New America Foundation

Rebalancing the Scales:

The 2015 Assets Budget

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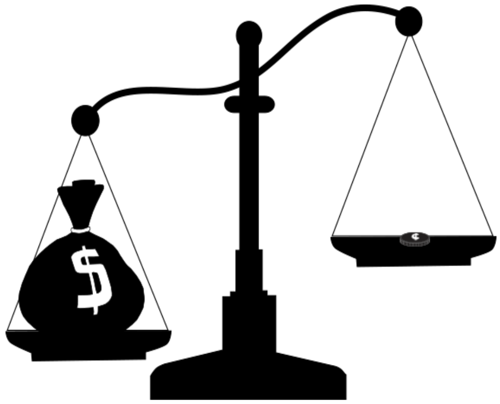
March 2014



The Assets Budget is deeply unbalanced.

The 50th anniversary of the War on Poverty naturally prompts reflection on how much progress has been made and how to chart a path forward. While there is a marked divergence in the diagnosis of poverty's roots and the policy prescriptions necessary to address them, a consensus is emerging that new efforts are needed to promote opportunity, economic mobility and to ensure that the American Dream remains attainable.

The idea that any person, no matter his or her starting place at birth, can get ahead and build a successful life lies at the heart of the American Dream. By providing the resources to weather the unexpected or invest in the future, savings can boost the immediate financial circumstance of one generation and the future prospects for the next. In fact, the Pew Economic Mobility Project finds that, among children born into families in the lowest income quartile, nearly three-quarters moved up over a generation if their parents were high-saving as opposed to only half of children with low-saving parents.

In the Obama administration's budget request for fiscal year 2015 (detailed on reverse side), investments in saving and asset building are $573 billion. This is a substantial sum, an investment justified by the goals of mobility and resiliency that savings and investment, retirement savings, homeownership, and post-secondary education have been demonstrated to support. Unfortunately, the overwhelming majority of these resources will be directed through the tax code, heavily weighing the scales in favor of middle- and upper-income families who are better able to take advantage of tax preferences, leaving little directed to the seventy percent of households with incomes too low to claim these benefits. The imbalance created by this approach worsens wealth inequality and misses the potential of assets to help chart a path out of poverty and to strengthen the middle class.

The subsidies for saving and asset building in the federal budget need fundamental reform in order to achieve the goals of increased opportunity and economic mobility. A successful reform agenda will remove barriers to saving and asset development, such as asset limits in public assistance programs, and promote saving as a desirable and achievable goal for all Americans. One powerful proposal to promote savings over the entire lifetime are Children's Savings Accounts (CSAs), established for all children at birth with tax incentives to encourage investment and matching incentives to promote saving among striving families. Additionally, existing savings incentives for retirement security should be reformed to create an inclusive, level playing field, and new attention should be focused on supporting the day-to-day savings needs that most families encounter, rather than just objectives decades into the future.

Asset Building Budget FY2015 (millions of $)	
Savings and Investment	123,841
Retirement	147,610
Homeownership	245,185
Post-Secondary Education	56,360
TOTAL	572,996
Total Direct Spending	36,726
Total Tax Spending	536,270
Tax Spending as % of Total	93.6

Implementing proposals like these would be an important step toward rebalancing the scales of the Assets Budget, making sustained progress against poverty and promoting opportunity and economic mobility in service of the American Dream.

The Asset Building Budget: FY 2015

Savings and Investment	millions of $
DIRECT SPENDING	
Assets for Independence Act	19
Volunteer Income Tax Assistance (VITA)	12
Subtotal Direct Spending	**31**
TAX SPENDING UNDER CURRENT POLICY	
Capital Gains	68,850
Step-Up Basis of Capital Gains at Death	32,370
Carryover Basis of Capital Gains on Gifts	2,560
Exclusion of Interest on Life Insurance Savings	18,940
Deferral of Interest on U.S. Savings Bonds	1090
Subtotal Tax Spending	**123,810**
TOTAL	123,841
Retirement	
TAX SPENDING UNDER CURRENT POLICY	
Net Exclusion of Pension Contributions: Employer Plans	42,340
Net Exclusion of Pension Contributions: 401(k) Plans	61,050
Net Exclusion of Pension Contributions: IRAs	17,480
Net Exclusion of Pension Contributions: Saver's Credit	1,210
Net Exclusion of Pension Contributions: Self-employed Plans	25,530
TOTAL	147,610
Homeownership	
DIRECT SPENDING	
HOME Investment Partnerships Program (HOME)	945
Housing Counseling Assistance	55
Family Self-Sufficiency - Consolidated Program	75
Subtotal Direct Spending	**1,075**
TAX SPENDING UNDER CURRENT POLICY	
Deductibility of Mortgage Interest on Owner-Occupied Housing	73,910
Deductibility of Property Tax	33,880
Capital Gains Exclusion on Home Sales	56,510
Exclusion of Imputed Rent for Owner-Occupied Housing	79,810
Subtotal Tax Spending	**244,110**
TOTAL	245,185
Post-Secondary Education	
DIRECT SPENDING	
Pell Grants	33,906
TRIO Program	838
GEAR UP Program	302
Adult Basic Literacy Education State Grants	574
Subtotal Direct Spending	**35,620**
TAX SPENDING UNDER CURRENT POLICY	
HOPE Tax Credit	0
Lifetime Learning Credit	1,720
American Opportunity Tax Credit*	15,240
Education IRA	100
Deductibility of Student Loan Interest	1,780
Deductibility of Higher Education Expenses	0
Qualified Tuition Plans (529 College Savings Plans)	1,900
Subtotal Tax Spending	**20,740**
TOTAL	56,360

For a full description of the programs listed here, see: Cramer, Reid, Rachel Black, and Justin King (2012), "The Assets Report: An Assessment of the Federal 'Asset Building' Budget," Washington, DC: New America Foundation.