

# Tax Alliance for Economic Mobility

April 2015

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## Project Background and Overview:

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

The individual tax code contains more than \$1 trillion in tax subsidies known to policymakers and economists as tax expenditures because they are a form of spending through the tax code.<sup>1</sup> A recent CFED report shows that more than half of these subsidies, \$540 billion, supported households to save and build wealth, but the *top 1 percent of households received more benefits than the bottom 80 percent combined*.<sup>2</sup>

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

Deliberations about reforming the federal tax code, including discussions about the cost and benefits of various tax expenditures, are underway in Congress. These discussions provide an opportunity for

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<sup>1</sup> Benjamin H. Harris et al., *Tax Subsidies for Asset Development: An Overview and Distributional Analysis* (Washington, DC: Urban Institute, February 2014), 4, <http://www.urban.org/UploadedPDF/413048-tax-subsidies-for-asset-development.pdf>. In 2012, tax expenditures administered through the individual tax code equaled \$1.1 trillion and corporate tax expenditures equaled \$148 billion.

<sup>2</sup> Ezra Levin et al., *Upside Down to Right Side Up: Redeploying \$540 Billion in Federal Spending to Help All Families Save, Invest, and Build Wealth* (Washington, DC: Corporation for Enterprise Development, 2014), 6, [http://cfed.org/assets/pdfs/Upside\\_Down\\_to\\_Right-Side\\_Up\\_2014.pdf](http://cfed.org/assets/pdfs/Upside_Down_to_Right-Side_Up_2014.pdf).

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

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

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

advocates to call for a more *inclusive, progressive and equitable* tax code, one that significantly expands savings and investment incentives for low- and moderate-income households and households of color.

In 2013, the Asset Funders Network (AFN) established the Tax Policy Project and began convening asset-building advocates, tax reform experts, researchers, representatives of organizations of color and grassroots constituents to identify near- and longer-term policy priorities to expand savings and investment opportunities for low- and moderate-income households through reform of the U.S. tax code. In the fall of 2014, AFN transitioned the leadership of the Project to the national nonprofits CFED and PolicyLink and in early 2015 it was relaunched and renamed, the Tax Alliance for Economic Mobility. Today, the group includes a cohort of organizations who have agreed on shared principles and policy priorities and are working to educate and engage their networks about why tax reform is crucial to building the long-term security of families, communities and the national economy.

**Tax Alliance for Economic Mobility members (by organization):** AARP; Aspen Institute/Initiative on Financial Security; Asset Funders Network; Center for American Progress; Center for Community Change; Center for Social Development; Center on Budget and Policy Priorities; CFED; Color of Change; Emory Law School; Center for Global Policy Solutions; Greenlining Institute; Insight Center for Community Economic Development; Institute for Women’s Policy Research; Institute on Assets and Social Policy; Leadership Conference on Civil and Human Rights; National Coalition for Asian Pacific American Community Development; Massachusetts Budget and Policy Center; NAACP; National Association of Latino Community Asset Builders; National Council of La Raza; National Urban League; New America Foundation; Office of the Treasurer/City and County of San Francisco; Oklahoma Native Assets Coalition; PICO National Network; Pew Charitable Trusts; PolicyLink; Skadden, Arps, Slate, Meagher & Flom LLP; UCLA Asian American Studies Center; Urban Institute; and United Way Worldwide.

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

#### *Principles:*

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

#### *Design features:*

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

### **Project Funders:**

The Tax Policy Project has received support from the Annie E. Casey Foundation, Ford Foundation, Friedman Family Foundation, Levi Strauss Foundation, Marguerite Casey Foundation and Walter & Elise Haas Fund.

### **Project Director:**

The Project is directed by Heather McCulloch, a national expert on policies and strategies that build the financial security of low-income households and households of color.

**Lead Organizations:***AFN – Founding Host*

The Asset Funders Network (AFN) is a national foundation affinity group committed to alleviating poverty and expanding economic opportunity by helping low- and moderate-income households build financial assets.

*CFED – Current Co-Chair*

Founded in 1979, CFED – Corporation for Enterprise Development—empowers low- and moderate-income households to build and preserve assets by advancing programs and policies that help them achieve the American Dream.

*PolicyLink – Current Co-Chair*

Founded in 1999, PolicyLink connects the work of people on the ground to the creation of sustainable communities of opportunity that allow everyone to participate and prosper by Lifting Up What Works. PolicyLink advances these strategies by using local, state, and federal policy to create conditions that benefit everyone, especially people in low-income communities and communities of color.

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