ASSET BUILDING POLICY NETWORK

Center for American Progress Action Fund

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Citi Community Development

The Leadership Conference on Civil and Human Rights

National Association for Latino Community Asset Builders

National Coalition for Asian Pacific American Community Development

National Council of La Raza

National Urban League

PolicyLink

The Honorable Diane Black, United States House of Representatives
The Honorable Danny Davis, United States House of Representatives

Re: Ways and Means Committee Tax Reform Working Group on Education and Family Benefits

Dear Members of Congress:

The Asset Building Policy Network (ABPN) commends the Ways and Means Committee Tax Reform Working Group on Education and Family Benefits for its commitment to receive public comments regarding aspects of the tax code. We are grateful for this opportunity to comment on what works in the current tax code, and how changes to the tax code as well as coordination with other government programs can make existing tax policies more effective.

The Asset Building Policy Network (ABPN) is a coalition of the nation's preeminent civil rights and advocacy organizations committed to the following core goals: coordinating savings and asset building policy and advocacy efforts at a national level, developing a shared communications agenda and strategy, and building the capacity of Network members and their networks. The ABPN seeks to improve the opportunity for economic progress for low-income individuals and families and in communities of color by increasing *local* access to responsible and appropriate financial products and services that can enable families to save, invest, preserve and build financial assets. The comments and recommendations within this letter are reflective of the ABPN as a body and not necessarily the position of each individual member.

The Earned Income Tax Credit, a refundable credit for low- and moderate-income working families, plays a vital role in federal antipoverty policy. In 2011 alone, working people and their families received $59 billion in EITC refunds. Behaviorally, because this refund only comes once a year, it is often treated differently from regular paychecks. As a result, tax time is an opportunity to think about more long-term needs, such as paying down debt or saving for the future.

This is clearly shown by one study of how EITC recipients in two cities used their tax refunds. 84% paid off debt or covered outstanding bills. 61% used a portion of their refunds on child-related expenses. One-third used at least part of their refunds to purchase or repair a car. And nearly half—47%—also put aside part of their refund for goals such as a security deposit, a down payment on a home, or to cover emergencies.

Notably, working families are saving despite a tax code that primarily rewards saving by higher-income earners. Out of billions of dollars in tax expenditures directed toward savings, a very small fraction go to low- and moderate-income families and communities. The Corporation for Enterprise Development estimates that nine out of ten federal dollars spent to help individuals build assets went to tax expenditures that benefited those contributing to a 401(k), an IRA, or a 529 plan. Low-income families are far less likely to participate in these plans, and to realize the tax gains from saving in them. Indeed, out of almost $400 billion spent by the federal government to help households build assets in fiscal year 2009, more than half went to the top five percent of taxpayers—those with incomes above $167,000 per year.

Better access to savings incentives could improve the financial security of low-income Americans. While the official poverty rate is 15 percent, nearly three times as many households—43 percent—are "liquid asset poor." If they lost their jobs, they would not have enough liquid resources, such as bank accounts or investments, to even get by at the poverty line for three months. Having even modest savings can help families weather crises without taking on predatory loans or becoming more dependent on assistance.

This is what we respectfully ask you to consider:

- Continue to ensure access to the Earned Income Tax Credit and Child Tax Credit for working families, including the provisions in the Recovery Act that increased the size of the EITC for larger families and eliminated the "marriage penalty."
- Provide a stronger savings incentive. The existing Saver's Credit is greatly limited by its lack of refundability, income cliffs, and limitation to rewarding contributions to certain retirement plans. Making the Saver's Credit refundable and turning the credit into a matching contribution to the account would provide a greater incentive to save for low-income families, including Earned Income Tax Credit recipients. Successful policy demonstrations across the country have shown that matching incentives can drive savings behavior at tax time. And expanding the Saver's Credit to non-retirement accounts, such as 529 plans for higher education or medium-term savings vehicles like certificates of deposit, may also remove barriers to savings for working families.
- Support Volunteer Income Tax Assistance (VITA) sites and other free or low-cost tax preparation strategies that enable consumers to avoid high tax prep fees and provide opportunities to build savings and financial capability. Of the $49 billion in earned income tax credits in 2008, more than $1.5 billion went toward refund-anticipation and tax-preparation fees. Overall, $300 or more of the tax refund—which may be several thousand dollars for EITC recipients—could go toward these fees rather than toward supporting families' well-being by spending or saving refund dollars.

The Earned Income Tax Credit has been a powerful incentive for families to work and succeed. But it can be an even more powerful driver of financial security for working families if it is accompanied by real savings incentives and access to affordable tax preparation.

Respectfully submitted,

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