New America Foundation

Asset Building Program

The Assets Report 2011

An Assessment of Federal Policies and Proposals to Promote Asset-Building Opportunities

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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. Not only can assets be deployed productively, but they can be tapped strategically to help individuals and families remain economically secure and weather unexpected events. As such, it is appropriate that a wide range of federal policies and programs encourage the accumulation of assets, in various forms, as a primary objective. These include direct spending programs and policies that are embedded in the tax code. Considered together, these efforts account for $519 billion in resources for fiscal year 2012.

Given the scale of these commitments and the multiple demands on the public purse, these policies deserve close scrutiny. Our assessment of prevailing policy approaches reveals several fundamental inequities. The poorest Americans, who have traditionally had limited access to income supports and social services, are offered less attractive ways to accumulate assets than middle- and upper-income families. This approach misses the potential of assets to help chart a path out of poverty. If we are to broaden savings and asset ownership successfully—giving everyone a stake in the common wealth—we must understand how the federal government's current policy paradigm affects asset building among low- and moderate-income Americans.

In that pursuit, we present in this Assets Report 2011 a survey of the current landscape of federal asset-building programs that provide the opportunities for individuals and families to climb the economic ladder. Section I of this report describes relevant recently-enacted legislation, section II analyzes President Obama's 2012 budget proposals, and section III reviews current tax policy that promotes asset-building objectives. All told, our goal is to provide a more complete understanding of how the federal government encourages the accumulation of assets. We seek to shine a light on what policy levers are deployed, who benefits from these programs, and how recent policy efforts potentially alter the changing landscape.

Contents

Summary Assessment

In February of 2010, President Obama released his Administration's second budget in the wake of the Great Recession. Through a set of featured policies, there was recognition that government should establish a more extensive infrastructure to help individuals and families build economic security through savings and assets. Families at all income levels needed assistance to rebuild their balance sheets and greater protections in the financial marketplace. Before the congressional session ended, a series of these proposals had been enacted, including:

- The creation of a Consumer Financial Protection Bureau (CFPB) as part of the overhaul of the financial regulatory system;
- Reform of student financial assistance to reduce costs and increase the value of Pell grants; and
- A temporary exemption of tax refunds from consideration of determining eligibility and benefit size for social safety net programs.

The Administration also launched several new initiatives in 2010 that were largely informed by an asset building perspective; these included a pilot leveraging tax time to promote savings and sound financial management, and efforts to advance financial education and capability. Through the first half of 2011, the Administration has been working to set up the CFPB, which officially begins executing its regulatory oversight responsibilities on July 21, 2011.[1]

This year the budget proposed by the Administration is more modest, tempered by the feasibility of moving a similarly ambitious agenda through a politically divided Congress and the growing prominence of deficit reduction as a policy priority. In addition to lacking new or innovative approaches to promote saving and asset development, several proposals included in last year's budget, including asset limit reform and expansion of the Saver's Credit, were absent from the President's Fiscal Year 2012 budget.[2]

Despite the curtailed policy agenda, the Fiscal Year 2012 budget includes a set of policies and proposals that allocate $519 billion in resources to asset-building activities. An additional $65 billion in funding for the Earned Income Tax Credit and Child Tax Credit, while not explicitly asset building programs, presents resources that individuals and families can devote to saving. By any account, these are substantial sums, and the overwhelming majority of these resources will benefit middle- and upper-income families. This is largely because these households are able to take advantage of tax deductions that promote homeownership and saving in retirement accounts.

Despite the curtailed policy agenda, the Fiscal Year 2012 budget includes a set of policies and proposals that allocate $519 billion in resources to asset-building activities.

Our analysis classifies policies and programs into five broad categories: savings and investment, retirement security, homeownership, post-secondary education, and entrepreneurship. The programs we identify as asset building explicitly help Americans acquire and preserve long-term, productive 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 military veterans or a limited portion of the population.

[1] See "Administration Initiatives" for more detail.

[2] See "Notable Absences" for more detail.

Our assessment of the President's budget finds:

- In Fiscal Year 2012, the President's budget proposes a total amount of $519 billion in resources to promote asset-building opportunities. This includes $46 billion in direct spending and $473 billion in tax subsidies.

- The federal government will allocate $209 billion in resources to subsidize homeownership and $147 billion for retirement security. $57 billion will be devoted to post-secondary education, $357 million for entrepreneurship, and $106 billion to savings and investment activities.

- The total tax subsidies for asset building in Fiscal Year 2012 are worth $473 billion, which overwhelmingly 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 and the Child Tax Credit is $65 billion, $46 billion of which are delivered as tax refunds and $19 billion are foregone revenues associated with lower tax liabilities.

Although the recession is officially over, the recovery is weak. At the household level there remain five unemployed workers for every available job and 300,000 families every month that receive a foreclosure filing. 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 individuals and 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.

Table 1

TOTAL RESOURCES TO SUPPORT ASSET BUILDING ACTIVITIES in FY2012 (in *billions* of dollars)[3]	Direct Spending	Tax Spending Under Current Policy	Tax Spending Policy Proposals	TOTAL
Savings and Investment	0.073	106.0	0.0	**106.073**
Retirement	0.0	146.8	0.0	**146.800**
Homeownership	1.901	206.7	0.0	**208.601**
Post-Secondary Education	43.384	13.58	0.0	**56.964**
Entrepreneurship	0.357	0.0	0.0	**0.357**
TOTAL	45.715	473.08	0.0	518.795

[3] We identify three spending classifications, which are defined as the following: "Direct Spending" refers to the requested budget authority of currently authorized programs; "Tax Spending Policy Proposals" refers to the estimated impact on receipts and outlays associated with proposed changes to current tax policy; and "Tax Spending Under Current Policy" refers to the impact on receipts and outlays expected under current tax policy. All figures are in $ billions.

Recently-Enacted Asset Building Legislation

The second year of the Obama Administration was marked by a change in orientation from economic stabilization toward recovery and growth. The most significant legislative action in 2010 was the American Recovery and Reinvestment Act, which provided immediate, temporary measures to infuse capital into the economy and mitigate the impact of the Great Recession on vulnerable households. Last year, however, systemic reforms, particularly to financial markets and health care, occupied much of the congressional calendar.

Left outstanding among the achievements of the 111th Congress was permanent action on the 2001 and 2003 tax cuts scheduled to expire December 31st. Work around the Affordable Care Act then Dodd-Frank Wall Street Reform lasted until the August recess, at which point members lacked both the time to devote to consideration of the tax package and the will to vote on a polarizing issue prior to the mid-term election. Despite President Obama's previous pledge to end the 2001 and 2003 cuts for higher-income earners, the President and congressional leadership ultimately negotiated a temporary extension of all tax provisions for two years, which passed in December 2010 during the lame-duck session of Congress. The active congressional session produced meaningful outcomes for asset-building policy. Among them were the creation of the Consumer Financial Protection Bureau (CFPB), limited but important measures to reform asset limits of social insurance programs, and reform of student loan programs. A complete listing of bills, with specific provisions relevant to an asset-building perspective, are described below.

Table 2

Recently-Enacted Legislation with Asset-Building Provisions	Date Enacted
Hiring Incentives To Restore Employment (HIRE) Act of 2010	March 18, 2010
Patient Protection and Affordable Care Act as Amended by the Health Care and Education Reconciliation Act of 2010	March 23, 2010
Homebuyer Assistance and Improvement Act of 2010	July 2, 2010
Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	July 21, 2010
Education Jobs and Medicaid Assistance Act of 2010	August 11, 2010
Small Business Jobs Act of 2010	September 27, 2010
Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	December 17, 2010

Hiring Incentives to Restore Employment (HIRE) Act of 2010

This Act provides tax incentives for businesses hiring new workers, and extends higher expensing limits for small businesses making capital investments. For each qualified employee retained for at least 52 consecutive weeks, businesses will be eligible for a general business tax credit, referred to as the new hire retention credit. With this tax credit, 6.2 percent of wages are paid to the qualified employee over the 52 week period, up to a maximum credit of $1,000.

Patient Protection and Affordable Care Act as Amended by the Health Care and Education Reconciliation Act of 2010

The Affordable Care Act increases insurance coverage and affordability by providing a refundable tax credit for insurance purchased through an exchange, expanding Medicaid eligibility, slowing the rate of health costs, and reforming health insurance markets to increase access by groups previously denied coverage. It is estimated that 32 million additional individuals will be insured by 2019 due to the provisions in this legislation. The Administration projects that the Affordable Care Act will generate $100 billion in cost savings over the next 10 years and over a trillion in the following decade. This bill includes provisions to liberalize the asset test in Medicaid and reform the federal student loan program, which is expected to significantly lower costs for student borrowers.

Eliminate asset test for Medicaid expansion group. The Affordable Care Act eliminates the Medicaid asset test for the class of people covered by the eligibility expansion that states will be required to cover beginning in 2014, including people who have incomes below 133 percent of the federal poverty line and are under 65, not pregnant, or currently not enrolled in or entitled to Medicare. The asset test will continue to apply, however, to people who qualify under previous eligibility guidelines.

Eliminate the Federal Family Education Loans Program (FFEL). Under the current FFEL program, the federal government subsidizes financial institutions making loans to students. The Office of Management and Budget's Program Assessment Rating Tool identified major structural flaws and cost inefficiencies in the program that limit the program's effectiveness. The Act began redirecting resources from the FFEL program to its Direct Loan program, which has comparable services and lower administrative costs, default rates, and rates of satisfaction to the FFEL program, in Academic Year 2010-2011 (starting July 1, 2010). The Administration estimates savings of $61 billion through 2020.

Provide increases in the maximum Pell Grant award to keep up with inflation. $36 billion in cost savings from the elimination of FFEL will be invested in the Pell Grant program, which will allow the maximum award to increase to $5,550 in 2011 and to almost $6,000 by 2017. This one-time $13.5 billion infusion into the Pell Grant appropriation in 2012 is paired with indexing the award to the Consumer Price Index starting in 2013 to match rising costs-of-living for five years. By the 2020-2021 academic school year, more than 820,000 additional Pell Grant awards are expected to be made as a result of this policy change.

Expand income-based repayment options in the federal post-secondary student loan programs. The Act allows borrowers to repay their loans with no more than 10 percent of their discretionary income. This change will help borrowers with large debts and low incomes, particularly those entering public service careers. Previously, the payments were capped at 15 percent of the borrower's discretionary income.

Provide funding for the College Access Challenge Grant (CACG) program. This program aims to foster partnerships among federal, state, and local governments and philanthropic organizations through matching challenge grants to increase the number of low-income students who are prepared to enter and complete post-secondary education. Eligible activities include, among other uses, providing information to students and families regarding post-secondary education and career preparation, promoting financial literacy and debt management, and assisting students in completing the Free Application for Federal Student Financial Aid (FAFSA). The Act provides $750 million available over 5 years for mandatory funding.

Homebuyer Assistance and Improvement Act of 2010

This Act extends the closing deadline for qualifying home purchases to be eligible for the homebuyer tax credit through September 30, 2010. Under prior law, to be eligible for the credit, homeowners were required to close on the purchase of qualifying property before July 1, 2010. The refundable credit for first-time homebuyers was enacted in the American Recovery and Reinvestment Act of 2009, then extended and modified in the Worker, Homeownership, and Business Assistance Act of 2009 to include a new tax credit for existing homeowners who purchase a new primary residence after October 1, 2009, but before May 1, 2010. The credit was worth 10 percent of the purchase price of the home up to a maximum of $6,500 for existing homebuyers and $8,000 to first time homebuyers.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

This Act overhauls the financial regulatory system in order to promote the stability of the financial market and households by improving accountability and transparency in the financial sector and securities market, increasing oversight of derivatives markets, and establishing a new consumer protection bureau.

*Establish and fund the Consumer Financial Protection Bureau (CFPB)***.** This Act establishes the CFPB to regulate consumer financial products and services under the federal consumer financial laws. The CFPB will promote financial education, research consumer behavior, and monitor financial markets for new risks to consumers. The CFPB will be an autonomous agency within the Federal Reserve; each year the Federal Reserve is required to contribute a percentage of its own operating budget to fund the CFPB. Initially set at 10 percent, this sum will be indexed for inflation after 2013.

Education Jobs and Medicaid Assistance Act of 2010

This Act provides temporary increased funding to states for Medicaid and education programs. These measures are intended both to secure funding directed at services for vulnerable populations, and to relieve financial pressure from state budgets and protect public sector jobs.

Eliminate Advanced Earned Income Tax Credit (EITC). Under prior law, taxpayers eligible for the refundable EITC who had one or more qualifying children could to elect to receive advanced payment of a portion of the credit through their employer. The Advanced EITC was claimed by few taxpayers (514,000 according to the GAO) and had a high error rate. This Act repeals the advanced refundability option, effective for taxable years beginning after December 31, 2010. Taxpayers with positive tax liability can, however, continue to receive all or part of the non-refundable portion of the EITC during the year by adjusting their withholding.

Small Business Jobs Act of 2010

This Act creates the Small Business Lending Fund, which provides $30 billion to encourage lending to small businesses by providing Tier I capital to qualified community banks with assets of less than $10 billion. The Act also includes a number of provisions that provide tax relief to small businesses as well as reduce the tax gap, close unintended loopholes in the tax system, and promote retirement preparation. These retirement preparation measures include allowing participants in certain governmental retirement plans to treat elective deferrals as Roth contributions, allowing rollovers from elective deferral plans to Roth designated accounts, and permitting partial annuitization of a nonqualified annuity contract.

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

In addition to temporarily extending the 2001 and 2003 tax cuts through 2012, this Act temporarily extends key tax relief provided to middle-income taxpayers in the American Recovery and Reinvestment Act of 2009, provides a two percentage point reduction in employee Social Security payroll taxes for 2011, and temporarily extends a number of provisions that had expired or were scheduled to expire under prior law. While these policies are not explicitly focused on asset-building objectives, they do impact the amount of resources a family may have at their disposal. The Joint Committee on Taxation estimates the cost of extending the individual tax relief provisions of the 2001 and 2003 Acts as well as modifications made in subsequent legislation, such as ARRA, to total $408 billion.[4]

Continue the 2001 and 2003 income tax cuts. Most of the tax reductions enacted in 2001 and 2003 were scheduled to expire on December 31, 2010. This included reductions in

[4] Joint Committee on Taxation (2010). "Estimated Budget Effects of the 'Tax Relief, Unemployment Insurance Reauthorization, And Job Creation Act Of 2010,' Scheduled for Consideration By The United States Senate." Washington, D.C.: Joint Committee on Taxation.

marginal individual income tax rates; the repeal of limitations on itemized deductions and personal exemptions; provisions for married taxpayers; expansions in the child tax credit, earned income tax credit, adoption credit, child and dependent care credit, and employer-provided child care credit; preferential rates for capital gains and dividends; small business expensing; and certain tax incentives for education. The education tax incentives included certain tax-exempt bond incentives, an exclusion of up to $5,250 in employer-provided education assistance, an increase in the deductibility of student loan interest, and an exclusion of awards received under certain health professional programs. This Act temporarily extends these provisions for two years, through December 31, 2012.

Increase the Earned Income Tax Credit. The EITC is a refundable credit that increases as earned income goes up until a set threshold before phasing-out. Under prior law (taxable year 2008), three separate schedules apply depending on whether the taxpayer has no, one, or more than one qualifying child. Taxpayers with more than one qualifying child received a credit equal to 40 percent of earnings up to $12,570, for a maximum credit of $5,028.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) increased the credit for married filers. The American Recovery and Reinvestment Act (ARRA) of 2009 further expanded the credit to married filers by increasing the income thresholds for the phase-out by $5,000 for taxable years 2009 and 2010. ARRA also 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. This Act extends the marriage penalty relief and increased benefit level for families with three or more children established in ARRA for two years.

Increase the Child Tax Credit. The Child Tax Credit provides taxpayers a partially refundable tax credit of up to $1,000 for each qualifying child under the age of 17. This credit level doubled from $500 in EGTRRA, which also made the credit refundable to more households. The credit phases out for filers 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 taxpayer is eligible for a credit equal to 15 percent of earned income above a threshold income ($12,550 for taxable year 2008).

ARRA lowered the income threshold to $3,000 for taxable years 2009 and 2010. This action expanded eligibility to an additional 2.9 million children and increased the value of the credit for 10 million existing children. Families with one child become eligible for the maximum $1,000 credit when income reaches $9,667 under the new provisions. A family at this income level would have been ineligible for any credit under the previous rules. This Act extends the $3,000 earnings threshold through 2012.

Extend American Opportunity Tax Credit (AOTC). ARRA created the AOTC, which replaced the Hope Scholarship Credit for taxable years 2009 and 2010. The AOTC provides taxpayers a credit of up to $2,500 per eligible student per year for qualified tuition and related expenses (expanded to include course materials) paid for each of the first four years of the student's post-secondary education in a degree or certification program. The student must be enrolled at least half-time to receive the credit. The credit is equal to 100 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. In addition, generally 40 percent of the otherwise allowable credit is refundable. The credit is phased out for single taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return). Unlike the Hope Scholarship Credit, the new tax credit is partially refundable. In addition, the AOTC has a higher maximum credit amount, is available for the first four years of post-secondary education, and has higher phase-out limits than the Hope Credit. This Act extends the AOTC through 2012.

Extend 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. Any allowable credit is reduced by the aggregate amount excluded from income under a dependent care assistance program. EGTRRA increased the amount of eligible expenses from $2,400 for one child and $4,800 for two or more children to $3,000 and $6,000, respectively. The EGTRRA also increased the maximum applicable percentage from 30 percent to 35 percent. The percentage of expenses for which a credit may be taken decreases by one percentage point for every $2,000 of AGI over $15,000 until the percentage of expenses reaches 20 percent (at incomes above $43,000). This Act extends these expansions through December 31, 2011.

Modify and extend estate, gift, and generation-skipping transfer taxes. Under prior law, estate and generation-skipping transfer taxes were repealed for decedents dying during 2010, and the maximum gift tax rate was 35 percent on gifts in excess of a lifetime exclusion of $1 million. Estate and generation-skipping transfer taxes were reinstated, effective for decedents dying after December 31, 2010, and estates, gifts, and generation-skipping transfers in excess of a lifetime exclusion of $1 million were taxed under a graduated tax rate schedule with a maximum rate of 55 percent. This Act reinstated and modified estate and generation skipping-transfer taxes, effective for decedents dying after December 31, 2009, and before January 1, 2013. Under this Act, the estates of decedents are to be taxed at a maximum tax rate of 35 percent and are provided a life-time exclusion of $5 million (indexed for inflation after 2011). Generation-skipping transfers are provided a life-time exclusion of $5 million; such transfers are subject to a tax rate of zero percent for 2010 and 35 percent for 2011 and 2012. For gifts made after December 31, 2010, and before January 1, 2013, the life-time exclusion increases to $5 million and the maximum tax rate remains at 35 percent.

Provide a temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals. This Act reduces the employee Social Security payroll tax rate from 6.2 percent to 4.2 percent of the first $106,800 of taxable wages received during 2011. For self-employed individuals, the Social Security payroll tax rate was reduced from 12.4 percent to 10.4 percent of the first $106,800 of net taxable self-employment income for taxable years beginning in 2011.

Extend deduction for qualified tuition and related expenses. An above-the-line deduction of up to $4,000 is provided for qualified higher education expenses paid by a qualified taxpayer during the taxable year. For a given taxable year, the deduction may not be claimed if an education tax credit is claimed for the same student. In addition, the deduction may not be claimed for amounts taken into account in determining the amount excludable from income due to a distribution from a Coverdell education savings account or the amount of interest excludable from income with respect to education savings bonds. A taxpayer may not claim a deduction for the amount of a distribution from a qualified tuition plan that is excludable from income; however, the deduction may be claimed for the amount not attributable to earnings. This Act extends the deduction to expenses incurred during 2011.

Exempt tax refunds from income and asset tests in means-tested programs. Social safety net programs often apply income and asset tests to determine eligibility and benefit size in order to target services to households most in need. These limits, however, are frequently set at very low levels and can vary from state to state and program to program, resulting in complexity that can be a deterrent to participation and be an administrative burden. The Act exempts tax refunds from counting against income limits and against resource limits in the 12 months following receipt for all programs funded in whole or in part with federal funds for refunds received before December 31, 2012.

The President's Fiscal Year 2012 Budget Proposals

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 funding obligations and revenue projections of the government. New proposals may entail funding for a new program or tax reductions associated with a particular activity or targeted group of people. 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).

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 individuals and families at the bottom of the economic ladder.

Proposed changes to spending and tax policy impact the budget, but do so in different ways. The accompanying tables distinguish between the spending (proposed funding) and government revenue (effect on receipts) that reflect the ultimate shape of the asset building budget. Since tax policy constitutes the majority of resources devoted to asset-building objectives, it must be considered to give a complete picture of how, for what, and to whom these resources are allocated. These polices often can be expected to have budget impacts over an extended time horizon, so ten-year budget estimates are included when applicable. A fuller analysis of tax expenditures which impact asset-building opportunities is presented in the following section.

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

Savings and Investment

Assets for Independence Act. The Assets for Independence (AFI) Program provides grants to community-based non-profits and government agencies to implement Individual Development Account (IDA) programs. Deposits made by IDA accountholders are matched with AFI funding and help low-income families save for homeownership, start a business, and enroll in post-secondary education or training. Beneficiaries of the program are individuals eligible for Temporary Assistance for Needy Families (TANF) or whose household assets are less than $10,000 in value and who are eligible for the EITC or have household incomes less than two times the Federal poverty line. President Obama requests maintaining funding for the AFI program at $24 million for Fiscal Year 2012.

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 2012.

Bank On USA Initiative. Funded under Treasury's CDFI Fund, the Administration proposes a new $41 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.

Table 3

Savings and Investment: Direct Spending (in *millions* of dollars)	Actual 2010	Estimated 2011	Requested 2012
Assets for Independence Act	24	24	24
Volunteer Income Tax Assistance (VITA)	12	12	8
Bank On USA Initiative	--	--	41
TOTAL	36	36	73

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012,* Appendix 1008, 980, 479.
Note: figures reflect budget authority.

Retirement Security

Provide Automatic Enrollment in IRAs. The Administration has committed to dramatically expanding 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 after December 31, 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 percent 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 of $25 per participating employee up to a total of $250 per year for two years. Contributions by employees to automatic payroll-deposit IRAs would qualify for the saver's credit (to the extent the contributor and the contributions otherwise qualified). Under current law, small employers (those with no more than 100 employees) that adopt a new qualified retirement or SIMPLE plan are entitled to a temporary business tax credit equal to 50 percent of the employer's expenses of establishing or administering the plan including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of $500 per year for three years. In conjunction with the automatic IRA proposal, to encourage employers not currently sponsoring a qualified retirement plan or SIMPLE to do so, the Administration proposes to double this tax credit to a maximum of $1,000 per year for three years, effective for taxable years beginning after December 31, 2012. {One year cost estimate: $0; 10-year cost estimate: $14.4 billion.}

Table 4

Retirement: Tax Spending Policy Proposals (in *billions* of dollars)	FY 2012	FY 2012-FY 2021
Auto IRA	0.0	14.4
TOTAL	0.0	14.4

Homeownership

HOME Investment Partnerships Program (HOME). The HOME Investment Partnerships Program provides flexible annual formula grant assistance to state 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 to provide direct rental assistance to people. The Administration is requesting $1.67 billion for the HOME Program.

Housing Counseling Assistance. The Housing Counseling Assistance program provides housing counseling services to eligible homeowners and tenants through grants to non-profit 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 and 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 budget requests $88 million for the Housing Counseling Assistance Program at HUD and $80 million to support housing counseling through the Neighborhood Reinvestment Corporation, NeighborWorks. Over half of these funds are dedicated to foreclosure assistance. NeighborWorks' National foreclosure Mitigation Counseling program has assisted over 1 million households since its inception in 2008.

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 that are appropriated under this program support the provision of program coordinators, who provide the essential case management that is required by program rules. Additional resources to fund service coordinators are available through the Resident Opportunities and Self-Sufficiency program, which is separate from the Family Self-Sufficiency program and funds other activities as well. The Administration requests $60 million in Fiscal Year 2012 to fund FSS coordinators in the voucher program.

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 for whom the conventional market would otherwise not serve. FHA is distinct from other policy efforts to support homeownership in that it generates revenue for the government in the fees it collects; its annual outlays vary depending on the performance of the loans and the larger housing market. In Fiscal Year 2012, the Administration projects that the FHA will insure $218 billion in mortgage borrowing, supporting new home purchases and re-financed mortgages that significantly reduce borrower payments. FHA's loss mitigation program can also minimize the risk of foreclosure. The Budget continues the restructured premium levels that FHA implemented in October 2010, and includes another premium increase planned for this year. Together these will boost FHA's capital reserves and protect against the risk of net credit losses by the program.

Anti-Foreclosure Efforts. In 2009, the Administration began responding to the foreclosure crisis through a variety of strategies, including the creation of the Home Affordable Modification Program (HAMP). With access to funds appropriated in the Troubled Asset Relief Program (TARP), modifications would be offered to responsible homeowners at risk of losing their homes to foreclosure. The goal was to impact 3 to 4 million homeowners, but the program has fallen short. To date, approximately one and a half million borrowers have been offered trial modifications, and approximately 550,000 homeowners have had their mortgage payments permanently reduced by over $500 per month. Additionally, state Housing Finance Agencies in states hit hard by the housing crisis have been allocated a total of $7.6 billion with funds provided by the Emergency Economic Stabilization Act of 2008. These funds can be used to support mortgage payment assistance for unemployed borrowers and principal reduction for overleveraged loans.

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 5

Homeownership: Direct Spending (in *millions* of dollars)	Actual 2010	Estimated 2011	Requested 2012
HOME Investment Partnerships Program (HOME)	1,839	1,829	1,673
Housing Counseling Assistance	87	87	88
Family Self-Sufficiency Program Voucher Program	50	60	60
Housing Counseling and Foreclosure Prevention	--	--	80
TOTAL	1,976	1,976	1,901

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012*, 94 and Appendix 570, 578, 557.
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 and extended through 2012 in the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010*. The Administration proposes to make the AOTC permanent and index the benefit levels and phase-out limits to inflation, effective for taxable years beginning in 2013. A description of the original American Opportunity Tax Credit is provided above in the description of *Recently-Enacted Asset Building Legislation*.

Maintain the Maximum Pell Grant award at $5,550 and index to inflation in 2013. The Administration's budget would provide $41.2 billion in Pell Grant funding to support awards to nearly 9.6 million students during the 2012-2013 award year, while maintaining a maximum Pell award of $5,550. The $41.2 billion total includes $28.6 billion in discretionary funding and $12.6 billion in mandatory funding. The Administration also proposes a series of reforms, packaged as a Pell Grant Protection Act, that would be used to offset future growth in the program, totaling $18.5 billion over 5 years and $43.9 billion over 10 years. These reforms include eliminating the "two Pells" provision, which allows qualifying students to receive two Pell Grants in a single award year, and the in-school interest subsidies for graduate and professional student loans. Additional reforms include issuing Perkins Loans directly to students rather than through educational institutions and encouraging borrowers with Federal Family Education Loans to convert to Direct Loans to accomplish additional cost savings.

Increase for TRIO and Flat Funding for Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) Programs. The request for 2012 would make a slight increase in funding for these college preparation and student support programs. TRIO provides funding for approximately 2,988 projects serving middle school, high school, and college students and adults. The Administration requests $920 million for 2012, which includes a shift of $67 million in discretionary funding to expand support for the Department of Education's "Upward Bound" services to help disadvantaged students enroll in and complete college from mandatory funding. 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 post-secondary 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 Administration requests $323.2 million, which maintains 2011 funding levels and would serve approximately 756,000 middle and high school students in fiscal year 2012.

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 post-secondary education, employment, and self-sufficiency. The request is $635 million for FY 2012, $6.8 million above the 2011 annualized CR level and includes $50.8 million to support a Workforce Innovation Fund (WIF) to improve the effectiveness of the workforce preparation and training system.

Flat Funding for College Access Challenge Grant (CACG) program. This program fosters partnerships among federal, state, and local governments and philanthropic organizations through matching challenge grants aimed at increasing the number of low-income students who are prepared to enter and complete post-secondary education. Eligible activities include, among other uses, providing information to students and families regarding post-secondary education and career preparation, promoting financial literacy and debt management, and assisting students in completing the Free Application for Federal Student Financial Aid (FAFSA). The

Administration proposes $150 million in mandatory funding for 2012.

A "First in the World" Competition Among Colleges and Universities. The Budget invests $150 million in a new initiative to increase college access and completion and improve educational productivity as a set aside within the Fund for Improvement of Post-secondary Education. This effort will provide resources to test, validate, and scale up effective approaches. The Budget also provides $50 million in 2012 and a total of $1.3 billion over five years in performance-based funding to institutions that have demonstrable success in enrolling and graduating more high-need students and enabling them to enter successful employment.

Table 6

Post-Secondary Education: Direct Spending (in *millions* of dollars)	Actual 2010	Estimated 2011	Requested 2012
Maintain the Maximum Pell Grant Award*	22,794	41,880	41,156
TRIO Program	910	910	920
GEAR UP Program	323	323	323
Adult Basic and Literacy Education Grants	628	628	635
College Access Challenge Grant Program	150	150	150
"First in the World" Competition	--	--	200
TOTAL	24,805	43,891	43,384

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012*, 67-72.
* Department of Education. "Fiscal Year 2012 Budget Summary and Background Information." Appendix 5, 12.

Table 7

Post-Secondary Education: Tax Spending Policy Proposals (in *billions* of dollars)	FY 2012	FY 2012-FY 2020
American Opportunity Tax Credit	0.0	93.6
TOTAL	0.0	93.6

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012*, "Analytical Perspectives." Table 14-3.

Entrepreneurship

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 providers in order to expand the availability of retail banking services and affordable credit in distressed communities. The Administration requests $227 million for the CDFI Fund for Fiscal Year 2012, much of which will go toward increasing access to credit. This includes $41 million for the *Bank On USA* proposal designed to increase access to affordable and appropriate financial services for unbanked and under-banked households.

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 non-profit, community-based lenders who act as intermediaries and make loans to borrowers. The Administration's Fiscal Year 2012 funding request for the Microloan program is to support $25 million in direct Microloans. The credit subsidy to support this level of loans is $3.8 million.

Small Business Lending. The primary lending programs supported by the SBA are the 7(a) and 504 guaranteed loan program. These programs provide access to credit for a wide range of firms. The budget proposes $221 million in subsidy costs to support $16.5 billion in 7(a) loan guarantees that can help small businesses operate and expand. Additionally, the Treasury is implementing the Small Business Lending Fund, which was created as part of the Small Business Jobs Act of 2010. The fund is authorized to provide up to $30 billion in Tier I capital to qualified community banks and offers incentives for these institutions to increase their small business lending portfolios, and the $1.5 billion State Small Business Credit Initiative, which will boost state-sponsored small business loan funds.

Table 8

Entrepreneurship: Direct Spending (in *millions* of dollars)	Actual 2010	Estimated 2011	Requested 2012
CDFI Fund	262	251	227*
Microloan Program	5	4	4**
Small Business Lending	10	83	126***
TOTAL	277	338	357

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012*, Appendix 980, 1164.
Note: figures reflect budget authority unless noted.
*The total requested funding amount is $250 million including $41 million for the Bank On USA Initiative.
** These allocated resources can support a loan volume level of up to $25 million in 2012.
***These allocated resources can support a loan volume level of up to $14.5 billion in 2012.

Additional Proposals to Change the Tax Code

The Budget includes a series of proposals that change specific provisions of the tax code. One set focuses on upper-income households and another set effect the amount of resources which potentially flow to middle- and lower-income households. While not asset-building proposals per se, we are describing them here in order to provide a sense of how the Obama Administration is addressing some of the equity issues surrounding the distribution of resources. One-year and ten-year cost estimates are provided for each proposal.

Reduce the value of certain tax expenditures. The Administration proposes to limit the tax rate at which high-income taxpayers can take itemized deductions to a maximum of 28 percent, affecting only married taxpayers filing a joint return with income over $250,000 (at 2009 levels) and single taxpayers with income over $200,000. The proposed limitation would be effective for taxable years beginning after December 31, 2011. {One year cost estimate: -$6 billion; 10-year cost estimate: -$321.3 billion.}

Extend estate, gift, and generation-skipping transfer taxes at 2009 parameters. The Administration's adjusted baseline reflects permanent extension of estate, gift, and generation-skipping transfer taxes at parameters in effect for calendar year 2009, effective for decedents dying after December 31, 2012. Under those parameters, the estates and generation-skipping transfers of a decedent dying after December 31, 2012, are taxed at a maximum tax rate of 45 percent and provided a life-time exclusion of $3.5 million. Gifts made after December 31, 2012, are taxed at a maximum rate of 45 percent and provided a life-time exclusion of $1 million. {One year cost estimate: $1.9 billion; 10-year cost estimate: $270.2 billion.}

Tax qualified dividends and net long-term capital gains at a 20-percent rate for upper-income taxpayers. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), the maximum tax rate on net capital gains and qualified dividends received by an individual shareholder was temporarily reduced to 15 percent for taxpayers in individual income tax rate brackets above 15 percent and to 5 percent (zero beginning in 2008) for lower-income taxpayers. These rates were extended through December 31, 2012, under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The Administration proposes to tax net capital gains and qualified dividends at a 20-percent rate for married taxpayers filing a joint return with incomes over $250,000 (at 2009 levels) and for single taxpayers with incomes over $200,000. The proposal would be effective for taxable years beginning after December 31, 2012. All other taxpayers would be taxed at the rates in effect in 2012. {One year cost estimate: $7.9 billion; 10-year cost estimate: $123.7 billion.}

Table 9

Projected Effect on Receipts for Upper-Income Asset Building Policy Proposals (in *billions* of dollars)	FY 2012	FY 2012-FY 2020
Reduced Value of Tax Expenditures	-6.0	-321.3
Estate, Gift, and Generation-Skipping Transfer	1.9	270.2
Dividends and Long-Term Capital Gains	7.9	123.7
TOTAL	3.8	72.6

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012*, "Analytical Perspectives." Tables 15-2 and 15-3.

Continue the 2001 and 2003 tax cuts for middle-income taxpayers. Most of the tax reductions for middle-income taxpayers enacted in 2001 and 2003 were recently extended for two years and are now scheduled to expire on December 31, 2012. The Administration proposes a permanent extension of all of these expiring provisions for middle-income taxpayers, including provisions amended in subsequent legislation, such as ARRA. Among other provisions, this proposal will:

- *Increase the Earned Income Tax Credit (EITC).* Effective for taxable years beginning after December 31, 2012, the Administration proposes to permanently extend the benefit for married couples established in EGTRRA and ARRA as well at the 45 percent credit percentage for families with three or more qualifying children discussed in the previous section. {One year cost estimate: $0; 10-year cost estimate: $12.3 billion.}

- *Increase the Child Tax Credit.* The Administration proposes to maintain the benefit parameters set in EGTRRA, as well as the $3,000 income threshold established by ARRA, discussed in the previous section. {One year cost estimate: $0; 10-year cost estimate: $371 billion.}

- *Expand child and dependent care tax credit.* In addition to maintaining the expansions under EGTRRA described in the previous section, the proposal would increase the beginning of the phase-down range from an AGI of $15,000 to $75,000 and the end of the phase-down range from $43,000 to $103,000. The proposal would be effective for tax years beginning after December 31, 2011. {One year cost estimate: $283 million; 10-year cost estimate: $9.6 billion.}

Provide $250 refundable tax credit for federal, state, and local government retirees not eligible for social security benefits. The Administration proposes to provide a $250 special payment to social security beneficiaries, disabled veterans, and retired railroad workers in 2011. The Administration also proposes to provide a $250 refundable tax credit to federal, state and local government retirees who are not eligible for social security benefits and therefore will not receive the $250 special payment. {One year cost estimate: $159 million; 10-year cost estimate: $159 million.}

Table 10

Projected Effect on Receipts for Select Tax Policy Proposals (in *billions* of dollars)	FY 2012	FY 2012-FY 2020
Earned Income Tax Credit	0.0	12.3
Child Tax Credit	0.0	370.9
Child and Dependant Care Tax Credit	0.3	9.6
$250 Tax Credit for select government retirees	0.2	0.2
TOTAL	0.5	393.0

Includes foregone tax receipts and outlays.
Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012*, "Analytical Perspectives." Tables 15-2 and 15-3.

Administration Initiatives

The Administration has launched several new initiatives with implications for asset building, particularly around leveraging tax time and promoting financial education, which are discussed below.

Saving at Tax-Time. The Social Innovation Fund (SIF) was established in 2009 to provide federally funded grants in support of expanding effective community solutions to social challenges in the areas of economic opportunity, healthy futures, and youth development and school support. One of the inaugural grants was awarded to fund SaveUSA, which expands the $aveNYC pilot program to provide matched savings to low-income households at tax time to Tulsa, OK, San Antonio, TX, and Newark, NJ in the 2011-2013 tax seasons. Over the three year pilot, $aveNYC opened almost 2,200 savings accounts with an average participant deposit of $561. This program is modeled on the concept of The Saver's Bonus developed by the New America Foundation.[5]

Bank Accounts at Tax-Time. This tax season the U.S. Treasury launched a pilot to provide tax refunds loaded onto prepaid debit cards rather than paper checks. This delivery method offers both a secure means for taxpayers to claim their refunds as well as transactional banking services to households who are unbanked and under-banked. As part of the pilot, Treasury will randomly offer variations of MyAccountCard in order to evaluate which product features, fee structures, and marketing messages generate the greatest positive response from taxpayers. Among the features tested will be the option to deposit a portion of the refund into a linked savings account. The results of the pilot will help determine the benefits and feasibility of a card account as an integrated part of the tax filing and refund process.

Financial Education Partnership. The Department of Education, the FDIC, and the National Credit Union Administration have announced a new inter-agency partnership "to encourage schools, financial institutions, federal grantees, and other stakeholders to work together to increase financial literacy, access to federally-insured deposit accounts and savings among students and families across the country." Specifically, the NCUA plans to fund activities between credit unions and schools over the next five years; the FDIC will encourage financial institutions to develop similar partnerships; and the Department of Education has announced encouraging savings as a priority for GEAR UP grants in 2011 and beyond.

National Strategy for Financial Literacy. The Financial Literacy and Education Commission (FLEC) is an inter-agency body comprised of 22 federal entities, chaired by the Treasury Department, charged with the development and implementation of a national strategy to promote financial literacy and education. The Commission released a report in 2006 that outlined the first steps in this strategy, built a national network of partnerships, and convenes meetings on a regular basis.[6] The Administration's FY2011 budget proposal called 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. "Promoting Financial Success in the United States: National Strategy for Financial Literacy 2011" presents this updated strategy and this year the Commission will be working to engage all of the FLEC member agencies, as well as the non-profit, private, and academic sectors in helping to achieve the Strategy's goals, which are to (1) increase awareness of and access to effective financial education; (2) determine and integrate core financial competencies; (3) improve financial education infrastructure; and (4) identify, enhance, and share effective practices.

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[5] Reid Cramer (2010). "The Saver's Bonus: A Proposal to Support Savings by Working Families at Tax Time. Washington, D.C.: New America Foundation.

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

Implementation of the Wall Street Reform and Consumer Protection Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted on July 21, 2010, was the most sweeping improvement of U.S. financial regulations since the 1930s. The Act also created the landmark Consumer Financial Protection Bureau (CFPB), which will provide citizens with the tools and information they need to make wise financial decisions and will ensure their protection in the financial products marketplace. The Treasury Department's interim authority to stand-up the CFPB will terminate on July 21, 2011, and the CFPB will then be established as an independent bureau within the Federal Reserve. Beginning on this date, the CFPB will assume some of the consumer protection authorities currently performed by existing federal regulators, as well as its new role in overseeing similar authorities for non-bank financial institutions to ensure that all aspects of the American financial system are subject to appropriate oversight. As part of this transition, numerous staff performing these activities now will transfer from the federal banking regulators and the Department of Housing and Urban Development to the CFPB.

Notable Absences

Several proposals included in last year's budget, including asset limit reform and expansion of the Saver's Credit, were absent from the President's FY 2012 budget. A discussion of each and outlook for possible legislative action is below.

Several proposals included in last year's budget, including asset limit reform and expansion of the Saver's Credit, were absent from the President's FY 2012 budget.

Asset Limits Reform. In its FY 2011 budget, the Administration proposed to reform the asset limit rules governing eligibility for means-tested public assistance programs by establishing a national asset limit floor of $10,000 for working age, non-disabled individuals and excluding all refundable tax credits from means-tests for 12 months. A ten-year cost for this proposal was estimated to be $9.6 billion. This proposal, however, was not included in this year's budget. While progress was made on this legislative front through the temporary exemption of tax refunds from consideration from asset limits and suspension of the asset test for newly eligible Medicaid recipients describe previously, these measures lack the permanent and comprehensive approach taken in the President's 2011 budget. In the next two years, reauthorization of the Temporary Assistance to Needy Families (TANF) and Supplemental Nutrition Assistance Programs (SNAP) will take place as well as the expiration of the exemption of tax refunds from asset limit consideration; all of these provide opportunities to eliminate the practice of penalizing low-income families from investing in their financial security.

Expand Saver's Credit. The Administration also proposed to expand the existing Saver's Credit in its 2011 budget to enhance its effectiveness at increasing retirement savings among low-income households by making the credit refundable, converting the credit into a match made directly into the qualifying retirement account, extending the income eligibility to $65,000 for married taxpayers, and modifying the match rate to 50 percent (up to $500). A ten-year cost for this proposal was estimated to be $29.8 billion. This proposal was not present in the President's 2012 budget request; however, the other component of the President's 2011 strategy for increasing retirement security through savings, the AutoIRA, was included. Savings adequacy at retirement could emerge within reform efforts around both Social Security and tax policy that the President has called for.

Existing Tax Expenditure Programs as Vehicles for Asset Building

Tax expenditures are a type of spending delivered through the tax code associated with a specific behavior or circumstance. They take the form of tax deductions, tax credits, preferential tax rates, tax deferrals, or income exclusions. As alternatives to direct spending or regulation, the provisions can be understood as vehicles for achieving 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 $473 billion for Fiscal Year 2012 alone. Given their size, they deserve scrutiny.

While tax expenditure programs may subsidize worthy activities and generate sizeable social and economic returns, there are large unknowns about their effectiveness as a means of achieving specific policy goals. Although 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.

There are several methodological challenges with estimating the value of tax expenditures. For example, eliminating a tax expenditure may change behavior, and multiple provisions of the tax code interact and thus predicting potential impacts on government revenue may be difficult. The government commonly measures tax expenditures in terms of the 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 into 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 credits, such as the EITC, 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. With an existing public infrastructure that already handles compliance, income-based programs requiring little oversight may be efficiently administered through the tax system. But they also can add complexity to the tax filing process. While tax expenditure programs may subsidize worthy activities and generate sizeable social and economic returns, there are large unknowns about their effectiveness as a means of achieving specific policy goals. Although 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.

Perhaps more troubling is that they are not accessible to a large number of citizens who would potentially receive the greatest benefit from them. Many low-income households do not have large enough tax liabilities to take advantage of these tax expenditure programs.[7] Recent analysis confirms that over 70 percent of the benefits of the homeownership tax expenditures go top 20 percent of households ranked by income; for the tax expenditures linked to retirement

[7] 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.

savings, 80 percent of the benefits go to the top 20 percent of households.[8] When these are combined, the benefits primarily reach households with incomes above $50,000 a year.[9]

All told, the federal government will allocate $206.7 billion in Fiscal Year 2012 in support of homeownership, over $146.8 billion to subsidize retirement savings, $13.6 to subsidize post-secondary education, and over $106.0 billion in support of private investment, such as the reduced tax rate on capital gains compared to income tax.

The accompanying table 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 2012 and includes estimated expenditures for Fiscal Year 2010 and Fiscal Year 2011 for comparison.

In this year's Fiscal Year 2012 budget, the Obama Administration presented a framework for evaluating the effectiveness of tax expenditures. It is a noteworthy effort that should inform future conversations about tax reform and its impact on the federal budget.

The framework distinguishes between the tax expenditure outputs (which include changes in the provision of goods and services, income and investment) and outcomes (which include changes in the economy, society, and environment). Evaluation of tax expenditures should include a focus of their impact on both outputs and outcomes as well as assess whether they can be more effectively achieved through policy alternatives. The Administration's framework identifies a series of obstacles that must be addressed in the course of evaluation, such as data availability, measurement issues, and analytical capacity. Although they do not describe the strategy for surmounting these challenges, they do commit to addressing them in the future to lay the foundation for comprehensive analysis of tax expenditures. While much more work needs to be performed, the Administration should be lauded for beginning the process of evaluating the impact of these provisions of the tax code and elevating the primary question as to whether "tax expenditures are achieving intended policy results in an efficient manner, with minimal burdens on individual taxpayers, consumers, and firms."[10]

[8] Toder, Eric, Benjamin Harris, and Katherine Lim (2009). "Distributional Effects of Tax Expenditures: Washington, D.C.: Tax Policy Center.
[9] *Estimates of Federal Tax Expenditures for Fiscal Years 2006–2010* (Washington, D.C.: United States Congress Joint Committee on Taxation, 2006).

[10] Analytical Perspectives, Chapter 17 Tax Expenditures, page 274.

Table 11

Tax Spending Under Current Policy (in *billions* of dollars)	FY 2010	FY 2011	FY 2012
SAVINGS AND INVESTMENT			
Capital Gains	36.3	37.6	38.5
Step-Up Basis of Capital Gains at Death	39.5	50.9	61.5
Carryover Basis of Capital Gains on Gifts	1.4	4.8	2.0
Exclusion of Interest on Life Insurance Savings	19.9	21.2	22.7
Deferral of Interest on U.S. Savings Bonds	1.2	1.2	1.3
Subtotal Savings and Investment	**98.3**	**95.7**	**106.0**
RETIREMENT			
Net Exclusion of Pension Contributions: Employer Plans	39.6	42.2	45.2
Net Exclusion of Pension Contributions: 401(k) Plans	52.2	62.8	67.6
Net Exclusion of Pension Contributions: IRAs	12.6	13.9	15.6
Net Exclusion of Pension Contributions: Saver's Credit	1.1	1.4	1.3
Net Exclusion of Pension Contributions: Keough Plans	13.8	15.0	17.1
Subtotal Retirement	**119.3**	**135.3**	**146.8**
HOMEOWNERSHIP			
Deductibility of Mortgage Interest on Owner-Occupied Housing	79.1	88.7	98.6
Deductibility of Property Tax	15.1	19.3	24.9
Capital Gains Exclusion on Home Sales	22.2	27.6	35.2
Exclusion of Imputed Rent for Owner-Occupied Housing	41.2	46.9	50.6
Credit for first-time homebuyer	13.7	10.4	2.2
Subtotal Homeownership	**171.4**	**192.9**	**206.7**
POST-SECONDARY EDUCATION			
HOPE Scholarship (American Opportunity) Credit[a]	0.0	0.5	5.4
Lifetime Learning Credit	3.5	3.9	5.5
American Opportunity Tax Credit	15.1	14.4	0.0
Education IRA	0.06	0.07	0.08
Deductibility of Student Loan Interest	1.5	1.4	0.9
Deductibility of Higher Education Expenses	0.8	0.0	0.0
State Prepaid Tuition Plans	1.4	1.6	1.7
Subtotal Education	**22.4**	**21.9**	**13.6**
TOTAL	411.4	445.8	473.1

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012*, "Analytical Perspectives." Table 17-1.

[a] The American Opportunity Tax Credit replaced the HOPE Scholarship Credit for taxable year 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. Through payroll withholding and refundable tax credits, such as the Earned Income and Child Tax Credit, the average refund for all tax filers was $2,902 in tax year 2008[11]. Families up and down the income scale receive tax refunds. For many households, their tax refund may be the largest lump sum of cash they receive all year; this is especially true for families with lower incomes.

In the 2011 tax filing season, around 26 million households are likely to file for the EITC, a credit that boosts the value of work for low-wage earners by offering an additional subsidy for every dollar in earned income. In 2010, the average value of the EITC was $2,216 per household but with a potential maximum of $5,666.[12] Households with children could also be eligible to receive an additional $1,000 per child through the Child Tax Credit. As part of the American Recovery and Reinvestment Act passed in 2009, both the EITC and Child Tax Credit were made more generous for families claiming those benefits. A parent working full-time at the minimum wage with two children, for example, would see a boost of around $1,500 in her tax refund. Although the expansions in these programs were temporary, they have been extended through 2012.

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.[13] Table10 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 foregone tax revenue reflects money that results from lowering individuals' tax liabilities.

> While not explicitly an asset building program, the tax filing process is an opportunity for many families that receive sizeable refunds to begin saving.

As part of the 2009 ARRA, the Making Work Pay Tax Credit (MWPTC) offered a new refundable tax credit of up to $400 for working individuals and up to $800 for married taxpayers filing jointly. It was offered until 2010. The credit was 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 who do not have taxes withheld, they will be able to claim the credit on their 2009 and 2010 tax returns. To replace the expiring Making Work Pay Tax Credit, Congress and the White House negotiated a one-year payroll tax holiday, The tax deal cut during the lame duck session of Congress included a provision to provide a payroll tax cut for 2 percent on the amount that normally is allocated to the Social Security program. Previously, both employees and employers contributed 6.2 percent. This year, that level is going down to 4.2 percent for workers, while the employer contribution remains the same. The Social Security Trust Fund will be credited with full contributions so long-term financing issues won't be altered, but it does lower the taxes collected from almost every single paycheck.

Unlike, the MWPTC which was a flat credit, the payroll tax holiday is based on a percentage of income. This means the

[11] *IRS (2010).* "SOI Tax Stats, Reports for Filing Year 2009—Tax Year 2008."

[12] *IRS (2010). "EITC Income Limits, Maximum Credit Amounts and Tax Law Updates."*

[13] 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, D.C., June 14-15, 2006).

holiday is still quite valuable for a higher earner (A married couple making $30,000 a year and filing jointly would save $600 under the new scheme, while a household with income of $100,000 saves $2,000 off their taxes. This provision does not impact the amount of tax refunds associated with tax credits but it does increase tax-home pay, and, therefore, the amount of resources that could be potentially dedicated to asset-building purpose.

Table 12

Funding Levels for the Earned Income and Child Tax Credits FY 2012 (in *billions* of dollars)	Outlays	Foregone Revenue	Total
Child Tax Credit	1.5	10.6	12.1
Earned Income Tax Credit	44.0	8.5	52.5
TOTAL	45.5	19.1	64.6

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2012*, "Analytical Perspectives." Table 17-1.

Consolidated Tables

Table A.1

Resources to Support Asset Building Activities: DIRECT SPENDING	FY 2012
SAVINGS AND INVESTMENT	
Assets for Independence Act	0.024
Volunteer Income Tax Assistance (VITA)	0.008
Bank On USA Initiative	0.041
Subtotal Savings and Investment	**0.073**
HOMEOWNERSHIP	
HOME Investment Partnerships Program (HOME)	1.673
Housing Counseling Assistance	0.088
Family Self-Sufficiency Program— Voucher Program	0.060
Housing Counseling and Foreclosure Prevention- NeighborWorks	0.080
Subtotal Homeownership	**1.901**
POST-SECONDARY EDUCATION	
Maintain the Maximum Pell Grant Award	41.156
TRIO Program	0.920
GEAR UP Program	0.323
Adult Basic and Literacy Education State Grants	0.635
College Access Challenge Grant Program	0.150
"First in the World" Competition	0.200
Subtotal Education	**43.384**
ENTREPRENEURSHIP	
CDFI Fund	0.227
Microloan Program	0.004
Small Business Lending	0.126
Subtotal Entrepreneurship	**0.357**
TOTAL	**45.715**

Table A.2

Resources to Support Asset Building Activities: TAX SPENDING POLICY PROPOSALS	FY 2012
RETIREMENT	
Auto IRA	0.0
Subtotal Retirement	**0.0**
POST-SECONDARY EDUCATION	
American Opportunity Tax Credit	0.0
Subtotal Education	**0.0**
TOTAL	0.0

Note: Proposals would not have budgetary impact until the following fiscal year.

Table A.3

Resources to Support Asset Building Activities: TAX SPENDING UNDER CURRENT POLICY	FY 2012
SAVINGS AND INVESTMENT	
Capital Gains	38.5
Step-Up Basis of Capital Gains at Death	61.5
Carryover Basis of Capital Gains on Gifts	2.0
Exclusion of Interest on Life Insurance Savings	22.7
Deferral of Interest on U.S. Savings Bonds	1.3
Subtotal Savings and Investment	**106.0**
RETIREMENT	
Net Exclusion of Pension Contributions: Employer Plans	45.2
Net Exclusion of Pension Contributions: 401(k) Plans	67.6
Net Exclusion of Pension Contributions: IRAs	15.6
Net Exclusion of Pension Contributions: Saver's Credit	1.3
Net Exclusion of Pension Contributions: Keough Plans	17.1
Subtotal Retirement	**146.8**
HOMEOWNERSHIP	
Deductibility of Mortgage Interest on Owner-Occupied Housing	98.6
Deductibility of Property Tax	24.9
Capital Gains Exclusion on Home Sales	35.2
Exclusion of Imputed Rent for Owner-Occupied Housing	50.6
Credit for first-time homebuyer	-2.2
Subtotal Homeownership	**206.7**
POST-SECONDARY EDUCATION	
HOPE Credit[a]	5.4
Lifetime Learning Credit	5.5
American Opportunity Tax Credit	0.0
Education IRA	0.08
Deductibility of Student Loan Interest	0.9
Deductibility of Higher Education Expenses	0.0
State Prepaid Tuition Plans	1.7
Subtotal Education	**13.58**
TOTAL	**473.08**

[a] The American Opportunity Tax Credit replaced the HOPE Scholarship Credit in taxable year 2010.

Table B.1

Resources to Support Asset Building Activities: SAVINGS AND INVESTMENT	FY 2012
DIRECT SPENDING	
Assets for Independence Act	0.024
Volunteer Income Tax Assistance (VITA)	0.008
Bank On USA Initiative	0.041
Subtotal Direct Spending	**0.073**
TAX SPENDING UNDER CURRENT POLICY	
Capital Gains	38.5
Step-Up Basis of Capital Gains at Death	61.5
Carryover Basis of Capital Gains on Gifts	2.0
Exclusion of Interest on Life Insurance Savings	22.7
Deferral of Interest on U.S. Savings Bonds	1.3
Subtotal Tax Spending Under Current Policy	**106.0**
TOTAL	106.073

Table B.2

Resources to Support Asset Building Activities: RETIREMENT	FY 2012
TAX SPENDING POLICY PROPOSALS	
Auto IRA	0.0
Subtotal Tax Spending Policy Proposals	**0.0**
TAX SPENDING UNDER CURRENT POLICY	
Net Exclusion of Pension Contributions: Employer Plans	45.2
Net Exclusion of Pension Contributions: 401(k) Plans	67.6
Net Exclusion of Pension Contributions: IRAs	15.6
Net Exclusion of Pension Contributions: Saver's Credit	1.3
Net Exclusion of Pension Contributions: Keough Plans	17.1
Subtotal Tax Spending Under Current Policy	**146.8**
TOTAL	146.8

Table B.3

Resources to Support Asset Building Activities: HOMEOWNERSHIP	FY 2012
DIRECT SPENDING	
HOME Investment Partnerships Program (HOME)	1.673
Housing Counseling Assistance	0.088
Family Self-Sufficiency Program—Voucher Program	0.060
Housing Counseling and Foreclosure Prevention	0.080
Subtotal Direct Spending	**1.901**
TAX SPENDING UNDER CURRENT POLICY	
Deductibility of Mortgage Interest on Owner-Occupied Housing	98.6
Deductibility of Property Tax	24.9
Capital Gains Exclusion on Home Sales	35.2
Exclusion of Imputed Rent for Owner-Occupied Housing	50.6
Credit for First-Time homebuyer	2.2
Subtotal Tax Spending Under Current Policy	**206.7**
TOTAL	208.601

Table B.4

Resources to Support Asset Building Activities: POST-SECONDARY EDUCATION	FY 2012
DIRECT SPENDING	
Maintain the Maximum Pell Grant Award*	41.156
TRIO Program	0.920
GEAR UP Program	0.323
Adult Basic and Literacy Education State Grants	0.635
College Access Challenge Grant Program	0.150
"First in the World" Competition	0.200
Subtotal Direct Spending	**43.384**
TAX SPENDING POLICY PROPOSALS	
American Opportunity Tax Credit	0.0
Subtotal Tax Spending Policy Proposals	**0.0**
TAX SPENDING UNDER CURRENT POLICY	
HOPE Scholarship (American Opportunity) Credit	5.4
Lifetime Learning Credit	5.5
American Opportunity Tax Credit	0.0
Education IRA	0.08
Deductibility of Student Loan Interest	0.9
Deductibility of Higher Education Expenses	0.0
State Prepaid Tuition Plans	1.7
Subtotal Tax Spending Under Current Policy	**13.58**
TOTAL	56.964

Table B.5

Resources to Support Asset Building Activities: ENTREPRENEURSHIP	FY 2012
DIRECT SPENDING	
CDFI Fund	.227*
Microloan Program	.004**
Small Business Lending	.126***
TOTAL	.357

*The total requested funding amount is $250 million including $41 million for the Bank On USA Initiative.
** These allocated resources can support a loan volume level of up to $25 million in 2012.
***These allocated resources can support a loan volume level of up to $14.5 billion in 2012.

Table C.1

TOTAL RESOURCES TO SUPPORT ASSET BUILDING ACTIVITIES in FY2012 (in *billions* of dollars)	Direct Spending	Tax Spending Under Current Policy	Tax Spending Policy Proposals	TOTAL
Savings and Investment	0.073	106.0	0.0	**106.073**
Retirement	0.0	146.8	0.0	**146.800**
Homeownership	1.901	206.7	0.0	**208.601**
Post-Secondary Education	43.384	13.58	0.0	**56.964**
Entrepreneurship	0.357	0.0	0.0	**0.357**
TOTAL	45.715	473.08	0.0	518.795

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