

# Press Release

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## *Governor Signs Bill That Encourages Saving*

**New America-inspired legislation gives Californians more control over tax refunds**

(SACRAMENTO, CA)— Governor Arnold Schwarzenegger has signed legislation to improve the state's anemic savings rate by giving Californians new opportunities to make the best use of their tax refunds. The bill, signed by the Governor on July 14, had strong bi-partisan support and won unanimous support in the Legislature. Inspired by research from the New America Foundation and the Asset Policy Initiative of California, the law will allow Californians to split their refunds into separate accounts (checking and savings, for example), beginning in the 2007 tax period. The New America Foundation and the Asset Policy Initiative of California played a lead role in working with both the governor and key legislators to develop and promote this innovative approach to increase individual savings.

"Republicans and Democrats understand that financial savings is a realistic and important way to protect California families from hardship and to prepare them for the future," said Anne Stuhldreher, a Fellow at the New America Foundation. "This bill creates a small change that could make a big difference to the families and individuals who take advantage of it."

California today suffers from one of America's highest rates of households living on the brink of financial crisis. The state has the fourth highest rate of asset poverty in America-- defined as households that would fall below the poverty line within three months or less if they suffered a loss of income and were forced to liquidate their assets.

The Refund Splitting Bill, AB 2466, sponsored by Assemblymember Johan Klehs (D- San Leandro), will help families save more by allowing California tax filers to split their state income tax refund into separate accounts for "money to save" and "money to spend." Research by the New America Foundation shows that many households, even those with low incomes, will divert income windfalls into savings if it is convenient for them to do so. "We found that most people think of tax refunds as a windfall and choose to have their refunds deposited into checking accounts," said Assemblymember Klehs. "This new law encourages people to save at least part of their refunds by providing Californians an easy way to direct their money into more than one account."

Community programs have piloted this refund splitting option and found that even low income tax filers will use this "splitting" option to save more. A demonstration program testing how these households would respond to this option shows that about one-third of these tax filers chose to take advantage of refund splitting. According to researchers at the Harvard Business School and the University of Kansas, those that split their refunds deposited \$583 on average—47 percent of their refunds—into savings accounts. Under California's new law, when a tax filer learns she's getting a \$600 refund from the state, she can now use her income tax form to direct \$300 of it to her IRA, and send the rest to her checking account. She will be able to make these choices before her money is in hand and the spending temptations become hard to resist.

California is the first state to make this change to tax forms. At the federal level, the IRS recently announced that it will allow refund splitting of federal income tax refunds for the 2007 tax season.

### **About New America**

The New America Foundation is a nonprofit, post-partisan, public policy institute that was established through the collaborative work of a diverse and intergenerational group of public intellectuals, civic leaders and business executives. Launched in 1999, the Foundation is guided by its founding President and CEO Ted Halstead, and an outstanding Board of Directors. New America is headquartered in our nation's capital, and also has a significant presence in California, the nation's largest laboratory of democracy.

For more information on New America's Asset Building efforts in California, please visit our [web site](#). To read more about refund splitting and savings, visit [here](#) to read New America Fellow Anne Stuhldreher's Issue Brief written earlier this year.