STRATEGY SPOTLIGHT

Asset Funders Network

BUILDING WEALTH THROUGH TAX REFORM

Opportunities for Grantmakers

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America continues to debate the causes and effects of growing inequality—in the media, on the streets, in Congress and in the presidential race. The conversation is framed in terms of income and *wealth* gaps but the solutions that get the most attention are focused on income—raising wages, expanding job opportunities, addressing labor market disparities. These strategies are all critical to closing the income gap. But tackling the wealth gap demands a broader continuum of approaches, one that expands savings and investment opportunities for low-income households, households of color, women, and other groups who are most likely to be at the lower end of the economic ladder.

Working out of the limelight, the asset-building field has much to contribute to these national discussions. Two decades of investment by local, state, and national philanthropy has supported grantees to narrow the wealth gap through innovative programs and public policies that expand wealth-building opportunities for lower-income households and households of color. Despite significant and measurable progress, however, key drivers of inequality are deeply embedded in public systems that affect the financial well-being of the nation's households, so the impact of these investments is mitigated.[1]

The U.S. income tax system is arguably one of the biggest contributors to wealth inequality as it is subsidizing higher-income households to build assets while providing limited benefits to low- and moderate-income families. Closing, or even narrowing, the wealth gap in the years ahead will require changing tax policies so that household savings and investment incentives are accessible to those who are the least economically mobile.

NARROWING THE WEALTH GAP requires changing federal and state tax policies so household savings and investment incentives are accessible to those who are the least economically mobile.

THE U.S. TAX SYSTEM provides more than $1 trillion in annual subsidies through the individual tax code,[2] with more than half supporting households to save and invest.[3]

Each year, more than a half trillion dollars in federal tax subsidies supports U.S. households to save and invest—in higher education, homes, retirement accounts, and other asset-building opportunities.[8] These subsidies are delivered through "tax expenditures"—or spending through the tax code—in the form of deductions, credits, deferrals, and preferential rates. Tax expenditures are by far the primary source of public support for asset building, yet the vast majority of benefits accrue to the nation's wealthiest households.[9] In fact, *the top 1% of households receives more of these federal asset-building tax incentives than the bottom 80% combined.*[10]

Research shows a similarly upside down tax system at the state level, where the nation's poorest 20% of households pay an average effective state and local tax rate that is *more than double* the rate paid by the richest 1%.[11] This leaves lower-income households with fewer resources to set aside for emergency or contingency savings, to save for their child's education or a secure retirement, or to invest in their future.

SO WHAT CAN FUNDERS DO ABOUT IT?

Increasingly, national, state, and local funders are supporting work to advance progressive, equitable, and inclusive tax policies. This brief shines a light on these tax reform efforts. It highlights the catalytic role of philanthropy and suggests new ways that funders can engage to take these efforts to scale.

WHO BENEFITS?

- The wealthiest 1% of households receive more than a quarter of the benefits of federal asset-building tax subsidies.[4]
- The bottom 60% of households receive less than 12% of the benefits.[4]

HOW ARE BENEFITS RECEIVED?

- The vast majority of the benefits from exclusions, itemized deductions, and preferential rates for capital gains and dividends accrue to wealthiest 20% of households.[5]
- Tax credits are more likely to benefit low-income households and household of color, but the lowest-income households only benefit if they are refundable.[6]
- Women, immigrants, and other workers of color are more likely to be in lower-paid or part-time jobs with no access to employer-provided benefits and associated tax subsidies.[7]

STRATEGIES IN ACTION – OPPORTUNITIES FOR FUNDERS

This section highlights a suite of approaches that funders are investing in, or exploring, to expand asset-building opportunities through tax reform. It includes examples of work already underway and suggests opportunities for local, state, and national funders to engage, going forward.

BUILD UPON THE EXISTING INFRASTRUCTURE OF STATE AND NATIONAL TAX REFORM COALITIONS

A rich infrastructure of coalitions is working to advance equitable, asset-building tax policies at the federal, state, and local levels. They are bringing together asset-building and equity advocates with researchers, tax policy experts, and organizing networks to address the upside down nature of tax systems and advance specific policy solutions. While parts of this infrastructure are nascent and thinly funded, other parts are more developed, building upon decades of philanthropic investment and hard work by grantees. These coalitions offer a resource for funders new to tax policy—to provide context and expertise about the issues at stake, effective solutions and strategic opportunities for reform. And they offer investment opportunities to achieve the scale necessary to impact the growing wealth gap.

Together, these coalitions comprise an interconnected network of leaders with deep connections in low-income communities and communities of color. They provide a powerful base from which to advance coordinated and strategic tax policy campaigns.

A recent policy win illustrates the power of this national tax policy infrastructure: During the recession, key features of the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) were expanded. But they were set to expire in 2017—resulting in benefit losses for 50 million Americans—unless Congress took action. With funding from an anonymous donor, Center on Budget and Policy Priorities initiated a national campaign in early 2015 to make the provisions permanent. It formed a partnership with the Institute on Taxation and Economic Policy, the National Council of La Raza and United Way Worldwide. It then mobilized hundreds of local, state, and national organizations—including partners from all of the coalitions described on the following page—to advocate for permanent EITC/CTC expansion as part of all Congressional negotiations over the permanent extension of business tax credits.

Between May 2015 and December 2015, the campaign included intensive policymaker and public education; a national sign-on letter from 160 local, state, and national organizations; and more than 170 news clips, primarily in local and state media. In the end, the campaign ensured that permanent expansion of the EITC and CTC was included in the *Protecting Americans from Tax Hikes Act of 2015*, bringing approximately $150 billion in tax credits to working families over the next 10 years.

The groundwork has been laid, but ongoing philanthropic investment is needed to take these tax reform efforts to scale. Funds are needed to educate and engage growing networks of allies at the local, state, and national levels, many of whom still are not aware of how tax policy is subsidizing inequality and others who are daunted by the complexity of tax issues. And resources are needed for grantees to educate policymakers, the media, and the public about why equitable tax policies matter for families, communities, and the national economy.

> "ENGAGING IN TAX WORK is especially important for funders who have the privilege of investing broadly. By not addressing taxes, you're not addressing the elephant in the room."
>
> ELENA CHAVEZ QUEZADA
> THE WALTER AND ELISE HAAS FUND[12]

EXAMPLES OF COALITIONS WORKING TOGETHER TO ADVANCE EQUITABLE TAX POLICIES

- **THE TAX ALLIANCE FOR ECONOMIC MOBILITY** is a network of national, state, and local organizations working to build an inclusive, progressive, and equitable tax code. Started in 2013 as the Tax Policy Project of the Asset Funders Network, the Tax Alliance is now co-chaired by CFED and PolicyLink and guided by a steering committee representing leading asset-building and equity organizations.[13] National, community, corporate, and family foundations have supported the work including the Annie E. Casey Foundation, Ford Foundation, Friedman Family Foundation, Levi Strauss Foundation, Marguerite Casey Foundation, San Francisco Foundation, and the Walter and Elise Haas Fund.[14]
- **AMERICANS FOR TAX FAIRNESS** is fighting to expand national revenue for programs and services that benefit low- and moderate-income families by ensuring that corporations and wealthy households pay a "fair share" of the nation's taxes. Funders include the Bauman Foundation, Ford Foundation, Open Society Foundations and the Stoneman Family Foundation.[15]
- **THE TAX OPPORTUNITY NETWORK** is bringing the voices of taxpayers and volunteer tax preparers to the table to advocate for policies that support free tax preparation services and a more fair tax system. The network is funded by the Annie E. Casey Foundation, Citi Foundation, Intuit, and the JPMorgan Chase Foundation.[16]
- **THE ASSET BUILDING POLICY NETWORK**, a group of national organizations focused on closing the racial wealth gap, is working with other coalitions to advance tax policies that build wealth for households of color. The network is supported by Citi Community Development.[17]
- **THE STATE PRIORITIES PARTNERSHIP** is a network of independent nonprofit organizations promoting tax and budget policies that ensure states have the resources to make public investments—in schools, healthcare, increasing financial security, and other areas. The network was started in 1993 and is now working with organizations in 41 states and the District of Columbia. It has been supported by a consortium of national, state, and local grantmakers—including the Annie E. Casey Foundation, Charles Stewart Mott Foundation, Ford Foundation, Mary Reynolds Babcock Foundation, Open Society Foundations, Sandler Foundation, Stoneman Family Foundation, and the W.K. Kellogg Foundation—and supported by the Center on Budget and Policy Priorities.[18]
- Several state asset-building coalitions that include local networks and allies, such as the **ILLINOIS ASSET BUILDING GROUP AND OKLAHOMA NATIVE ASSETS COALITION**, are actively engaged in federal and state tax reform conversations with support from local, state, and national funders.[19]

WEAVE TAX POLICY WORK INTO CURRENT FUNDING AREAS

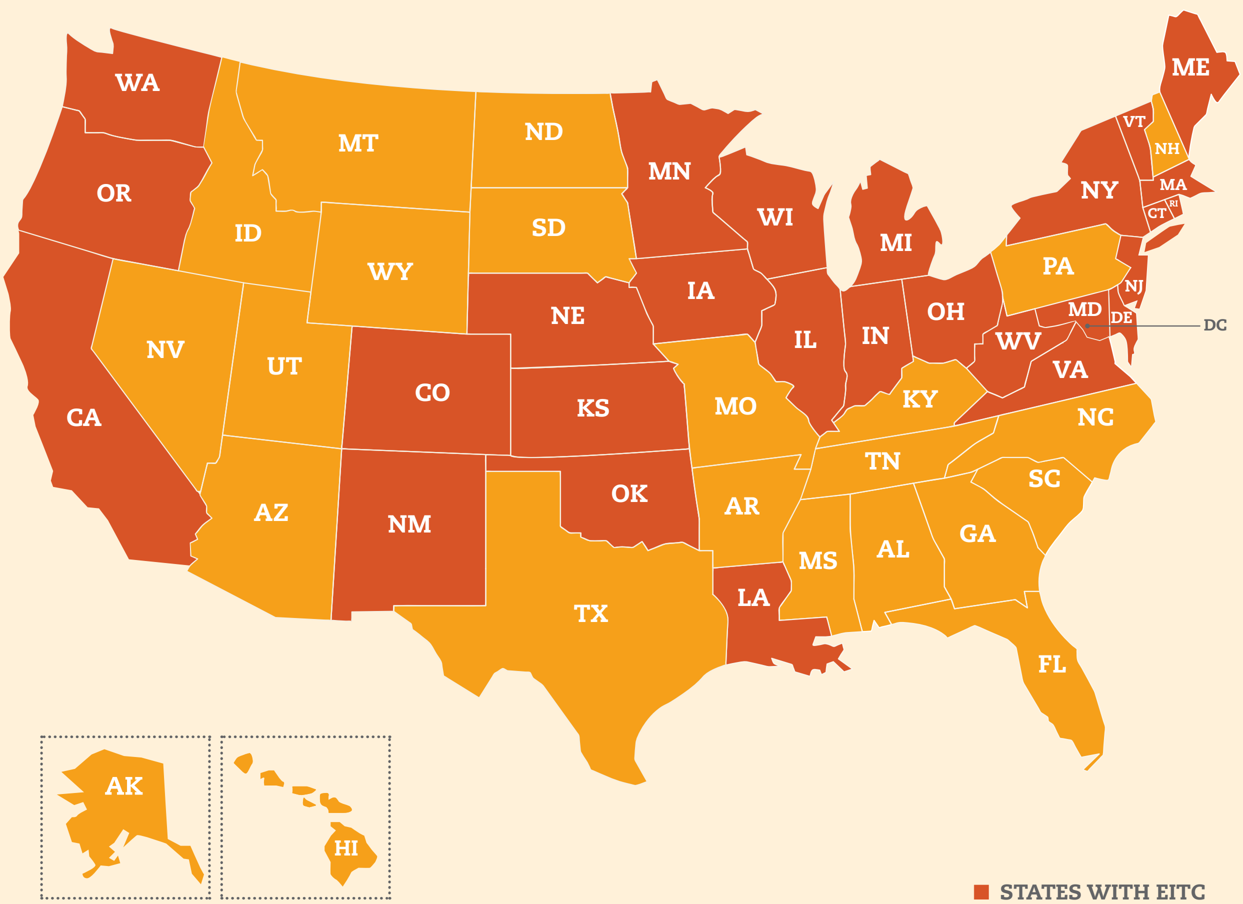
Funders need not develop separate funding areas to advance equitable tax policies. Instead, they can help grantees understand the role the tax code plays in existing priority areas and support them to engage in campaigns to advance equitable tax policies. Examples include:

FAMILY ECONOMIC SECURITY. Funders focused on building the economic security of working families could support grantees to engage in efforts to expand refundable credits. Building upon the EITC/CTC policy win, described earlier, they could support grantees to advocate for expanding the EITC for childless workers and lowering the eligibility age, an approach President Barack Obama and House Speaker Paul Ryan have both publicly supported.[20] State and local funders could support efforts to pass, defend, or strengthen state-level EITC policies or pass earned income credits at the municipal level, as San Francisco has done.[21] Funders could support public education and outreach to maximize families' access to tax benefits and support grantees to advocate for public resources for free tax preparation sites. In addition, interested funders could join the EITC Network and/or the Grantmakers Income Security Task Force, which offer peer learning opportunities, research, and other resources for grantmakers working in this arena.[22]

HIGHER EDUCATION. Today, the majority of federal aid for higher education, excluding loans, comes not through Pell Grants, but through the tax code.[23] Asset funders working to expand federal resources

STATE EARNED INCOME TAX CREDIT PROGRAMS

Twenty-six states and the District of Columbia have state EITC. These credits build off the federal EITC and help supplement the earnings of low-income workers by reducing or eliminating their taxes.



for higher education or to minimize the need for low-income students and their families to take on student loans might support grantees to make federal and state tax-code based subsidies more accessible. With support from the Bill and Melinda Gates Foundation, a coalition of national organizations has proposed a suite of higher education tax reform proposals.[24] The Institute on Taxation and Economic Policy is also doing an inventory of higher education tax benefits in the 50 states and District of Columbia, which will provide resources for advocates interested in higher education tax reform at the state level.[25]

WOMEN. Funders investing in building the economic security of women could help grantees understand how tax policy affects women and their families and support them to engage in state and national campaigns. As discussed in the recent AFN brief, the gender wealth gap is far greater than the income gap, and the tax code plays a role.[26] For example, refundable credits— like the EITC and CTC—are particularly important to women, who are more likely to be low-wage earners raising children, the targets of those credits.[27] Organizations advancing women's rights can and should be engaging in efforts to expand these refundable credits through state and federal policy.

Furthermore, women are less likely to have access to federal tax subsidies delivered through employers, as they are more likely to work part time or in jobs without benefits.[28] State-level efforts to expand access to employer-provided retirement plans, described below, are extremely relevant to women's economic security.

Finally, public data on how women benefit from tax expenditures—as individuals, single mothers or in marriage—is limited, posing challenges to education and advocacy efforts.[29] Funder investment in research, education, communications and organizing efforts to expand women's access to asset-building tax benefits would significantly increase the economic security of millions of women and their families.

SENIORS. Funders concerned with the economic security of seniors, particularly the dearth of retirement savings among seniors of color and women, could support grantees to advance state policies that provide access to tax-benefited retirement savings accounts. For example, the Illinois Asset Building Group began supporting automatic Individual Retirement Account (Auto IRA) legislation in early 2010, with initial funding from the Charles Stewart Mott Foundation and the Woods Fund Chicago, and additional resources from the Ford Foundation and the Laura and John Arnold Foundation.[30] Their efforts were rewarded four years later when the Illinois Secure Choice Program was signed into law. Similar programs are moving forward in California, Oregon and 22 other states, building momentum for national Auto IRA policy.[31] Local, state, and national funders could support implementation, replication and shared learning among state advocates, and/or build upon state-level momentum by supporting grantees to advocate for federal Auto IRA policy.

IMMIGRANTS. Funders invested in asset building for immigrants and refugees could increase their impact by supporting grantees to understand and engage in tax policy work. For example, 4.4 million immigrants filed their taxes using an Individual Taxpayer Identification Number (ITIN) in 2015, paying $23.6 billion in total taxes.[33] ITIN filers are not eligible for the EITC, but they can claim the CTC. However, provisions in the 2015 legislation that permanently expanded the CTC improvements creates barriers by requiring some ITIN filers to "revalidate" their number, starting next year, and prohibiting them from claiming the CTC retroactively.[34] The National Council of La Raza is working with more than 300 local affiliates around the country, and has engaged in special efforts in California, Nevada, Pennsylvania, and Florida to educate ITIN filers about these

> "WE'RE NOT YET CLOSE to a tipping point where state-level policies move federal policy, but there is such a tipping point."
>
> SENATOR DANIEL BISS,
> ILLINOIS STATE SENATE
>
> SPONSOR OF LEGISLATION THAT CREATED THE ILLINOIS SECURE CHOICE PROGRAM[32]

changes, with support from an anonymous funder.[35] State and local funders could help support these and other outreach efforts.

SUPPORT RESEARCH, COMMUNICATIONS, AND STAKEHOLDER EDUCATION

Tax reform is a recurring theme—in Congress, on the campaign trail and in the media—and about once a generation, comprehensive tax reform negotiations result in radical changes to the federal tax code.[36] These discussions typically focus on debates over individual and corporate tax rates, with battles over increasing or lowering rates for different groups of taxpayers fought by battalions of highly-paid lobbyists. Often missing from the discourse is attention to tax expenditures—what they are, the level of public resources invested in them, their effectiveness, and who does or doesn't benefit from them.

Funders can play a role in supporting national, state, and local grantees to influence comprehensive tax reform negotiations; yet given the deep pockets of other stakeholders in tax fights, this funding needs to be strategic, coordinated, and leveraged. The following are examples of the types of supports that are needed:

RESEARCH. In recent years, several funders have invested in research to shine a light on how the tax code is subsidizing wealth building. For example, in 2013, the Ford Foundation supported the Urban-Brookings Tax Policy Center to assess the distributional effects of asset-building tax policies and share their findings with the advisory group of the Tax Policy Project of AFN (now Tax Alliance for Economic Mobility). Products—including research papers, blog posts, and policy briefs—were widely cited in the mainstream and social media. The blog posts were featured on Reddit and were the most viewed product released by Brookings that year, with approximately 100,000 unique views; and the papers were covered by mainstream news media and presented to congressional and White House staff.[37] Members of the Tax Policy Project used the research, along with technical assistance from the Tax Policy Center researchers, to inform their decisions about policy priorities.

At the state level, the Institute on Taxation and Economic Policy analyzes the revenue and distributional effects of tax policies in all 50 states and the District of Columbia.[38] It works directly with the State Priorities Partnership and other state leaders, helping them to advance key asset-building tax policies and to argue for progressive state tax reform. For example, last year, the California Budget and Policy Center used ITEP data to inform the development of proposals for a state EITC, and elements were included in several legislative proposals.[39] California passed a refundable state EITC in 2015, making it the 26th state to do so. This year, ITEP is supporting Oklahoma partners to defend against cuts to the state EITC and a sales tax rebate for low-income households.[40]

COMMUNICATIONS. Grantmaker support for communications is critical to shaping the terms of tax policy debates at the national, state, and local levels. For example, the coordinated communications of local, state, and national partners in the EITC/CTC campaign, described above, was critical to putting pressure on Congress to include the credits for working families in the fall tax negotiations. On the corporate side, Americans for Tax Fairness partners have successfully injected tax fairness issues into the public dialogue about corporate tax reform with 600 news clips per year.[41] These communications investments play a significant role in framing national policy debates and laying the groundwork for tax policy campaigns.

STAKEHOLDER EDUCATION. While communicating with the general public is important, so too is educating advocates about why changing tax policy is so important to their communities. To that effect, national, state, and local funders can help grantees translate research to explain to advocates how tax policy is fuelling inequality and what advocates can do about it. For example, members of the Tax Alliance for Economic Mobility have produced fact sheets, infographics, and videos to educate and engage their respective networks about the need for equitable tax reform; and they've produced policy briefs advancing specific tax policy proposals like the Universal Savings Credit (Center for American Progress),[42] Financial Security Credit (New America Foundation),[43] home mortgage interest deduction reform and renters credit (Center on Budget and Policy Priorities)[44] and other asset-building policy proposals.[45] PolicyLink produced a primer to help equity advocates understand why tax policy matters, particularly for individuals and households of color,[46] and CFED recently launched a national campaign to educate likely allies and the public about the role of the tax code in fueling wealth inequality.[47]

SUPPORT EDUCATION OF POLICYMAKERS AND ADVOCATE FOR POLICY CHANGE

Research, communications, and stakeholder education are all necessary to create an environment conducive to policy change, but grantmaker support for policymaker education and direct advocacy is critical to achieving wins. For example, the New America Foundation convenes the Congressional Savings and Ownership Caucus, with support from the Charles Stewart Mott Foundation, to educate members of Congress about the importance of asset building, including discussion of tax policy proposals.[48] At a key point in the Illinois Secure Choice policy battle in 2014, the Action Now Initiative[49] provided critical support to the Illinois Asset Building Group so they could spend additional resources educating and lobbying legislators.[50] Multi-year grants, a long-term time horizon, targeted grants at opportune times, and support for advocacy—including lobbying, within the legal limits for 501(c)3 organizations—are all critical to pushing policy campaigns across the finish line.[51]

> "IT'S IMPORTANT TO RELEASE RESEARCH PRODUCTS that are both defensible and effective. To be defensible, the research must be up to an academic standard that one can defend to their peers. To be effective, the research should be digestible to those who are not steeped in economic theory and quantitative methods."
>
> **BENJAMIN HARRIS**
> CHIEF ECONOMIST FOR VICE PRESIDENT BIDEN AND FORMER RESEARCHER WITH THE TAX POLICY CENTER.

CONCLUSION

Closing the wealth gap—by race, ethnicity and gender—is a long-term proposition, but it would have an immeasurable impact on the economic security of families and communities. While the asset-building field has much to offer national discussions about how to close the wealth gap, significant systemic reform is needed to bring these efforts to scale. Currently, federal, and state tax systems contribute to wealth inequality by disproportionately benefitting wealthier households; but, fortunately, tax policies can be changed.

Philanthropic support for coalition building, research, communications, stakeholder and policymaker engagement, and advocacy is already helping to build the base, impact the public discourse, and produce important asset-building tax policy wins at the state and national levels. But significant advances in making state and national tax systems fair, progressive, and equitable will require deep and ongoing investment by grantmakers.

National, state, and local asset-building grantmakers all have a role to play in the tax reform arena in the years to come—the potential return is high and the investment is a worthy one.

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> "IF WE WANT TO CLOSE THE WEALTH GAP, including racial wealth gap, then we have to go where the money is — the tax code — and turn our annual half-trillion investment in wealth inequality into an investment in the productive capacity of all Americans. We will all be the better for it.
>
> **BOB FRIEDMAN**
> BOARD MEMBER OF THE FRIEDMAN FAMILY FOUNDATION AND FOUNDER OF CFED

ASSET FUNDERS NETWORK

The Asset Funders Network advances economic opportunity and prosperity for low and moderate income people through philanthropy.

Through knowledge sharing, AFN empowers foundations and grantmakers to leverage their resources to make more effective and strategic funding decisions, allowing each dollar invested to have greater impact.

To learn more and to become involved in advancing the field, please visit AFN at www.assetfunders.org.

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