New America Foundation

Asset Building Program

The Assets Report 2010

An Assessment of President Obama's 2011 Budget and the Changing Policy Landscape for Asset Building Opportunities

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Asset Ownership plays a central role in the economic security of American families and the broader economy. Assets can be deployed productively, such as to pay for a college education, or tapped to help individuals and families weather unexpected events. Additionally, assets have behavioral effects that can change the manner in which people think about and plan for the future.

The idea that any person, no matter his or her starting place at birth, can get ahead and build a successful life lies at the heart of the American Dream. We typically think of education, homeownership, entrepreneurship, savings, and thrift as the fruits of that pursuit, but they are just as much the assets upon which opportunity for upward economic and social mobility are built. To this end, various federal direct spending and tax expenditures encourage the accumulation of these assets. But how does the Federal government encourage asset accumulation and in what forms? Who benefits from these programs? And how will President Obama's new plans help Americans move up the ladder of opportunity?

To answer these questions, we present a survey of the current landscape of federal asset-building programs that structure the opportunities for individuals to climb the economic ladder.[1] Section I of this report presents a description of relevant recently-enacted legislation, section II present an analysis of President Barack Obama's Fiscal Year 2011 budget proposals, and section III reviews current tax policy which promotes asset building objectives. Through this analysis, we trace the many ways direct federal expenditures and tax subsidies are deployed to help Americans build assets. In turn, these assets support post-secondary education, homeownership, entrepreneurship, savings and investment, and retirement security. The programs we identify as asset building explicitly help Americans acquire assets for one or more of these purposes. These programs serve individuals and affect broad sectors of the population. We exclude programs meant exclusively for limited portions of the population.

[1] Asset building refers to public policy and private sector efforts to enable individuals to accumulate and preserve long-term, productive assets—savings, investments, a home, post-secondary education and training, a small business, and a nest-egg for retirement.

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Foreword

As in past years, our analysis reveals a sizeable amount of public resources are directed to promoting asset building objectives. The Obama Administration proposes $701.1 billion in resources to asset building activities in Fiscal Year 2011.[2] The overwhelming majority of these resources will benefit middle- and upper-income families that are able to take advantage of tax subsidies that promote homeownership and saving in retirement accounts. Given the scale of these investments and the multiple demands on the public purse, it is imperative that Congress and the general public closely scrutinize these budget proposals and existing policies. When they do, we believe they will be struck by some fundamental inequities.

One of the most striking inequalities is how the poorest Americans, who have traditionally had limited access to income supports and social services, are offered less attractive ways to build wealth than middle- and upper-income people. This approach misses the potential of assets to help chart a path out of poverty. If we are to successfully broaden savings and asset ownership—giving everyone a stake in the common wealth—we must understand how the federal government's current approach affects asset building among low- and moderate-income Americans. This paper moves us closer to that understanding by clarifying some of the President's initial priorities, which notably support efforts to reach many of the families left out by current policy, particularly with respect to retirement savings.

Our assessment of the President's budget finds:

- A significant portion of the Federal budget is devoted to supporting asset building activities, such as promoting post-secondary education, homeownership, entrepreneurship, savings and investment, and retirement security.

- In Fiscal Year 2011, the President's budget proposes a total amount of $701.1 billion in resources to promote asset building. This includes $152 billion in direct spending and $549.1 billion in tax subsidies.

- The Federal government will allocate $200.4 billion in resources to subsidize homeownership and $142.3 billion for retirement security. $56.4 billion will be devoted to post-secondary education, $0.7 billion for entrepreneurship, and $149.5 billion to savings and investment activities.

- The total tax subsidies proposed for asset building in Fiscal Year 2011 are worth $549.1 billion, which would overwhelming accrue to middle- and upper-income Americans.

- Tax refunds, which are returned to many households after they file their taxes, represent a significant asset for many families. The combined value of the Earned Income Tax Credit, the Child Tax Credit, and the Making Work Pay Tax Credit is $151.8 billion, $112.8 billion of which are delivered as tax refunds.

First, the new administration's budget includes a number of proposals specifically designed to advance savings and asset building activities targeted to low- and moderate income families.

Three specific proposals are worth emphasizing, including *AutoIRAs* that offer access to savings plans by workers whose employers do not currently offer them, the expansion and enhancement of the *Saver's Credit* to make it more valuable to lower-income workers, and the proposed *reform of asset limit rules* that determine eligibility for public assistance programs so they encourage, rather than discourage, saving.

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[2] Includes potentially asset building resources funneled through the Child Tax Credit, the Earned Income Tax Credit, and the Making Work Pay Tax Credit.

In last year's budget, the Administration made a commitment to reconsider the asset limit rules for many public assistance programs and this year they followed that up with a proposal that would establish a national asset limit floor of $10,000 for working age, non-disabled adults. The projected cost of this change is almost $10 billion over the next ten years, which reflects a serious level of commitment to this proposed reform.

Second, the Administration seems particularly committed to connecting increased savings with a broader agenda of helping the middle-class. The savings proposals for creating AutoIRAs and expanding the Saver's Credit were highlighted as core elements of the Middle Class Task Force, which has been led by Vice President Biden and charged with identifying policies to expand access to the middle class.

Unlike last year's budget which was prepared soon after President Obama took office, this year the Administration had the advantage of more time to develop additional proposals. Some of these are small in cost but have the potential to be more consequential in time. For example, the Administration has committed itself to examining more illuminating alternatives than the official poverty measure, which has a long list of flaws that limit its explanatory power. While only $5 million dollars are allocated to this effort, it could produce a change down the road that contributes to a more advanced understanding of the dynamics of poverty as well as policies to address it. Additionally, the Administration has built upon a series of policy proposals previously highlighted by the New America Foundation to leverage the tax filing process to promote savings. The Administration has already followed through on its commitment to allow tax filers to purchase U.S. Savings Bonds with their tax refunds.

Resources are also devoted to identifying promising policies and practices at the local level. One proposal, called Bank On USA, is designed to increase access to safe and affordable financial services for unbanked and under-banked households. It is an approach partially modeled on a proposal previously highlighted by the New America Foundation to create a Financial Services Innovations Fund as well as the successful Bank On San Francisco program. Another proposal described in the budget is the Social Innovations Fund, which is a new public-private investment vehicle established by the 2009 Edward M. Kennedy Serve America Act. This effort is funded at $50 million and is designed to support effective nonprofit community organizations as they serve lower-income communities in new ways, some of which will likely rely on the asset building framework. In addition, the Administration has proposed a five-year, $3.5 billion College Access and Completion Fund to make grants to States and other organizations to support innovative strategies to increase the number and percentage of students entering and completing college. Ideally, this fund would be used to create and expand upon promising state-level initiatives to help low-income populations save for higher education.

The Obama Administration has already contemplated a number of reforms that involve the increased use of refundable tax credits, including expanding the EITC and creating the Making Work Pay Tax Credit. Without refundability, benefits are restricted to taxpayers with tax liability to be offset. With a refundable tax credit, the policy is able to deliver resources to taxpayers with low or no tax liability—the people who would benefit most. Last year, the Administration proposed expanding the Child Tax Credit (CTC) and making it refundable. They did not carry over this proposal for this year's budget. However, they did propose expanding the Child and Dependent Care Tax Credit (CDCTC), but not making it refundable, which significantly limits its impact for lower-income families.

If the Obama Administration is to ensure the nation's prosperity and help individuals achieve the American Dream, additional policies will be required that enable a greater degree of savings by families at the bottom of the economic ladder. As Congress goes about its work of allocating our public resources and the Obama Administration continues to develop additional proposals, we invite them to consult another of our publications, *The Assets Agenda*, for ideas on how to implement a more inclusive set of savings and asset building policies to benefit all Americans, but especially those with lower-incomes and fewer resources.

We classify programs into 5 broad categories:

- Savings and Investment;
- Retirement Security;
- Homeownership;
- Post-Secondary Education; and
- Entrepreneurship.

Federal policies and programs are included if they:

- Promote development of human capital through post-secondary education; or
- Encourage saving and asset formation;
- Directly benefit individuals; and
- Affect broad sectors of the population.

I. RECENTLY ENACTED ASSET BUILDING LEGISLATION

During the first year of the Obama administration, the largest and most consequential legislation enacted was the American Recovery and Reinvestment Act (ARRA), referred to widely as "The Stimulus Bill." This was a far reaching bill designed to respond to the recession and intended to stabilize household balance sheets. In terms of asset building, this involved protecting families from the erosion of savings, the loss of wealth, and the disappearance of wealth building opportunities. A wide range of policy tools were deployed, including increased outlays, new tax credits, and new tax deductions and exclusions. The increased use of refundable tax credits is particularly significant because they have the advantage of benefiting more families with lower incomes, fewer resources, and lower tax liabilities than traditional tax credits have been able to do. A second important piece of legislation with asset building ramifications was The Worker, Homeownership and Business Assistance Act of 2009, which modified and extended a refundable tax credit for eligible home buyers. The specific provisions of these bills which had implications from an asset building perspective are described below.

Table I.

Recently Enacted Legislation with Asset Building Provisions	Date Enacted
American Recovery and Reinvestment Act of 2009 "The Stimulus Bill"	February 17, 2009
Worker, Homeownership, and Business Assistance Act of 2009	November 6, 2009

American Recovery and Reinvestment Act (ARRA) of 2009

Appropriation for HOME Investment Partnerships Program. The HOME Investment Partnerships Program provides flexible annual formula grant assistance to states and local governments to increase the supply of affordable housing and expand homeownership for low- to very low-income persons. Sixty percent of the formula grant funds are awarded to local governments and 40 percent to states. Grantees use funds (often in partnership with local non-profit organizations) to build, purchase, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to people.

The American Recovery and Reinvestment Act of 2009 appropriated $2.25 billion for the HOME Investment Partnerships Program. President Obama's funding request for the Fiscal Year 2011 is described in Section II.[3]

Modified Community Development Financial Institutions Fund Rules. The Community Development Financial Institutions (CDFI) Fund provides equity investments, grants, loans, and technical assistance to community development banks, credit unions, and loan and venture capital funds in order to expand the availability of retail banking services and affordable credit in distressed communities. The CDFI Fund operates four programs: the (1) Community Development Financial Institutions Program, (2) New Markets Tax Credit (NMTC) Program, (3) Native American Initiatives (NAI) Program, and (4) Bank Enterprise Awards Program

The American Recovery and Reinvestment Act of 2009 appropriated $100 million for the CDFI Fund in Fiscal Years 2009 and 2010 (in addition to the $107 million appropriated for the program in the Omnibus Appropriations Act of 2009) and made two temporary changes to the program for Fiscal Year 2009. The first waives the CDFI Program's 30-year, $5 million award cap for Fiscal Year 2010 to make it easier for the CDFI Fund to provide awards to highly qualified CDFIs. The second change waives the CDFI Program's matching provision for Fiscal Year 2010, which requires applicants to match awards on a one-to-one basis with non-Federal funds. Given current credit market conditions, it may be difficult for CDFIs to obtain affordable private credit, and the modified rule will allow them to apply even if they are struggling to find a match. The program's Fiscal Year 2011 funding request is described in Section II.[4]

Expanded Federal Pell Grant Program. The American Recovery and Reinvestment Act of 2009 appropriated $15.8 billion for the Federal Pell Grant Program to be used through Fiscal Year 2011. $200 million was designated for students whose parent(s) or guardian(s) was a member of the Armed Forces and died in military services in Iraq or Afghanistan after September 11, 2001 or who was less than 24 years of age or was enrolled in an institution of higher education at the time of a parent or guardian's death. The ARRA also increased the maximum award amount by $500 to a total of $5,350 for academic year 2009-2010.[5] In 2009, 7 million students received a Pell grant to help pay for postsecondary education.[6] The Administration's Fiscal Year 2011 Budget proposed shifting Pell grants from a discretionary to mandatory program and increasing the maximum benefit amount.[7]

Provided Making Work Pay Tax Credit. The American Recovery and Reinvestment Act of 2009 created a refundable tax credit equal to 6.2 percent of earned income up to $400 for working single taxpayers and $800 for working married taxpayers filing a joint return, for taxable years 2009 and 2010. The credit phases out at a rate of 2 percent for taxpayers with modified aggregate gross incomes over $75,000 ($150,000 for married taxpayers filing a joint return). In his Fiscal Year 2011 budget, President Obama proposes temporarily extending the Making Work Pay Tax Credit.[8]

Increased the EITC. The EITC is refundable and equal to a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phase-out rate and the amount of earned income or AGI (if greater) above a

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[3] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 599.

[4] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 1016-1017.
[5] FinAid.org, "American Recovery and Reinvestment Act of 2009," http://www.finaid.org/educators/arra2009.phtml
[6] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 380.
[7] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 152-153.
[8] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 161, 170.

specified income threshold. Three separate schedules apply depending on whether the taxpayer has no, one, or more than one qualifying child. Under prior law (taxable year 2009) taxpayers with more than one qualifying child received a credit equal to 40% of earnings up to $12,570, for a maximum credit of $5,028. The credit was reduced at a rate of 21.06 percent of earnings above $16,420 for single taxpayers ($19,540 for married taxpayers filing a joint return).

Effective for taxable years 2009 and 2010, the American Recovery and Reinvestment Act of 2009 increased the credit for families with three or more qualifying children to 45 percent, creating a fourth credit schedule with a maximum credit of $5,656.50. The income thresholds for the phase-out of the credit for married couples filing a joint return (regardless of the number of qualifying children) were increased to $5,000 above the income thresholds for the phase-out for other taxpayers for 2009 and indexed to inflation for 2010. The Administration proposes permanently extending the 45 percent credit for families with three or more children. This proposal is described in Section II.[9]

Increased Refundable Portion of the Child Tax Credit. The Child Tax Credit provides taxpayers a nonrefundable tax credit of up to $1,000 for each qualifying child under the age of 17. The credit is reduced by $50 for each $1,000 (or fraction thereof) of modified AGI over $75,000 for single taxpayers ($110,000 for married taxpayers filing a joint return). If the credit exceeds the taxpayer's income tax liability, the taxpayers is eligible for a refundable credit equal to the lesser of (1) 15% of earned income above a threshold income ($12,550 for 2009), indexed annually to inflation, or (2) any child credit unclaimed due to insufficient tax liability. Taxpayers with 3 or more qualifying children may determine the additional child credit using an alternative formula. In October 2008, the Emergency Economic Stabilization Act (EESA) of 2008 temporarily lowered the income threshold to $8,500 for taxable year 2008.

In February 2009, the American Reinvestment and Recovery Act of 2009 lowered the minimum income needed for families to qualify for the Child Tax Credit. The refundable portion of the tax credit was increased to 15 percent of earned income above a threshold amount of $3,000 (for taxpayers for whom the credit exceeds the taxpayer's tax liability). The lower income threshold will allow 2.9 million children who would not have qualified for the credit in 2008 to receive one for taxable year 2009 while 10 million children receive larger credits. Families become eligible for the maximum $1,000 credit when income reaches $16,333 under the new provisions which was previously set at a higher level before the ARRA changes were enacted.[10]

Provided American Opportunity Tax Credit. The American Opportunity Tax Credit was created by the American Recovery and Reinvestment Act of 2009 and replaces the Hope Scholarship Credit for taxable years 2009 and 2010.[11] The American Opportunity Tax Credit is partially refundable, has a higher maximum credit amount, is available for the first four years of an eligible student's post-secondary education, and has higher phase-out limits. Taxpayers are provided a credit of up to $2,500 per eligible student per year, for the first four years, for qualified tuition and related expenses (including course materials). Eligible students must be enrolled in a post-secondary degree or certificate program at least half-time. The credit is equal to 200 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. Forty percent of the allowable credit is refundable. The credit phases out for single taxpayers with modified AGI

[9] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 161, 172.
[10] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 161.
[11] The Hope Scholarship Credit provided taxpayers a nonrefundable credit equal to 100 percent of the first $1,200 in qualified tuition and related expenses and 50 percent of the next $1,200 of qualified tuition and related expenses, amounts which were indexed annually to inflation and rounded down to the next lowest multiple of $100, for the first 2 years of an eligible student's post-secondary education. Eligible students had to be enrolled at least half-time in a degree or certificate program. The maximum value of the credit was $1,800 (for 2009) and phased out for single taxpayers with modified AGI between $50,000 and $60,000 ($100,000 and $120,000 for married taxpayers filing a joint return) for 2009. The income thresholds for phase-out ranges were indexed annually to inflation, with the amount rounded down to the next lowest multiple of $1,000 (*Analytical Perspectives: Budget of the US Government*, 2009, p. 243-44, 266-67).

between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). President Obama proposes permanently replacing the Hope Scholarship with the American Opportunity Tax Credit, which is described further in Section II.[12]

Extended and Modified the Refundable Tax Credit for First-Time Homebuyers. This provision of the American Recovery and Reinvestment Act of 2009 extended and modified the refundable tax credit provided to first-time homebuyers in the Housing and Economic Recovery Act (HERA) of 2008

The ARRA extended the credit to apply to qualifying home purchases before December 1, 2009, waived the recapture of the credit for qualifying home purchases after December 31, 2008 and before December 1, 2009, and increased the maximum credit to $8,000.[13]

Worker, Homeownership, and Business Assistance Act of 2009

Extended and modified the refundable tax credit for first-time homebuyers. The Act extended the refundable tax credit for first-time homebuyers (originally enacted by the American Recovery and Reinvestment Act of 2009) till May 1, 2010. It also created a new tax credit for existing homeowners who purchase a new primary residence after October 1, 2009, but before May 1, 2010. The credit is worth 10 percent of the purchase price of the home up to a maximum of $6,500. To qualify, an existing homeowner must have lived in the same home for at least five of the past eight years and the purchase price of the new home must be for $800,000 or less. The credit is available to single taxpayers with Adjusted Gross Incomes (AGIs) of $125,000 or less (the credit phases out for single taxpayers with AGIs between $75,000 and $125,000) and married taxpayers with AGIs of $225,000 or less (the credit phases out for married taxpayers with AGIs between $150,000 and $225,000).[14]

II. THE PRESIDENT'S FY 2011 BUDGET

The President's budget includes funding requests for existing programs as well as a description of new proposals. Since the budget is designed to reflect the overall picture of the nation's balance sheet, it presents both the obligations and future revenue projections of the government. In this section, we describe the new proposals and funding requests for existing programs by category (savings and investment, retirement security, homeownership, post-secondary education, and entrepreneurship). New proposals may entail proposed funding for a new program or tax reductions associated with a particular activity or targeted group of people. Both of these affect the revenue projections of the government but in different ways. The accompanying tables distinguish between these two effects and it is the combined impact of both revenue lost and resources expended that reflect the ultimate shape of the asset building budget. To give a complete picture of the asset building budget, existing tax policies must be considered. Section III presents an analysis of the tax expenditures which impact asset building opportunities.

Savings and Investment

Asset Limits Reform. The Administration proposes to significantly reform the asset limit rules governing eligibility for means-tested public assistance programs. The Administration recognizes the potential for more flexible rules to create opportunities for

[12] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 161-162, 173.
[13] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 162.
[14] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 168.

families to increase their savings and asset holdings. Specifically, the budget proposes two major reforms. The first is to establish a national asset limit floor of $10,000 for working age, non-disabled individuals. The proposal excludes SSI, Medicaid, and Medicare, but does apply to all remaining federally-funded programs, including those that are state administered). The Administration projects that the $10,000 national asset limit will cost $9.4 billion over 10 years, though only $426 million in the first year.

The second is to exclude all refundable tax credits from means-tests for 12 months. The Congressional Justification of the Department of Health and Human Services clarifies that "this proposal affects all mandatory and discretionary programs, administered at both the state and federal levels, which receive federal funding. This proposal will address the relationship between the treatment of refundable tax credits and eligibility rules across programs. The goal is to ensure that when a low-income working family receives a lump sum refund that reflects receipt of tax credits, such as the Earned Income Tax Credit (EITC) and the Child Tax Credit, the family does not become ineligible for other benefits it may need because the family now exceeds an asset limit. The purpose of refundable credits such as the EITC is to supplement low earnings and help low-income working families make ends meet. This goal is undermined if receipt of tax credits such as the EITC then makes a family ineligible for other forms of assistance. Moreover, excluding these credits from asset tests bolsters the work incentive embodied in the tax credit policies and promotes good family budgeting practices."[15] The Administration estimates that the exclusion of refundable tax credits is expected to cost $241 million over 10 years, $26 million in the first year.

Extend Making Work Pay Tax Credit. The Administration proposes extending the Making Work Pay Tax Credit through the end of 2011. Section I contains a description of the original credit, created by the American Recovery and Reinvestment Act of 2009.[16]

Provide $250 Economic Recovery Payments and Special Tax Credit. The American Recovery and Reinvestment Act of 2009 also provided economic assistance to retirees similar to the Making Work Pay Tax Credit. Retirees eligible for certain types of federal benefits received a $250 payment or $500 for married couples who are both eligible. Some government retirees, not eligible for the Economic Recovery Payment, were eligible for a Special Tax Credit instead that was also $250 or $500 for married couples who are both eligible.

In the Fiscal Year 2011 budget, the Administration proposes making the Economic Recovery Payments and Special Tax Credits available again in 2010. The estimated total cost of these payments is $212 million.

Eliminate the Advanced EITC. The Administration proposes to eliminate the Advanced Earned Income Tax Credit (EITC), which allows eligible taxpayers to receive a portion of their EITC throughout the year in their paychecks. The Advanced EITC is claimed by few taxpayers (514,000 according to the GAO) and has a high error rate. Half of all recipients received less than $100. The estimated savings to the federal government would be $120 million in FY 2011 in reduced erroneous payments.[17]

Expand EITC. Following changes to the EITC made in the American Recovery and Reinvestment Act of 2009, the Administration proposes, effective for taxable years beginning in 2011, to permanently extend the 45 percent credit for families

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[15] Health and Human Services (2010). "Congressional Justification. Page 73.
[16] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 170, 185.
[17] *Advanced Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance* (Washington, DC: Government Accountability Office, 2007); *Analytical Perspectives: Budget of the US Government s* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 177, 187.

with three or more qualifying children. The original credit and changes to the credit made under the ARRA are described in Section I.[18]

Expand the Child and Dependent Care Tax Credit. The Child and Dependent Care Tax Credit (CDCTC) helps to partially offset the cost of child care for parents who are working or looking for work. It applies to care expense for children under the age of 13 or a dependent of any age who is disabled. Eligible taxpayers can receive the credit for between 20 and 35 percent (depending on income level) of up to $3,000 in eligible expenses for one child ($6,000 for two or more). The CDCTC was expanded to its current level in 2001 as part of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which is scheduled to expire at the end of 2010. If no action is taken to extend EGTRRA or enact the President's FY2011 budget proposal for the CDCTC, the maximum credit rate will drop to 30 percent and the maximum amount of eligible expenses will drop to $2,400 for one child ($4,800 for two or more).[19]

Under current law, the percentage of eligible expenses begins to phase out for Adjusted Gross Income (AGI) levels over $15,000. The Administration proposes increasing the income level at which the credit begins phasing out to $85,000 as well as making the CDCTC provisions from the EGTRRA permanent beginning in 2011. The estimated cost of this expansion is $377 million in 2011 and $12.64 billion over ten years

Raise Income Tax Rates for High Income Tax Payers. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) lowered the individual income tax rate for all Americans into the following brackets: 10, 15, 25, 28, 33, and 35 percent. When EGTRRA expires at the end of 2010, the Administration proposes expanding the 28 percent tax bracket and replacing the 33 and 35 percent brackets with the previous brackets of 36 and 39.6 respectively. These changes would impact single taxpayers with incomes over $200,000 and married taxpayers with incomes over $250,000.

Reinstate the Personal Exemption Phaseout and Limits on Itemized Deductions for High Income Taxpayers. The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 eliminated the personal exemption phaseout and limits on itemized deductions for high income taxpayers from 2006 to 2010.

The Administration proposes reinstating the personal exemption phaseout and itemized deduction limits for high income taxpayers beginning in 2011. These changes would impact single taxpayers with incomes over $200,000 and married taxpayers with incomes over $250,000.

Raise Capital Gains and Dividends Taxes for High Income Taxpayers. The Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 cut the maximum tax rate on long-term capital gains from 20 percent to 15 percent for middle and high income taxpayers and from 10 percent to 5 percent (dropping to zero in 2008) for lower-income taxpayers. JGTRRA also enacted a maximum tax rate on qualified dividends of 15 percent for middle and high income taxpayers and 5 percent (dropping to zero in 2008) for lower-income taxpayers.

The Administration proposes enacting a 20 percent tax rate on long-term capital gains and qualified dividends for high income taxpayers beginning in 2011. These changes would impact single taxpayers with incomes over $200,000 and married taxpayers with incomes over $250,000.

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[18] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010) 172, 185.
[19] Tax Policy Center (2010). "Tax Proposals in the 2011 Budget." Washington, DC. Pages 15-16.

Limit the Rate at Which Itemized Deductions Reduce Taxes for High Income Taxpayers. Under current law, itemized deductions reduce a taxpayer's tax liability at their tax rate.

The Administration proposes enacting a limit of 28 percent to the rate that high-income taxpayers can use itemized deductions to reduce their tax liability beginning in 2011. These changes would impact single taxpayers with incomes over $200,000 and married taxpayers with incomes over $250,000.

Level Funding for the Assets for Independence Act. The Assets for Independence (AFI) Program provides grants to community-based non-profits and government agencies to implement Individual Development Accounts programs. Deposits made by IDA accountholders into their accounts are matched with AFI funding and help low-income families save for homeownership, start a business, and enroll in postsecondary education or training. Beneficiaries of the program are individuals eligible for Temporary Assistance for Needy Families or whose household assets are less than $10,000 in value and who are eligible for the Earned Income Tax Credit or have household income less than two times the Federal poverty line.[20] President Obama requests maintaining funding for the Assets for Independence program at $24 million for Fiscal Year 2011.

Volunteer Income Tax Assistance (VITA). The VITA Program offers free tax preparation services to low- and moderate-income people. Certified volunteers receive training to prepare basic tax returns in communities across the country. The Administration requests $8 million for the VITA Program for Fiscal Year 2011, which is a $4 million reduction from its 2010 level.

Bank On USA Initiative. Funded under the Department of Treasury's CDFI Fund, the Administration proposes a new $50 million initiative to help increase access to safe and affordable financial services for unbanked and under-banked households by seeding local initiatives. The effort is partially modeled on the successful Bank On San Francisco program, which has been replicated by many cities across the country and recently at the state level in California as well.

Revise National Strategy for Financial Literacy. Congress passed the Financial Literacy and Education Improvement Act in 2003 which created a Financial Literacy and Education Commission. The Commission is lead by the Treasury Department and involves several different federal agencies. They were charged with developing a national strategy for improving the financial literacy and education of Americans. The Commission released a report in 2006 that outlined the first steps in this strategy, has built a national network of partnerships, and convenes meetings on a regular basis.[21] The Administration's FY2011 budget proposal calls for revising the National Strategy for Financial Literacy in order to improve access to financial services for unbanked and underbanked Americans and provide better financial education.

[20] U.S. Department of Health and Human Services, "Assets for Independence," http://www.acf.hhs.gov/programs/ocs/afi/fact_sheet.html (updated December 23, 2007).

[21] Financial Literacy and Education Commission (2006). "Taking Ownership of the Future: The National Strategy for Financial Literacy. Washington, DC. Pages v-vii.

Table II-A

Projected Effect on Receipts for Selected Asset Building Policy Proposals [a] (in millions of dollars)	FY 2010	FY 2011	FY 2011-2020
SAVINGS AND INVESTMENT			
Extend Making Work Pay Tax Credit	---	-30,132	-61,207
Provide Economic Recovery Payments	-38	-212	-212
Expand EITC	---	-85	-15,158
Expand the Child and Dependent Care Tax Credit	---	-377	-12,641
Asset Limits Reform (new limit of $10,000)	---	-426	-9,400
Asset Limits Reform (exclusion of refundable credits)	---	-26	-241
TOTAL	**-38**	**-31,258**	**-98,859**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 14-3.
[a] Includes foregone tax receipts and outlays.

Table II-B

Proposed Funding for Selected Asset Building Programs (in millions of dollars)	Actual 2009	Estimated 2010	Requested 2011
SAVINGS AND INVESTMENT			
Assets for Independence Act	24	24	24
Volunteer Income Tax Assistance (VITA)	8	12	8
Bank On USA Initiative	---	--	50
TOTAL	**32**	**36**	**82**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*,
Note: figures reflect budget authority.

Table II-C

Projected Effect on Receipts of Proposed Tax Provisions for Upper-Income Earners [a] (in millions of dollars)	FY 2010	FY 2011	FY 2011-2020
UPPER-INCOME TAX PROVISIONS			
Raise Income Tax Rates for High Income Taxpayers	---	14,509	364,439
Reinstate the Personal Exemption Phaseout and Limits on Itemized Deductions for High Income Taxpayers	---	6,840	208,489
Raise Capital Gains and Dividends Taxes for High Income Taxpayers	1,344	12,165	105,364
Limit the Rate at Which Itemized Deductions Reduce Taxes for High Income Taxpayers	---	7,896	291,175
TOTAL	**1,344**	**41,410**	**969,467**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 14-3.
[a] Includes additional tax receipts.

Retirement Security

Expand Saver's Credit. The Administration proposes to expand the existing Saver's Credit, so it is more effective in helping lower-income families save. Currently, taxpayers 18 years or older who are not dependents or full-time students may receive a nonrefundable Saver's Credit equal to between 10 percent and 50 percent of their compensation (depending on taxpayer's filing status and AGI, adjusted for inflation) up to $2,000 contributed to an employer-sponsored qualified retirement plan or IRA.

Qualified contributions are reduced by distributions from qualified plans and IRAs during the current tax year, up to the due date of the return, including extensions.

Under the Administration's proposal, the credit would (1) become refundable, (2) and the match rate would be modified to 50 percent (up to $500) on qualified savings per individual per year (indexed annually for inflation beginning in taxable year 2011). Although it is primarily considered as a retirement savings incentive, contributions to a number of savings vehicles that qualify for the credit have pre-retirement uses such as first-time homeownership and post-secondary education. The amount of savings that could be matched would phase out at a rate of 5 percent for AGI in excess of $32,500 for single taxpayers ($65,000 for married taxpayers filing a joint return) and would be indexed annually for inflation beginning in taxable year 2011.[22]

Provide Automatic Enrollment in IRAs. The Administration has committed to dramatically expand access to long-term savings plans through its proposal to create "AutoIRAs." If enacted, the policy would require employers who do not currently offer a retirement plan to offer automatic enrollment in an IRA to all their employees, effective for taxable years beginning in 2012. This change would benefit the half of the workforce (over 70 million families) whose employers do not offer such savings plans. Small employers (with less than 10 employees) would be exempt. An employee would be automatically enrolled in an IRA at a default rate of 3% of the employee's compensation unless the employee opts out. Employers that offer an automatic IRA would be eligible to receive a temporary business tax credit.[23]

Table III

Projected Effect on Receipts for Selected Asset Building Policy Proposals [a] (in millions of dollars)	FY 2010	FY 2011	FY 2011-2020
RETIREMENT			
Expand Saver's Credit	---	-323	-29,774
Provide Automatic Enrollment in IRAs	---	---	-10,391
TOTAL	**---**	**-323**	**-40,165**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 14-3.
[a] Includes foregone tax receipts and outlays.

Homeownership

Anti-Foreclosure Efforts. In 2009, the Administration addressed the foreclosure crisis through a variety of strategies. To preserve the affordability of homes, steps were taken to maintain low interest rates, to increase access to the Federal Housing Administration, and to augment the financing available to state and local housing finance agencies, which resulted in the refinancing of 3 million homes. In addition, the $8,000 first-time homebuyer tax credit incentivized many Americans to purchase homes and $5 billion was directed towards maintaining affordable rental housing options. To facilitate loan modifications which prevent foreclosures, the TARP program allocated $75 billion of resources to the Home Affordable Modification Program (HAMP). By early December 2009, a revised HAMP Program restructured more than 725,000 mortgages into manageable monthly payments and prevented avoidable foreclosures for these homeowners. To achieve the goal of reaching 4 million borrowers by the end of 2012, HAMP aims to begin 20,000 trial modifications each week.

[22] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 173, 185.
[23] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010) 172-173, 185.

Federal Housing Administration. The Federal Housing Administration supports homeownership for many households, including low- and middle-income families, by providing mortgage insurance to encourage lenders to make loans available to borrowers the conventional market would otherwise not serve. It generates revenue for the government in the fees it collects and its annual outlays vary depending on the performance of the loans and the larger housing market. Although its budget numbers are less informative in isolation, we include it here since it represents a primary means for the government to support homeownership. In Fiscal Year 2011, the Administration requests an aggregate limitation of $400 billion in loan guarantees.

HOME Investment Partnerships Program (HOME). The HOME Investment Partnerships Program provides flexible annual formula grant assistance to states and local governments to increase the supply of affordable housing and expand homeownership for low- to very-low income persons. Sixty percent of the formula grant funds are awarded to local governments and 40 percent to states. Grantees use funds (often in partnership with local non-profit organizations) to build, purchase, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to people. The Administration is requesting $1.6 billion for the HOME Program. Grantees are encouraged to leverage the "sweat equity" contributed by low-income homebuyers, as no additional funding was designated for the *Self-Help Homeownership Program* (*SHOP*). Activities previously eligible for SHOP will also be eligible for HOME funds.

Housing Counseling Assistance. The Housing Counseling Assistance program provides housing counseling services to eligible homeowners and tenants through grants to nonprofit intermediaries, state governments, and other agencies to work with local and national organizations. Eligible counseling activities include pre- and post-purchase education, personal financial management, reverse mortgage product education, foreclosure prevention/mitigation, and rental counseling. The objective of the program is to expand homeownership opportunities, improve access to affordable housing, prevent foreclosure, increase financial literacy, and aid in bridging the minority homeownership gap. The Housing Counseling Assistance program is a priority for President Obama and an important complement to the Making Home Affordable program, announced in March 2009. This year President Obama requests $88 million for the Housing Counseling Assistance Program.

Family Self-Sufficiency—Voucher Program. The Family Self-Sufficiency (FSS) program is a potentially powerful asset-building vehicle that allows participating families in assisted housing to set aside, in an escrow account, money that would otherwise go to rent increases. Account holders receive their accrued FSS escrow funds plus interest upon successful fulfillment of their individualized self-sufficiency plan. A national HUD evaluation of FSS found that compared to non-participants, FSS participants had larger increases in income and less dependency on public assistance. Funds which are appropriated under this program support the provision of program coordinators, who provide the essential case management that is required by program rules. The Resident Opportunities and Self-Sufficiency program, which is separate from the Family Self-Sufficiency program and funds other activities, can be used to fund service coordinators in the Family Self-Sufficiency program. HUD's research budget will focus this year on scalable housing programs, one of which will be the FSS program. The Administration requests $60 million in Fiscal Year 2011 to fund FSS coordinators in the voucher program, an increase from the 2010 requested level.

Rural Housing Service. The Department of Agriculture has a number of programs in its Rural Housing Service that promote homeownership through the provision of loans and grants. Initially targeted at farmers, over time the USDA has expanded its reach to offer assistance to rural residents in general. The housing programs are generally referred to by the section number under which they are originally authorized in the Housing Act of 1949, such as 502 single family loans and 515 new construction loans and grants.

Table IV

Proposed Funding for Homeownership-Specific Asset Building Programs (in millions of dollars)	Actual 2009	Estimated 2010	Requested 2011
HOMEOWNERSHIP			
HOME Investment Partnerships Program (HOME)	4,075	1,825	1,650
Housing Counseling Assistance	65	88	88
Family Self-Sufficiency Program—Voucher Program	49	110	60
TOTAL	**4,189**	**2,023**	**1,798**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011,*
Note: figures reflect budget authority.

Post-Secondary Education

Provide American Opportunity Tax Credit. The temporary American Opportunity Tax Credit was created by the ARRA for taxable years 2009 and 2010 to replace the Hope Scholarship Credit. The Administration proposes to permanently extend the American Opportunity Tax Credit and index the expense amounts and phase-out limits to inflation, beginning in taxable year 2011. This proposal would effectively eliminate the Hope Scholarship Credit. A description of the original American Opportunity Tax Credit is provided in Section II.[24]

Raise the Maximum Pell Grant Award from $5,550 in 2010 to $5,710, and an Estimated $6,900 in 2019. The Student Aid and Fiscal Responsibility Act would index the maximum Pell award to the cost of inflation plus 1 percentage point, resulting in an estimated $5,710 maximum Pell Grant for 2011. The number of Pell Grant recipients would rise to an estimated 8.7 million in fiscal year 2011, up more than 1 million students since fiscal year 2009. In addition, the Administration's budget request would make all Pell Grant funding mandatory beginning in 2010, so that adequate Pell Grant funding is available every year to pay for program costs. The Administration estimates the additional cost would be $68 billion over 10 years.

Expand the Federal Perkins Loan Program. The Federal Perkins Loan program provides low-interest loans to low-income students at one of 1,800 participating post-secondary institutions. Schools have great flexibility in determining the amount of Perkins loans awarded to students. Students who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans canceled. Schools are generally reimbursed for 100 percent of the principal amount of the loan canceled and the reimbursement must be reinvested in the school's revolving loan fund. Loan capital is provided by Federal Capital Contributions, an institutional matching contribution equal to at least one-third of the federal contribution, and the institution's collections on prior-year student loans.[25]

The Administration proposes to provide $6 billion in new loan volume annually. This would represent six times the current annual Perkins volume. Instead of being serviced by the colleges, loans would be serviced by the Department of Education along with other Federal loans. The loans would have the same 5% interest rate and allowed loan amounts (both undergraduate and graduate) as in the current Perkins program. To make loans available to more students, interest on the loans would accrue while students are in school. The Administration estimates savings of $5.5 billion over 10 years.

[24] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2010), 173, 185.
[25] U.S. Department of Education, "Federal Perkins Loan Program," http://www.ed.gov/programs/fpl/index.html (accessed March 11, 2010).

Eliminate the Federal Family Education Loans Program. Under the current FFEL program, the federal government pays entitlement subsidies to financial institutions to make loans to students. The Office of Management and Budget's Program Assessment Rating Tool identifies major structural flaws and cost inefficiencies in the program that limit the program's effectiveness.[26] Citing high costs, President Obama proposes eliminating the Federal Family Education Loans (FFEL) program. The Administration will instead redirect resources from the FFEL program to its Direct Loan program, beginning in Academic Year 2010-2011 (starting July 1, 2010), which has lower administrative costs and comparable services, default rates, and satisfaction to the FFEL program. The resulting savings of will be used to provide additional Pell Grants to students. The Administration estimates savings of $51 billion through fiscal year 2020.

Simplify the Free Application for Federal Student Aid (FAFSA). The Administration proposes eliminating unnecessary questions from the FAFSA and making the online application faster and easier, partly by using IRS data. The Student Aid and Fiscal Responsibility Act contains a provision that removes asset questions from the FAFSA, and in its stead placing a $150,000 asset cap on eligibility for Pell Grants and subsidized Stafford Loans. The resulting clarity could allow families to save for higher education without expecting a loss of need-based financial aid.

Expand Income-Based Repayment Options (IBR) in the Federal Post-secondary Student Loan Programs. Allowing borrowers to repay their loans with no more than 10 percent of their discretionary income will help borrowers with large debts and low incomes, particularly those entering public service careers. The Administration estimates costs of $7.5 billion over 10 years.

Create a College Access and Completion Fund. The College Access and Completion Fund would make grants to States, institutions of higher education, and other organizations to support innovative strategies to increase the number and percentage of students entering and completing college. In theory, States could apply for grant monies to create or augment savings incentives for low-income families in their 529 college savings plans. This program would cost $3.5 billion over 5 years.

Level Funding for TRIO and Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) Programs. The request for 2011 would maintain level funding for these college preparation and student support programs. TRIO provides funding for approximately 2,700 projects serving middle school, high school, and college students and adults. An additional $57 million in mandatory funding will provide support for another 178 Upward Bound projects. The Administration requests $910 million for FY2011, maintaining 2010 funding levels. GEAR UP provides funds to States and partnerships for early college preparation and awareness activities to help low-income elementary and secondary school students prepare for and pursue postsecondary education. Several states have created partnerships between their state 529 College Savings Plans and GEAR UP to provide information and resources to low-income students. The request maintains funding at the 2010 level and would serve approximately 748,000 middle and high school students in fiscal year 2011.The Administration requests $323.2 million, which maintains 2010 funding levels.

Adult Basic and Literacy Education State Grants. These grants assist adults without a high school diploma or equivalent to become literate and obtain the knowledge and skills necessary for postsecondary education, employment, and self-sufficiency. The request is $612.3 million for FY 2011, $15.9 million below the 2010 level, but actually reflects an increase of $30 million in program support because the 2010 level included a one-time increase of $45.9 million to compensate certain States for errors in calculating formula grant awards between fiscal years 2003 and 2008.

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[26] Office of Management and Budget, "Program Assessment: Federal Family Education Loans," http://www.whitehouse.gov/omb/expectmore/summary/10001032.2004.html (last accessed March 11, 2010).

Table V-A

Projected Effect on Receipts for Education-Specific Asset Building Policy Proposals a (in millions of dollars)	FY 2010	FY 2011	FY 2011-2020
POST-SECONDARY EDUCATION			
Provide American Opportunity Tax Credit	---	-951	-75,473
TOTAL	**---**	**-951**	**-75,473**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 14-3.
[a] Includes foregone tax receipts and outlays.

Table V-B

Proposed Funding for Education-Specific Asset Building Programs [a] (in millions of dollars)	Actual 2009	Estimated 2010	Requested 2011
POST-SECONDARY EDUCATION			
Raise the Maximum Pell Grant Award	19,378	26,988	34,878*
Expand IBR in the Federal Post-Secondary Student Loan Program	---	1,692	448
Create a College Access and Completion Fund	---	117	583
TRIO Program	848	853	853
GEAR UP Program	313	323	323
TOTAL	**20,539**	**29,973**	**37,085**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 14-3.
[a] Includes foregone tax receipts and outlays.
Note: figures reflect budget authority.
* If enacted as proposed, funding would shift from discretionary to mandatory.

Entrepreneurship

Support the Community Development Financial Institutions (CDFI) Fund. The CDFI Fund, located in the Treasury Department, provides equity investment, grants, loans, and technical assistance to community banks, credit unions, and other loan provides in order to expand the availability of retail banking services and affordable credit in distressed communities. The Administration requests $250 million for the CDFI Fund for Fiscal Year 2011, much of which will go toward increasing access to credit. This includes $50 million for the Bank On USA proposal designed to increase access to safe and affordable financial services for unbanked and under-banked households.

Extend Temporary Increase in Expensing for Small Businesses. A temporary provision that began in 2007 allows small businesses to expense up to $125,000 in certain types of property investments. The maximum amount that can be expensed is reduced for investments that exceed $500,000. A different temporary provision increased the maximum expense amount to $250,000 and the maximum investment limit to $800,000 for tax years 2008 and 2009. The Administration proposes extending the $250,000 and $800,000 limits for tax year 2010, which would take effect in 2011.

Eliminate Capital Gains Taxes for Small Businesses. The American Recovery and Reinvestment Act of 2009 increased the amount of capital gains from the sale of small business stock that individuals can exclude from tax from 50 to 75 percent. The maximum size of the exclusion is limited and only certain types small business stock that have been held for at least five years are eligible. Stock must also have been issued after February 17, 2009, but before January 1, 2011 to qualify for the tax exclusion. The Administration proposes increasing the exclusion amount to 100 percent.

Microloan Program. The Microloan Program at the Small Business Administration (SBA) provides small loans to start-up, newly established, and growing small businesses. The Small Business Administration makes funds available to nonprofit community based lenders who act as intermediaries and make loans to borrowers. This year the Administration proposes to increase the maximum size of the loans to $50,000, up from the previous level of $35,000. The Administration's Fiscal Year 2011 funding request for the Microloan program is to support $25 million in direct Microloans.

Small Business Lending. The primary lending program supported by the SBA is the 7(a) program. It provides access to credit for a wide range of firms. This year the Administration is proposing to increase the maximum loan size to $5 million, up from its current level of $2 million. The budget proposes $165 million in subsidy costs to support $17.5 billion in 7(a) loan guarantees that can help small businesses operate and expand.

Table VI-A

Projected Effect on Receipts for Entrepreneurship-Specific Asset Building Policies [a] (in millions of dollars)	FY 2010	FY 2011	FY 2011-2020
ENTREPRENEURSHIP			
Extend Temporary Increase in Expensing for Small Businesses	-706	-440	753
Eliminate Capital Gains Taxes for Small Businesses	---	---	-8,055
TOTAL	**-706**	**-440**	**-7,302**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011,* "Analytical Perspectives." Table 14-3.
[a] Includes foregone tax receipts and outlays.

Table VI-B

Proposed Funding for Entrenprenurship-Specific Asset Building Programs (in millions of dollars)	Actual 2009	Estimated 2010	Requested 2011
ENTREPRENEURSHIP			
CDFI Fund	107	247	200**
Microloan Program	2	2	2***
Small Business Lending	---	122	67****
TOTAL	**109**	**371**	**269**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011,*
Note: figures reflect budget authority.
**The total requested funding amount is $250 million including $50 million for the Bank On USA Initiative.
*** These allocated resources can support a loan volume level of up to $25 million in 2011.
****These allocated resources can support a loan volume level of up to $15.97 billion in 2011.

III. EXISTING TAX EXPENDITURE PROGRAMS AS VEHICLES FOR ASSET BUILDING

Tax expenditure programs in the form of tax deductions, tax credits, preferential tax rates, tax deferrals, or income exclusions are a primary vehicle for achieving many federal policy objectives. Collectively, they subsidize a broad range of activities, including many investments related to asset building such as mortgage payments, business investments, retirement savings, and educational expenditures. As calculated by the government, the aggregate value of these asset-building tax expenditures is approximately $477 billion (Fiscal Year 2011) on an annual basis. Given their size, they deserve scrutiny.

There are several methods for estimating the value of tax expenditures; the two most common measures are revenue losses attributed to provisions in the tax code, and budget outlay equivalent. The difference between the two is that *revenue losses* count money that would otherwise come in to the Treasury without changes to the tax law, and *outlays* are money actually spent by the government. These estimates vary slightly depending upon the specific activity and tax treatment. In the case of some refundable tax credit programs, such as the Earned Income Tax Credit, outlays and revenue effects should be considered together to capture the ultimate scale of the policy effort.

Tax expenditures as a policy vehicle work best when the benefits or incentives are related to income and are intended to be widely available. While tax expenditure programs may subsidize worthy activities and generate sizeable social and economic returns, there are large unknowns about the degree of their effectiveness. While direct expenditure programs have been subject to increased performance assessment in recent years, tax expenditures have been largely ignored despite their large scale and impact on the federal budget. In this year's Fiscal Year 2011 budget, the Obama Administration announced plans to develop a process to assess the performance and economic effects of tax expenditures. Specifically there was a commitment that "over the next few years the Executive Branch's focus will be on the availability of the data needed to assess the effects of the tax expenditures designed to increase savings."[27]

Perhaps more troubling is that they are not accessible to a large number of citizens that would potentially benefit from them the most. Many lower-income households do not have large enough tax liabilities to take advantage of these tax expenditure programs.[28] Recent analysis confirms that over 70 percent of the benefits of the homeownership tax expenditures go top 20 percent of households ranked by income; and for the tax expenditures linked to retirement savings, 80% of the benefits go to the top 20 percent of households.[29] When these are combined, the benefits primarily reach households with incomes above $50,000 a year.[30]

All told, the federal government will offer $198.6 billion in Fiscal Year 2011 in support of homeownership, over $142.0 billion to subsidize retirement savings, and over $118.1 billion in support of private investment, such as the reduced tax rate on capital gains compared to income tax.

Table VII identifies the tax expenditures related to asset building included in the federal budget. Some are familiar and easy to understand, while others are obscure and more complicated. For the purpose of this paper, tax advantages that can be claimed by businesses are not included, even if they help subsidize employee training. The accompanying table details the projected tax expenditures for Fiscal Year 2011 and includes estimated expenditures for Fiscal Year 2009 and Fiscal Year 2010 for comparison.

[27] Office of Management and Budget (2010). *U.S. Budget, Fiscal Year 2011, Analytical Perspectives*. Page 243.
[28] Cramer, Reid, Rourke O'Brien, Daniel Cooper, and Maria Luengo-Prado (2009). A Penny Saved is Mobility Earned: Advancing Economic Mobility Through Savings." Washington, D.C.: Economic Mobility Project, The Pew Charitable Trusts.
[29] Toder, Eric, Benjamin Harris, and Katherine Lim (2009). "Distributional Effects of Tax Expenditures: Washington, D.C.: Tax Policy Center.
[30] *Estimates of Federal Tax Expenditures for Fiscal Years 2006–2010* (Washington, DC: United States Congress Joint Committee on Taxation, 2006).

Table VII

Value of Select Asset Building Tax Expenditures (in billions of dollars)	FY 2009	FY 2010	FY 2011
POST-SECONDARY EDUCATION			
HOPE Scholarship (American Opportunity) Credit [a]	2.9	0	.8
Lifetime Learning Credit	3.9	2.9	3.4
American Opportunity Tax Credit	2.5	13.6	11.4
Education IRA	.04	.06	.07
Deductibility of Student Loan Interest	1.3	1.3	1.1
Deductibility of Higher Education Expenses	1.8	.5	0
State Prepaid Tuition Plans	1.2	1.4	1.6
Subtotal Education	**13.6**	**19.8**	**18.4**
HOMEOWNERSHIP			
Deductibility of Mortgage Interest on Owner-Occupied Housing	79.4	92.2	104.5
Deductibility of Property Tax	29.0	18.9	23.7
Capital Gains Exclusion on Home Sales	23.5	23.9	31.3
Exclusion of Imputed Rent for Owner-Occupied Housing	27.0	32.5	37.6
Credit for first-time homebuyer	9.7	16.5	1.5
Subtotal Homeownership	**168.6**	**184.0**	**198.6**
SAVINGS AND INVESTMENT			
Capital Gains	52.6	45.4	44.3
Capital Gains Exclusion of Small Corporation Stock	.01	.01	.2
Step-Up Basis of Capital Gains at Death	41.4	36.7	44.5
Carryover Basis of Capital Gains on Gifts	1.6	1.4	4.8
Exclusion of Interest on Life Insurance Savings	20.3	21.1	23.1
Deferral of Interest on U.S. Savings Bonds	1.3	1.2	1.2
Subtotal Savings and Investment	**117.2**	**105.8**	**118.1**
RETIREMENT			
Net Exclusion of Pension Contributions: Employer Plans	40.7	41.4	44.6
Net Exclusion of Pension Contributions: 401(k) Plans	44.1	53.5	67.0
Net Exclusion of Pension Contributions: IRAs	12.1	12.8	14.1
Net Exclusion of Pension Contributions: Saver's Credit	1.1	1.2	1.2
Net Exclusion of Pension Contributions: Keough Plans	12.8	13.9	15.1
Subtotal Retirement	**110.8**	**122.8**	**142.0**
TOTAL	**410.2**	**432.4**	**477.1**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 16-1.

[a] The American Opportunity Tax Credit replaces the HOPE Scholarship Credit for taxable years 2009 and 2010.

Potential Asset Building Resources Delivered through Tax Refunds

While not explicitly an asset building program, the tax filing process is an opportunity for many families that receive sizeable refunds to begin saving. Of the over 156 million people who filed returns in tax year 2007, approximately 69 percent, or 107.6 million tax filers, received refunds.[31] Through payroll withholding and refundable tax credits, such as the Earned Income and Child Tax Credits, the average refund for all tax filers was $2,429 a year. While the maximum EITC award in 2007 was $4,716, the average refund amount for families qualifying for the EITC was $2,488.[32] Additionally, the average total refund for households with adjusted gross incomes of $50,000 or less was $1,854.[33]

These resources can potentially be saved and used for personal investment and asset development. In fact, 2005 and 2006 data from Michigan shows more than 50 percent of low- and moderate-income individuals who received a refund saved all (9 percent) or part (42 percent) of their refund. Among all individuals in the study, 14 percent used their refunds to pay for their own or their children's education.[34] Table VIII below provides an indication of the scale of these resources; the column on outlays refers to the money refunded to taxpayers, and the column on tax expenditures reflects foregone tax revenue that results from lowering individuals' tax liabilities.

As part of the 2009 American Recovery and Reinvestment Act, the Making Work Pay Tax Credit offered a new refundable tax credit of up to $400 for working individuals and up to $800 for married taxpayers filing jointly. The credit is calculated at a rate of 6.2 percent of earned income and phases out as adjusted incomes exceed $75,000 or $150,000 for couples. For people with paychecks subject to withholding, the credit will result in an increase in take-home pay. However, for those that do not have taxes withheld, they will be able to claim the credit on their 2009 and 2010 tax return.

Table VIII

Funding Levels for the Earned Income and Child Tax Credits FY 2011 (in billions of dollars)	Outlays	Total Tax Expenditures	Total
Child Tax Credit	29.8	18.6	48.4
Earned Income Tax Credit	51.5	6.2	57.7
Making Work Pay Tax Credit	31.5	14.2	57.7
TOTAL	**112.8**	**39.0**	**151.8**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 16-1.
Note: Reflects the Child and Earned Income Tax Credits as currently enacted.

IV. CHANGING POLICY LANDSCAPE FOR ASSET BUILDING OPPORTUNITIES

This assessment of the federal budget reveals that a sizable amount of public sector resources are devoted to asset building activities. In Fiscal Year 2011, the Obama Administration proposes to allocate over $701.1 billion to an array of policies and programs that support asset building objectives. Our analysis indicates that the will allocate $200.4 billion in resources to

[31] Internal Revenue Service (2008). "SOI Tax Stats, Reports for Filing Year 2008—Tax Year 2007."
[32] Center on Budget and Policy Priorities (2009). "Policy Basics: The Earned Income Tax Credit." Washington, D.C.: Center on Budget and Policy Priorities.
[33] Internal Revenue Service, Earned Income Tax Credit Strategic Planning Office (2009) "Tax Year 2007: Statistics on Income Bulletin." Historical Table 2.
[34] Michael S. Barr and Jane K. Dokko, "Tax Filing Experiences and Withholding Preferences of Low- and Moderate-Income Households: Preliminary Evidence from a New Survey," (prepared for the IRS Research Conference, Washington, DC, June 14-15, 2006).

subsidize homeownership and $142.3 billion for retirement security. $56.4 billion will be devoted to post-secondary education, $0.7 billion for entrepreneurship, and $149.5 billion to savings and investment activities.

There are two primary observations to make about the distribution of these resources. First, the majority of them can be classified as tax expenditures. Almost $550 billion of the total are delivered in the form of tax subsidies, while only $152 billion can be considered as direct spending. Second, one of the most remarkable features of our current policy paradigm as it pertains to asset building is how many Americans it excludes. The overwhelming majority of these resources accrue to middle- and upper-income Americans. This is because the tax code gives special consideration to homeowners and other taxpayers that already have wealth or make contributions to targeted savings accounts. These inequities are particularly striking and reflect how the poorest Americans are offered fewer opportunities to save and build wealth when compared to their middle- and upper-income counterparts.

However, it is fair to say that the President's budget proposals, if enacted, would move us in a more inclusive direction. A number of proposals are notable. For instance, the Obama Administration has supported the increase a number of tax credits that are accessible to lower-income families, including the Child Tax Credit, the Earned Income Tax Credit, and the new Making Work Pay Tax Credit. These resources are delivered through the tax code and can be potentially saved and used for personal investment and asset development. The combined value of these credits, as enacted for 2011, is $151.8 billion, $112.8 billion of which are delivered as tax refunds.

Furthermore, the new administration's budget includes a number of proposals specifically designed to advance savings and asset building activities targeted to low- and moderate income families. These include the AutoIRA proposal to expand access to savings plans, the expanded Saver's Credit proposal to make it more valuable to lower-income workers, and the proposed reform of asset limit rules that determine eligibility for public assistance programs. If enacted, the combined value of these proposals over the next ten years would be almost $50 billion. When this is considered along with their proposal to change the tax treatment of upper-income earners, the proposed policy shift becomes even clearer.

Beyond the commitment to redistribute resources, the Administration has chosen to connect increased savings with a broader agenda of helping the middle class. The savings proposals were highlighted as core elements of the Middle Class Task Force, which has been led by Vice President Biden and were featured in the State of the Union address. While there are certainly additional opportunities for the Administration to support a more developed policy agenda focused on asset building, their recent budget proposals are promising. A number of specific initiatives would be particularly constructive. Perhaps more significantly, as a set, they reflect a heightened recognition of the potential of assets to help more Americans chart a path up the economic ladder toward greater economic security and opportunity.

V. APPENDIX: CONSOLIDATED TABLES

Table IX

Projected Effect on Receipts for Selected Asset Building Policy Proposals [a] (in millions of dollars)	FY 2010	FY 2011	FY 2011-2020
SAVINGS AND INVESTMENT			
Extend Making Work Pay Tax Credit	---	-30,132	-61,207
Provide Economic Recovery Payments	-38	-212	-212
Expand EITC	---	-85	-15,158
Expand the Child and Dependent Care Tax Credit	---	-377	-12,641
Asset Limits Reform (new limit of $10,000)	---	-426	-9,400
Asset Limits Reform (exclusion of refundable credits)	---	-26	-241
Subtotal Savings and Investment	**-38**	**-31,258**	**-98,859**
RETIREMENT			
Expand Saver's Credit	---	-323	-29,774
Provide Automatic Enrollment in IRAs	---	---	-10,391
Subtotal Retirement	**---**	**-323**	**-40,165**
POST-SECONDARY EDUCATION			
Provide American Opportunity Tax Credit	---	-951	-75,473
Subtotal Post-Secondary Education	**---**	**-951**	**-75,473**
ENTREPRENEURSHIP			
Extend Temporary Increase in Expensing for Small Businesses	-706	-440	753
Eliminate Capital Gains Taxes for Small Businesses	---	---	-8,055
Subtotal Entrepreneurship	**-706**	**-440**	**-7,302**
TOTAL	**-744**	**-32,972**	**-221,799**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 14-3.
[a] Includes foregone tax receipts and outlays.

Table X

Projected Effect on Receipts of Proposed Tax Provisions for Upper-Income Earners [a] (in millions of dollars)	FY 2010	FY 2011	FY 2011-2020
UPPER-INCOME TAX PROVISIONS			
Raise Income Tax Rates for High Income Taxpayers	---	14,509	364,439
Reinstate the Personal Exemption Phaseout and Limits on Itemized Deductions for High Income Taxpayers	---	6,840	208,489
Raise Capital Gains and Dividends Taxes for High Income Taxpayers	1,344	12,165	105,364
Limit the Rate at Which Itemized Deductions Reduce Taxes for High Income Taxpayers	---	7,896	291,175
TOTAL	**1,344**	**41,410**	**969,467**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011*, "Analytical Perspectives." Table 14-3.
[a] Includes additional tax receipts.

Table XII

Proposed Funding for Selected Asset Building Programs (in millions of dollars)	Actual 2009	Estimated 2010	Requested 2011
SAVINGS AND INVESTMENT			
Assets for Independence Act	24	24	24
Volunteer Income Tax Assistance (VITA)	8	12	8
Bank On USA Initiative	---	--	50
Subtotal Savings and Investment	**32**	**36**	**82**
HOMEOWNERSHIP			
HOME Investment Partnerships Program (HOME)	4,075	1,825	1,650
Housing Counseling Assistance	65	88	88
Family Self-Sufficiency Program—Voucher Program	49	110	60
Subtotal Homeownership	**4,189**	**2,023**	**1,798**
POST-SECONDARY EDUCATION			
Raise the Maximum Pell Grant Award	19,378	26,988	34,878*
Expand IBR in the Federal Post-Secondary Student Loan Program	---	1,692	448
Create a College Access and Completion Fund	---	117	583
TRIO Program	848	853	853
GEAR UP Program	313	323	323
Subtotal Post-Secondary Education	**20,539**	**29,973**	**37,085**
ENTREPRENEURSHIP			
CDFI Fund	107	247	200**
Microloan Program	2	2	2***
Small Business Lending	---	122	67****
Subtotal Entrepreneurship	**109**	**371**	**269**
TOTAL	**24,869**	**32,403**	**39,234**

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011,*
Note: figures reflect budget authority.
* If enacted as proposed, funding would shift from discretionary to mandatory.
**The total requested funding amount is $250 million including $50 million for the Bank On USA Initiative.
*** These allocated resources can support a loan volume level of up to $25 million in 2011.
****These allocated resources can support a loan volume level of up to $15.97 billion in 2011.

Table XI

Total Consolidated Resources Devoted to Asset Building Activities (in millions of dollars)	FY 2011
SAVINGS AND INVESTMENTS	149,440
RETIREMENT	142,323
HOMEOWNERSHIP	200,398
POST-SECONDARY EDUCATION	56,436
ENTREPRENEURSHIP	709
TOTAL	549,306

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2011.*
Note: These figures include proposed budget authority, estimated costs of tax expenditures, and revenue losses associated with proposed policy changes.

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