institute for Women’s Policy Research; Institute on Assets and Social Policy; National Coalition for Asian Pacific American Community Development; Massachusetts Budget and Policy Center; NAACP; National Association of Latino Community Asset Builders; National Urban League; New America Foundation; National Council of La Raza; Office of the Treasurer/City and County of San Francisco; Oklahoma Native Asset Coalition; PICO National Network; Pew Charitable Trusts; PolicyLink; Roosevelt Institute; Skadden, Arps, Slate, Meagher & Flom LLP; UCLA Asian American Studies Center; and United Way Worldwide.

#### **Guiding Principles and Design Features:**

##### *Principles:*

The TPAG will support tax policies that embody the following principles:

- ✓ *Inclusive, progressive and equitable* – Policies will significantly increase benefits for lower-income households and households of color.
- ✓ *Impactful* – Policies will have a significant and sustainable impact on the relative economic mobility of lower-income households and households of color.

##### *Design features:*

- ✓ *Accessible* – Where relevant and feasible, policies will include automatic enrollment features and low costs to maximize access by low-income households.
- ✓ *Simple* – Policies will be easy for everyone to understand.
- ✓ *Transparent* – Policies will include measures that enable Americans to measure and track outcomes over time.

#### **Funders of the AFN Tax Policy Project:**

AFN is grateful for funding to support the initiative from the Annie E. Casey Foundation, Ford Foundation, Friedman Family Foundation, Levi Strauss Foundation, Marguerite Casey Foundation and Walter & Elise Haas Fund.

#### **AFN Background:**

The Asset Funders Network (AFN) is a community of foundations and grantmakers using philanthropy to alleviate poverty. Since its founding in 2005, AFN has focused on bringing together grantmakers passionate about promoting economic opportunity and financial security for all Americans. AFN brings together a diverse group of funders concerned about a common goal. Regardless of whether their grantmaking targets education, housing, microenterprise or workforce development — if foundations are investing in work to alleviate poverty and increase individual financial security, AFN is a resource. Through its programming, AFN builds the capacity of its members to invest in economic mobility by supporting efforts that help low-wealth individuals build and protect assets. Our desired impact is to raise the visibility of and funding for activities that expand access to financial opportunities and strengthen communities.

For more information, contact AFN Tax Policy Project Manager Heather McCulloch, [heather@assetfunders.org](mailto:heather@assetfunders.org), or go to <http://assetfunders.org/educate/tax-policy-reform-project/>