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Tax Alliance for Economic Mobility
Guiding Principles

Background:

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 economic security and strengthen the national economy. For example, 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.

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. In fact, recent research by the Congressional Budget Office shows that of the top ten major tax expenditures, totaling more than $900 billion in fiscal year 2013, more than half of the benefits went to the wealthiest 20% of households (the top quintile) and less than a third to the bottom 60% (the bottom three quintiles).[1] According to research by the national nonprofit, CFED: Only $500 in annual tax benefits accrued to the average middle-class family (making $50,000/year); while an average of $95,820 accrued to households making over $1 million.[2]

The Great Recession resulted in an enormous loss of household wealth. While wealthier families are recovering, lower-income households and households of color are still struggling;[3] 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;[4] and fewer than 20% of Americans – including only one in ten African-American or Latino households – are able to benefit from preferential tax rates for dividends and capital gains.[5]

Many tax expenditures are not only inequitable, they are *ineffective*. For example, research shows that in 2012 the more than $100 billion in tax expenditures designed to encourage retirement savings had

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[1] *The Distribution of Major Tax Expenditures in the Individual Income Tax System*, Congressional Budget Office, May 2013. (http://www.cbo.gove/publication/43768).
[2] *Upside Down: The 400 Billion Federal Asset-Building Budget,* CFED, 2010. (http://cfed.org/knowledge_center/publications/savings_financial_security/upside_down_the_400_billion_federal_asset-building_budget/).
[3] *An Uneven Recovery, 2009-2011—A Rise in Wealth for the Wealth; 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/).
[4] 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).
[5] 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/).

little impact on net savings, due to the fact that households are shifting existing savings into tax-favored accounts, rather than increasing their overall level of savings.[6]

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 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.

The Tax Alliance for Economic Mobility is a national group of asset-building advocates, tax reform experts, researchers, representatives of organizations of color and grassroots constituents, and others working together to identify and advance 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.

Guiding Principles and Design Features:

The Tax Alliance for Economic Mobility has developed the following principles to guide research and inform decisions on shared policy priorities. The group aims to identify policies that build and strengthen the ladder to economic mobility and ensure sustained economic security and wealth accumulation for low- and moderate-income households and households of color. Members recognize the importance of both income and asset-building supports and will work to ensure both types of supports are strengthened as part of the tax reform process.

Principles:
The Tax Alliance for Economic Mobility will support tax policies that embody the following 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.

[6] See Raj Chetty, et al., "Active vs. Passive Decisions and Crowd Out in Retirement Accounts." NBER Working Paper, number 18565, December 2012 (http://obs.rc.fas.harvard.edu/chetty/ret_savings.html); and Engen, Gale and Scholz, "The Illusory Effects of Saving Incentives on Saving." Journal of Economic Perspectives. 10:4. Fall 1996. 113-38 (http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.10.4.113).