

# America's Tomorrow: Equity Is the Superior Growth Model



April 9, 2014

6

## Features

**Access** to Financial Security for All

## Six Tax Reforms to Increase Economic Security for All

Ivan and Sandra Silva of South San Francisco paid off debts and bought government bonds with a \$6,000 federal tax refund they received last year thanks to a tax credit for low- and moderate-wage workers. The Silvas, who have four grown children, serve to illustrate how progressive tax code reforms can help all people, including low-income people of color, save and build the assets that are essential for upward mobility.

“We saved because you never know what can happen,” said Ivan Silva, an airline baggage handler who immigrated to the United States from Nicaragua. His wife is a home caregiver and an immigrant from El Salvador. Together they earn less than \$50,000 a year. “Our savings is not for ourselves but for whichever one of our children needs anything,” he said.

A [new national initiative](#) is calling for a more inclusive and equitable tax code — one that provides fair benefits for all. Led by a network of grantmakers, the Tax Policy Project is pulling together asset-building and equity advocates, researchers and tax experts, and organizations with deep roots in communities of color, including PolicyLink, to push for changes in a tax code that has become a driving force behind the nation's soaring inequality.

Last year, [more than half](#) of the nearly \$1 trillion that the federal government spent on tax benefits for households went to the wealthiest fifth of the country. The benefits — written into the tax code as deductions, exclusions, credits, and preferential rates — subsidize higher-income households to build wealth, while offering few opportunities for lower-income

## In Brief

### Race for Results Report: We're Still Leaving Children Behind

The United States has much ground to cover to ensure that all kids — especially children of color — are positioned to thrive, according to [a new report](#) by the Annie E. Casey Foundation. The foundation's Race for Results Index measures how well children of every race are being prepared for economic success according to 12 indicators (such as enrollment in early education programs, high school graduation, and family poverty rates). This report and the recently launched [diversitydatakids.org](#) interactive online data set of child well-being indicators from Brandeis University provide valuable tools to track how well the nation is doing to prepare the next generation of innovators, leaders, workers, and entrepreneurs.

### Upcoming Event: Reinventing Older Communities

How can older core cities and suburbs use their community and economic development tools to expand opportunity for all

households, disproportionately of color. build the long-term financial security of all American families and contribute to economic stability and growth.

Most of these benefits are designed to advance worthy goals such as buying a home, encouraging college education, or supporting secure retirement. In other words, these benefits *should* build the long-term financial security of all American families and contribute to economic stability and growth.

But as structured, many tax benefits are out of reach for the people who need them most. If families do not own homes — and [fewer than half of all households of color](#) do — they are cut off from the benefits of home mortgage and property tax deductions. If workers do not have access to an employer-sponsored retirement savings plan — and only [40 percent to 50 percent of employees of color](#) do — they cannot take advantage of tax benefits to encourage retirement savings.

And if low-wage workers lack access to high-quality tax assistance, they often cannot take advantage of the few benefits designed specifically to help them, including the Earned Income Tax Credit (EITC).

That's what happened to Ivan and Sandra Silva. For years they paid a commercial tax preparer who never told them about the credit. They learned about it only after they turned to the [Mission Economic Development Agency](#) (MEDA) in San Francisco, a community-based organization that offers free tax assistance and financial services as part of a comprehensive approach to economic justice and neighborhood economic development in the Mission district and other low-wealth neighborhoods.

Federal policies and investments can create an equitable tax code that helps all taxpayers to invest in themselves, their children, and their communities. Here are six policy changes prioritized by the Tax Policy Project to make taxes work for low-income families:

1. **Expand tax incentives that are accessible to working families.** In 2012, the EITC lifted [6.5 million people out of poverty](#). But [millions of families](#) may lose their benefits if improvements passed by Congress in 2009 expire in 2017. These improvements [must be made permanent, and the benefits must be expanded to more people](#), especially low-income workers who aren't raising children.

residents? Join national experts on May 12-14 in Philadelphia to explore strategies for inclusive local and regional economic development. Speakers include Raj Chetty from Harvard University, Jeffrey Brown from Brown's Super Stores, Manuel Pastor from the University of Southern California, and Angela Glover Blackwell and Victor Rubin from PolicyLink. [Learn more and register](#).

---

### One Nation, Underemployed

Nearly one out of five black and Latino workers are underemployed, according to the National Urban League's recently released *2014 State of Black America*. The report's equality index shows very slight overall improvements from last year, with a slight decline in economic equality. [Find out more about the index, including metro region rankings](#).

Take a look at our infographic below to learn more about federal initiatives to expand the EITC.

2. **Replace current home mortgage deduction with tax savings for all low-income households.** Tax incentives for homeownership cost the federal government almost [\\$200 billion](#) in 2013, but 70 percent of these tax benefits went to the wealthiest 20 percent of households and [almost nothing to the bottom 40 percent](#). The majority of people of color don't benefit because they [don't own a home](#) or they don't [itemize on their tax returns](#). Turning the home mortgage deduction into a tax credit would make it more equitable because households could claim it even if they don't itemize. But this doesn't address the issue that a mortgage credit still encourages families to take on debt rather than build wealth through homeownership. Several policies targeted to building wealth for low-income households are gaining attention; read about them [here](#). A comparable [credit for renters](#) is also needed to make sure those who can't afford to buy a home aren't locked out of receiving wealth-building tax benefits.
3. **Target higher education tax incentives to lower-income families.** Higher education offers a critical pathway to prosperity for youth by increasing their earning potential. That's why tax code provisions help families save and pay for college. These tax benefits — not Pell grants — are [the largest form of federal student aid](#), and [they go mostly to higher-income students](#). One exception is the American Opportunity Tax Credit (AOTC), which is accessible to more low- and moderate-income households. Tax code provisions that disproportionately benefit wealthier households should be streamlined, and the savings used to [make the AOTC fully refundable and permanent](#), in order to reach more youth in need.
4. **Support children's savings accounts.** [Research](#) shows that children with savings in their name are much more likely to succeed, particularly children of color and children from low-income families. One promising approach to supporting child savings is [the ASPIRE Act](#), which has been proposed in prior sessions of Congress with bipartisan support. The Act would seed a savings account for every newborn child, providing an initial deposit and progressively matching contributions. Savings would grow tax free and could be used for post-secondary education,

homeownership, or retirement. Cities, counties, and states are already taking the initiative; [MEDA, the community-based agency in San Francisco, has partnered with the mayor's office to provide accounts for every child in the city](#), and [Cuyahoga County, Ohio, has launched universal accounts](#), as well.

**5. Make retirement savings available to more workers.**

Millions of American workers are headed toward poverty in retirement because their employers don't offer retirement plans and they earn too little to save through Individual Retirement Accounts (IRAs). Automatic IRAs are one solution. The basic idea is to require all employers who don't offer a retirement plan for their employees to set up an automatic IRA savings plan that would allow people to access tax benefits for retirement savings. Several states, including California, are [pursuing similar approaches](#), and it has been [proposed](#) by federal legislators and the Obama administration.

**6. Provide tax incentives for flexible savings.** Families need savings that can be easily accessed to handle financial emergencies — a broken-down car, an unusually high heating bill, or the death of a family member — and prevent a downward financial spiral. These sort of “flexible” savings are [particularly important](#) for households of color, who are unlikely to have any resources to address short-term emergencies. [The Financial Security Credit Act of 2013](#) offers lower-income households a refundable tax credit (like the EITC) if they deposit their tax refund into an eligible savings account. If passed, it would help more families weather short-term financial crises and save for longer-term investments.

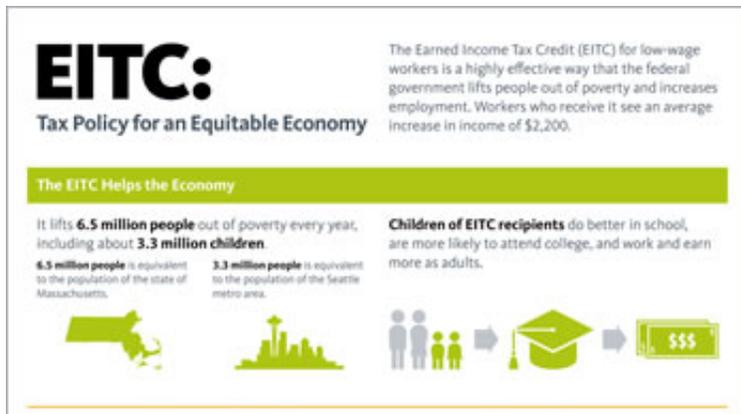
In addition to these tax reforms, Congress should pass the [Voluntary Income Tax Assistance \(VITA\) Act](#), which would extend a program that supports organizations like MEDA to provide reliable, timely tax preparation services at no cost to low-income households, enabling millions to claim the benefits to which they are entitled.

To keep abreast of these initiatives and other policy developments, check out the [Tax Policy Project website](#) and read about [how closing the racial wealth gap will help grow the economy](#) in the previous issue of the *America's Tomorrow* newsletter.

This story is adapted from an [article](#) written by Heather McCulloch, Manager of the Tax Policy Project of the Asset Funders Network. [Read more about the organization's work.](#)

[read less >](#)

## Infographic: How the EITC Can Help the Economy



[Click on the image to see the full infographic.](#)

Small changes in tax policy can have huge benefits for low-income people, struggling communities, and the nation's economy — and the Earned Income Tax Credit (EITC) proves it. The credit has lifted 6.5 million people out of poverty while increasing employment in communities with the greatest need, particularly communities of color. President Obama's budget and proposals circulating in Congress would expand and strengthen the credit. These efforts need your support — [take a look at our infographic to see why and take action.](#)

*America's Tomorrow* highlights campaigns, leaders, policies, reports, and local models that are advancing equity as an economic imperative. It is produced by Chris Schildt, Sarah Treuhافت, Fran Smith, and Ana Louie. To learn more, visit the [America's Tomorrow webpage](#).

**Take the survey!** Tell us what you think about this new sletter.

[Contact Us](#) | [Subscribe](#) | [Unsubscribe](#)

©2014 PolicyLink. All rights reserved