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THE ASSETS REPORT 2009

An Assessment of President Obama's FY 2010 Budget and the Changing Landscape of Asset-Building Opportunities for Low- and Moderate-Income Americans

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EXECUTIVE SUMMARY

Asset ownership plays a central role in the economic security of American families and the broader economy. Assets can be deployed productively, such as to pay for a college education, or tapped to help individuals and families weather unexpected events. Additionally, assets have behavioral effects that can change the manner in which people think about and plan for the future.

The purpose of this paper is to survey the current and potential landscape of opportunities for Americans to acquire assets and move up the economic ladder. We examine recently enacted legislation and President Barack Obama's Fiscal Year 2010 budget proposals. The programs we identify help Americans acquire assets for post-secondary education, homeownership, entrepreneurship, savings and investment, and retirement security. Such programs are supported by direct spending or subsidies provided through the tax code.

Our assessment of the President's budget finds:

- A significant portion of the Federal budget is devoted to supporting asset-building activities, such as promoting post-secondary education, homeownership, entrepreneurship, savings and investment, and retirement security.

- In Fiscal Year 2010, the President's budget proposes a total amount of $421.94 billion in resources to promote asset building. This includes $63.55 billion in direct spending and $362.39 billion in tax subsidies.

- The Federal government will allocate $154.09 billion in resources to subsidize homeownership and $125.92 billion for retirement security, far more than what is spent on helping Americans acquire any other assets. $69.65 billion will be devoted to post-secondary education, $294 million for entrepreneurship, and $71.96 billion to savings and investment activities.

- The total tax subsidies for asset building in Fiscal Year 2010 are worth $362.39 billion, which overwhelming accrue to middle- and upper-income Americans.

- Tax refunds, which are returned to many households after they file their taxes, represent a significant asset for many families. The combined value of the Earned Income Tax Credit and the Child Tax Credit is $100.125 billion, $67 billion of which are delivered as tax refunds.

The most notable feature of our current policy paradigm as it pertains to asset building is how many Americans it excludes. Through targeted tax breaks, affluent families are given many options to save and acquire assets, while those with fewer resources are offered less attractive ways to build wealth. This approach misses the potential of assets to help chart a path out of poverty. Although these basic inequities have been a longstanding feature of American asset-building policy, legislation enacted in the wake of the economic downturn and the President's new policy proposals for Fiscal Year 2010 promise to alter the current paradigm in significant ways.

First, the new administration's budget includes a number of proposals specifically designed to advance savings and asset-building activities targeted to low- and moderate income families. Three specific proposals are worth emphasizing, including AutoIRAs that offer access to savings plans by workers whose employers do not currently offer them, the expansion and enhancement of the Saver's Credit to make it more valuable to lower-income workers, and the commitment to reconsider asset limits for public assistance eligibility so they encourage, rather than discourage, saving. Additionally, the Administration has devoted $75 billion of Troubled Asset Relief Program money to helping distressed homeowners stay in their homes under the "Making Home Affordable" program.

Second, President Obama's budget contemplates a number of reforms that involve the increased use of refundable tax credits. Without refundability, benefits are restricted to taxpayers with tax liability to be offset. With a refundable tax credit, the policy is able to deliver resources to taxpayers with low or no tax liability—the people who would benefit most.

Finally, the rhetorical framing the White House is using to talk about economic policy has shifted. In his April 14, 2009 speech on the economy at Georgetown University, President Obama spoke of the need to move our country from an era of "borrow-and-spend" to one of "save-and-invest." Since the American Recovery and Reinvestment Act, this new rhetorical framing has been accompanied by the introduction of proposals that clearly prioritize investments which will drive long-term term growth. However, making this transition will require a stronger focus on expanding domestic savings at the household level and in the national economy.

If the Obama Administration is to ensure the nation's prosperity and help individuals achieve the American Dream, additional policies that enable a greater degree of savings by families at the bottom of the economic ladder will be required. As Congress completes its work of designing and passing a budget and the Obama Administration continues to develop additional proposals, we invite them to consult another of our publications, *The Assets Agenda*, for ideas on how to implement a more inclusive set of savings and asset-building policies to benefit all Americans.

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INTRODUCTION

Asset ownership plays a central role in the economic security of American families and the broader economy. Assets can be deployed productively, such as to pay for a college education, or tapped to help individuals and families weather unexpected events. Additionally, assets have behavioral effects that can change the manner in which people think about and plan for the future.

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. We typically think of education, homeownership, entrepreneurship, savings, and thrift as the fruits of that pursuit, but they are just as much the assets upon which opportunity for upward economic and social mobility are built. To this end, various federal direct spending and tax expenditures encourage the accumulation of these assets. But how does the Federal government encourage the accumulation of assets? In what forms? Who benefits from these programs? And how will President Obama's new plans help Americans move up the ladder of opportunity?

To answer these questions, we present a survey of the current landscape of federal asset-building programs that structure the opportunities for individuals to climb the economic ladder.[2] This paper includes a description of recently enacted legislation and policy, as well as the President's Fiscal Year 2010 Budget proposals. Through this analysis, we trace the many ways direct federal expenditures and tax subsidies are deployed to help Americans build assets. In turn, these assets support post-secondary education, homeownership, entrepreneurship, savings and investment, and retirement security. We show outlays for these programs in Fiscal Year 2008, projected expenditures in Fiscal Year 2009, and proposed expenditures in Fiscal Year 2010.

The programs we identify as asset building explicitly help Americans acquire assets for one or more of the purposes outlined above. These programs serve individuals and go to broad sectors of the population. We exclude programs meant exclusively for military veterans or a limited portion of the population.

As in past years, our analysis reveals a sizeable amount of public resources are directed to promoting asset-building objectives. In Fiscal Year 2010, the Obama Administration estimates that over $421.94 billion in resources will be devoted to asset-building activities.[3] The overwhelming majority of these resources will benefit middle- and upper-income families that are able to take advantage of tax subsidies that promote homeownership and saving in retirement accounts. Given the scale of these investments and the multiple demands on the public purse, it is imperative that Congress and the general public closely scrutinize these budget proposals and existing policies. When they do, we believe they will be struck by some fundamental inequities.

One of the most striking inequalities is how the poorest Americans, who have traditionally had limited access to income supports and social services, are offered less attractive ways to build wealth than middle- and upper-income people. This approach misses the potential of assets to help chart a path out of poverty. If we are to successfully broaden savings and asset ownership—giving everyone a stake in the common wealth—we must understand how the federal government's current approach affects asset building among low- and moderate-income Americans. This paper moves us closer to that understanding by clarifying some of the President's initial priorities, which notably support efforts to reach many of the families left out by current policy, particularly with respect to retirement savings.

This edition of the New America Foundation's *Assets Report* is the most comprehensive to date. It catalogues the Administration's proposals and legislative changes enacted in a series of laws beginning in 2008 through early 2009 that made significant changes in the asset-building landscape. A companion report, *The Assets Agenda*, offers a more detailed description of a range of policy proposals to broaden savings and asset ownership.

We classify programs into 5 broad categories:

- Post-secondary education;
- Homeownership;
- Entrepreneurship;
- Savings and investment; and
- Retirement.

Federal policies and programs are included if they:

- Promote development of human capital through post-secondary education; or
- Encourage saving and asset formation;
- Directly benefit individuals; and
- Go to broad sectors of the population.

RECENTLY ENACTED ASSET-BUILDING LEGISLATION

The economic downturn that began to take hold in 2008 spurred significant legislative action. Between February 2008 and February 2009, five bills that included policies related to asset building were enacted into law. These policies are described in this section. Collectively, they indicate the extent to which a policy response to the recession is linked to stabilizing household balance sheets and protecting families from the erosion of savings, the loss of wealth, and the disappearance of wealth building opportunities. A wide range of policy tools has been deployed, including increased outlays, new tax credits, and new tax deductions and exclusions. The increased use of refundable tax credits is particularly significant because they have the advantage of benefiting more families with lower incomes, fewer resources, and lower tax liabilities than traditional tax credits have been able to do.

Table 1. Recently Enacted Legislation with Asset-Building Provisions

Legislation	Date Enacted
American Recovery and Reinvestment Act	February 17, 2009
Emergency Economic Stabilization Act (“TARP”)	October 2, 2008
Housing and Economic Recovery Act	July 30, 2008
Food, Conservation and Energy Act (“Farm Bill”)	May 22, 2008
Economic Stimulus Act	February 13, 2008

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Appropriation for HOME Investment Partnerships Program. The HOME Investment Partnerships Program provides flexible annual formula grant assistance to states and local governments to increase the supply of affordable housing and expand homeownership for low- to very-low income persons. Sixty percent of the formula grant funds are awarded to local governments and 40 percent to states. Grantees use funds (often in partnership with local non-profit organizations) to build, purchase, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to people.

The American Recovery and Reinvestment Act of 2009 appropriated $2.25 billion for the HOME Investment Partnerships Program. President Obama’s funding request for the Fiscal Year 2010 is described in Funding Requests for Existing Programs.[4]

Modified Community Development Financial Institutions Fund Rules. The Community Development Financial Institutions (CDFI) Fund provides equity investments, grants, loans, and technical assistance to community development banks, credit unions, and loan and venture capital funds in order to expand the availability of retail banking services and affordable credit in distressed communities. The CDFI Fund operates four programs: the (1) Community Development Financial Institutions Program, (2) New Markets Tax Credit (NMTC) Program, (3) Native American Initiatives (NAI) Program, and (4) Bank Enterprise Awards Program

The American Recovery and Reinvestment Act of 2009 appropriated $100 million for the CDFI Fund in Fiscal Years 2009 and 2010 (in addition to the $107 million appropriated for the program in the Omnibus Appropriations Act of 2009) and made two temporary changes to the program for Fiscal Year 2009. The first waives the CDFI Program’s 30-year, $5 million award cap for Fiscal Year 2010 to make it easier for the CDFI Fund to provide awards to highly qualified CDFIs. The second change waives the CDFI Program’s matching provision for Fiscal Year 2010, which requires applicants to match awards on a one-to-one basis with non-Federal funds. Given current credit market conditions, it may be difficult for CDFIs to obtain affordable private credit, and the modified rule will allow them to apply even if they are struggling to find a match.

The Administration proposes extending the temporary changes to the program into Fiscal Year 2010 (*New Policy Proposals for Fiscal Year 2010*). The program’s Fiscal Year 2010 funding request is described in *Funding Requests for Existing Programs*.[5]

Expanded Federal Pell Grant Program. The American Recovery and Reinvestment Act of 2009 appropriated $15.8 billion for the Federal Pell Grant Program to be used through Fiscal Year 2011. $200 million was designated for students whose parent(s) or guardian(s) was a member of the Armed Forces and died in military services in Iraq or Afghanistan after September 11, 2001 or who was less than 24 years of age or was enrolled in an institution of higher education at the time of a parent or guardian’s death. The ARRA also decreased the maximum award amount to $4,860 for academic year 2009-2010. In 2009, 7 million students will receive a Pell grant to help pay for postsecondary education.[6]

The Administration’s Fiscal Year 2010 Budget proposes shifting Pell grants from a discretionary to mandatory program and increasing the maximum benefit amount. *New Policy Proposals for Fiscal Year 2010* outlines the President’s proposal. *Funding for Existing Programs* provides a cost estimate of the program under this proposal.[7]

Provided Making Work Pay Tax Credit. The American Recovery and Reinvestment Act of 2009 created a refundable tax credit equal to 6.2 percent of earned income up to $400 for working single taxpayers and $800 for working married taxpayers filing a joint return, for taxable years 2009 and 2010. The credit phases out at a rate of 2 percent for taxpayers with modified aggregate gross incomes over $75,000 ($150,000 for married taxpayers filing a joint return).

In his Fiscal Year 2010 budget, President Obama proposes to make the Making Work Pay Tax Credit permanent. Refer to *New Policy Proposals for Fiscal Year 2010* for a description of the President's proposal.[8]

Increased the EITC. The EITC is refundable and equal to a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phase-out rate and the amount of earned income or AGI (if greater) above a specified income threshold. Three separate schedules apply depending on whether the taxpayer has no, one, or more than one qualifying child. Under prior law (taxable year 2009) taxpayers with more than one qualifying child received a credit equal to 40% of earnings up to $12,570, for a maximum credit of $5,028. The credit was reduced at a rate of 21.06 percent of earnings above $16,420 for single taxpayers ($19,540 for married taxpayers filing a joint return).

Effective for taxable years 2009 and 2010, the American Recovery and Reinvestment Act of 2009 increased the credit for families with three or more qualifying children to 45 percent, creating a fourth credit schedule with a maximum credit of $5,656.50. The income thresholds for the phase-out of the credit for married couples filing a joint return (regardless of the number of qualifying children) were increased to $5,000 above the income thresholds for the phase-out for other taxpayers for 2009 and indexed to inflation for 2010.

The Administration proposes modifying and making permanent the ARRA-expanded EITC. This proposal is described in *New Policy Proposals for Fiscal Year 2010*.[9]

Increased refundable portion of the Child Tax Credit. The Child Tax Credit provides taxpayers a nonrefundable tax credit of up to $1,000 for each qualifying child under the age of 17. The credit is reduced by $50 for each $1,000 (or fraction thereof) of modified AGI over $75,000 for single taxpayers ($110,000 for married taxpayers filing a joint return). If the credit exceeds the taxpayer's income tax liability, the taxpayers is eligible for a refundable credit equal to the lesser of (1) 15% of earned income above a threshold income ($12,550 for 2009), indexed annually to inflation, or (2) any child credit unclaimed due to insufficient tax liability. Taxpayers with 3 or more qualifying children may determine the additional child credit using an alternative formula. In October 2008, the Emergency Economic Stabilization Act (EESA) of 2008 temporarily lowered the income threshold to $8,500 for taxable year 2008 (described below).

In February 2009, the American Reinvestment and Recovery Act of 2009 lowered the minimum income needed for families to qualify for the Child Tax Credit. The refundable portion of the tax credit was increased to 15 percent of earned income above a threshold amount of $3,000 (for taxpayers for whom the credit exceeds the taxpayer's tax liability). The lower income threshold will allow 2.9 million children who would not have qualified for the credit in 2008 to receive one for taxable year 2009 while 10 million children receive larger credits. Families become eligible for the maximum $1,000 credit when income reaches $16,333 under the new provisions, versus $21,833 for 2008 before the ARRA changes were enacted (Center on Budget and Policy Priorities 2009).

The Administration proposes expanding the refundability of the credit for taxable years beginning in 2010. For a description of the proposed changes, refer to *New Policy Proposals for Fiscal Year 2010*.[10]

Provided American Opportunity Tax Credit. The American Opportunity Tax Credit was created by the ARRA and replaces the Hope Scholarship Credit for taxable years 2009 and 2010.[11] The American Opportunity Tax Credit is partially refundable, has a higher maximum credit amount, is available for the first four years of an eligible student's post-secondary education, and has higher phase-out limits. Taxpayers are provided a credit of up to $2,500 per eligible student per year, for the first four years, for qualified tuition and related expenses (including course materials). Eligible students must be enrolled in a post-secondary degree or certificate program at least half-time. The credit is equal to 200 percent of the first $2,000 in qualified tuition and related expenses, and 25 percent of the next $2,000 of qualified tuition and related expenses. 40 percent of the allowable credit is refundable. The credit phases out for single taxpayers with modified AGI between $80,000 and $90,000 ($160,000 and $180,000 for married taxpayers filing a joint return).

President Obama proposes making permanent the American opportunity tax credit, described in *New Policy Proposals for Fiscal Year 2010*.[12]

Extended and modified the refundable tax credit for first-time homebuyers. This provision of the American Recovery and Reinvestment Act (ARRA) of 2009 extended and modified the refundable tax credit provided to first-time homebuyers in the Housing and Economic Recovery Act (HERA) of 2008 (see below).

The ARRA extends the credit to apply to qualifying home purchases before December 1, 2009, waives the recapture of the credit for qualifying home purchases after December 31, 2008 and before December 1, 2009, and increases the maximum credit to $8,000.[13]

Excluded a portion of unemployment compensation from taxation. Unemployment compensation is subject to individual income tax under current law. However, for taxable year 2009, the ARRA permitted taxpayers to exclude up to $2,400 of unemployment compensation from gross income for Federal individual income tax purposes.[14]

EMERGENCY ECONOMIC STABILIZATION ACT OF 2008

Established the Making Home Affordable program. The Making Home Affordable program is an Administration initiative created in March 2009 with a portion of the $700 billion of funds appropriated for the Troubled Assets Relief Program ("TARP") in the Emergency Economic Stabilization Act of 2008. It consists of the Home Affordable Refinance program and the Home Affordable Modification program. The Home Affordable Refinance program will allow 4 to 5 million homeowners to refinance their homes into a mortgage with lower interest rates or to refinance an adjustable-rate mortgage into a more stable mortgage, such as a 30-year fixed rate loan. This program is designed for homeowners with a solid payment history on an existing mortgage owned by Fannie Mae or Freddie Mac, who are not able to refinance because their homes have lost value.

The Home Affordable Modification program will help 3 to 4 million at-risk homeowners avoid foreclosure by modifying loan terms to reduce monthly mortgage payments to up to 38 percent of the borrower's income. Next, the program will match further reductions in monthly payments dollar-for-dollar from 38 percent down to 31 percent of borrower income. Servicers are paid $1,000 for each modification, and "success" fees of $1,000 for each year for the first three years that the borrower stays in the program. To incent borrowers to keep current on payments on their modified mortgages, the program pays the borrower a monthly "success" payment that reduces the principal balance on the mortgage, up to $1,000 per year for 5 years. Delinquency is not a requirement for eligibility and loan modifications are available only for loans no more than $729,750. The Administration has allocated $75 billion to the Home Affordable Modification program.[15]

Temporarily modified the income threshold used to calculate the refundable portion of the Child Tax Credit. Taxpayers are provided a nonrefundable tax credit of up to $1,000 for each qualifying child under the age of 17. The credit is reduced by $50 for each $1,000 (or fraction thereof) of modified AGI over $75,000 for single taxpayers ($110,000 for married taxpayers filing a joint return). If the value of the credit exceeds the taxpayer's liability, it becomes refundable for the lesser of (1) 15 percent of the taxpayer's earned income above an earned income threshold of $10,000, indexed annually for inflation beginning in 2002, or (2) any child credit unclaimed due to insufficient tax liability. The Emergency Economic Stabilization Act temporarily reduced the earned income threshold, which was set to rise to $12,050 for taxable year 2008, to $8,500 for taxable years beginning in 2008.

The Child Tax Credit was more recently modified in the American Recovery and Reinvestment Act (described above) and President Obama has proposed changes to the credit in his current budget proposal for Fiscal Year 2010 (*described in New Policy Proposals for Fiscal Year 2010*).[16]

Extended deduction for qualified tuition and related expenses. An above-the-line deduction of up to $4,000 is provided for higher education expenses paid by a taxpayer during the taxable year. For a given taxable year, the deduction cannot be claimed if an education tax credit is claimed for the same student. Moreover, the deduction may not be claimed for the amount of a distribution from a qualified tuition plan, Coverdell education savings account, or the amount of interest from education savings bonds that is excludable from income.

This Emergency Economic Stabilization Act extended the deduction, which had expired for expenses incurred in taxable years after 2007, to apply to expenses incurred in taxable years 2008 and 2009.[17]

HOUSING AND ECONOMIC RECOVERY ACT OF 2008

Provided a refundable tax credit to first-time homebuyers. To lower the barriers to purchasing a home in the declining economy, a refundable tax credit was provided to first-time homebuyers who purchased a home between April 9, 2008 and July 1, 2009, without regard to whether or not there was a binding contract to purchase prior to April 9, 2008. The credit was equal to 10 percent of the purchase price of the home, up to a maximum credit of $7,500, and is phased out for taxpayers with modified AGI between $75,000 and $95,000 ($150,000 and $170,000 for married taxpayers filing a joint return). Taxpayers receiving the credit were required to repay the amount received in equal installments over a 15-year period beginning two years after the purchase of the home.

The American Recovery and Reinvestment Act of 2009 extended and modified the credit.[18]

Provided an above-the-line deduction for State and local real property taxes. A taxpayer's taxable income is computed by reducing the AGI by a standard deduction or by the taxpayer's itemized deductions. An above-the-line deduction of up to $500 ($1,000 for married taxpayers filing a joint return) for State and local real property taxes was provided to homeowners who did not itemize their deductions, effective for taxable year 2008.[19]

FOOD, CONSERVATION AND ENERGY ACT OF 2008 ("FARM BILL")

Indexed to inflation the asset test thresholds for the Supplemental Nutrition Assistance Program. Effective beginning October 1, 2008, and each October 1 thereafter, asset limits were indexed annually for inflation as measured by the CPI-U and adjusted down to the nearest $250. Before this change, the asset limit had not changed in decades. Indexing the asset test thresholds to inflation will ensure these limits do not become increasingly restrictive for low-income families.

Excluded from asset tests certain retirement and education accounts. The Food, Conservation and Energy Act provides for the mandatory and discretionary exclusion of certain retirement and education accounts from allowable household financial resources, including 401(a), 403(a), 403(b), 408, 408A, 457(b), 501(c)(18), Federal Thrift Savings Plan accounts, college 529 accounts, Coverdell education savings accounts, and all other retirement and college savings accounts determined by the Secretary of Agriculture. This rule enables working families to save for retirement and higher education expenses without jeopardizing eligibility for nutrition assistance programs.

ECONOMIC STIMULUS ACT OF 2008

Recovery payments for individuals. Although intended to spur consumption and stimulate the economy, economists estimated that over 80 percent of Americans would save their recovery payments or use them to pay down debt.[20] Eligible individuals were provided a basic credit equal to the greater of (1) net individual income tax liability, up to $600 for single taxpayers and $1,200 for married couples filing a joint return or (2) $300 for a single individual and $600 for a married couple. An additional $300 credit was available for each qualifying child under 17 years of age. The credit received (basic credit plus the child credit) was reduced by 5 percent of the amount of the taxpayer's AGI above $75,000 ($150,000 for joint returns). To be eligible for the basic credit, taxpayers needed (1) a net income tax liability of at least $1 and AGI greater than the sum of the basic standard deduction plus the exemption amount (twice the exemption amount in the case of a joint return) or (2) qualifying income of at least $3,000 (including earned income, social security benefits, and veterans; disability and death benefits). The credit was refundable and computed based on tax returns filed for taxable year 2007.[21]

PRESIDENT'S FISCAL YEAR 2010 ASSET-BUILDING BUDGET

President Barack Obama presented his first budget overview on February 26, 2009. In this document, called "A New Era of Responsibility: Renewing America's Promise," he articulated a set of policy priorities and committed the new administration to action in a number of areas. On May 7, 2009, the Office of Management and Budget released the rest of the President's budget. Together, the material presented in these documents provides Congress a foundation for considering the Administration's legislative requests. The process of appropriating resources and reforming programs will likely continue throughout the remainder of the year. In this section, we describe the range of the Administration's proposals related to the full range of asset-building activities over the life cycle. We distinguish between new policy proposals and requests for funding of existing programs.

NEW POLICY PROPOSALS FOR FISCAL YEAR 2010

Post-Secondary Education

Provide American Opportunity Tax Credit. The temporary American Opportunity Tax Credit was created by the ARRA for taxable years 2009 and 2010 to replace the Hope Scholarship Credit.

The Administration proposes to permanently extend the American Opportunity Tax Credit and index the expense amounts and phase-out limits to inflation, beginning in taxable year 2011. This proposal would effectively eliminate the Hope Scholarship Credit. A description of the original American Opportunity Tax Credit is provided in *Recently Enacted Asset-Building Legislation*.[22]

Eliminate the Federal Family Education Loans Program. The Office of Management and Budget's Program Assessment Rating Tool identifies major structural flaws and cost inefficiencies in the program that limit the program's effectiveness.[23] Citing high costs, President Obama proposes eliminating the Federal Family Education Loans (FFEL) program, under which the federal government pays entitlement subsidies to financial institutions to make loans to students. The Administration will instead redirect resources from the FFEL program to its Direct Loan program, beginning in Academic Year 2010-2011 (starting July 1, 2010), which has lower administrative costs and comparable services, default rates, and satisfaction to the FFEL program. The resulting savings of $4 billion in Fiscal Year 2010 from elimination of the FFEL program will be used to provide additional Pell Grants to students. Detailed information about how the elimination of the FFEL program will affect the Direct Loan program is located in *Funding Requests for Existing Programs*.[24]

Make Federal Pell Grants an entitlement for eligible students. The Administration proposes to make the Federal Pell Grant program an entitlement for eligible students, set the maximum grant for award year 2010-2011 to $5,550, and index the maximum award amount annually to the Consumer Price Index plus one percentage point. This maximum award amount is lower than the $6,400 maximum Pell Grant established in the Higher Education Opportunity Act of 2008. The Administration requests a mandatory appropriation of $28.7 billion for the program in Fiscal Year 2010, which is reduced by $7.5 billion in remaining budget authority provided by the American Recovery and Reinvestment Act of 2009 and the College Cost Reduction and Access Act of 2007.

Recently Enacted Asset-Building Legislation details the appropriation made to the Federal Pell Grant program in the American Recovery and Reinvestment Act of 2009. The President's funding request for the program, outlined in *Funding Requests for Existing Programs*, reflects his proposal to convert Pell grants to a mandatory program.[25]

Make the Federal Perkins Loan program mandatory. The Federal Perkins Loan program provides low-interest loans to low-income students at one of 1,800 participating post-secondary institutions. Schools have great flexibility in determining the amount of Perkins loans awarded to students. Students who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans canceled. Schools are generally reimbursed for 100 percent of the principal amount of the loan canceled and the reimbursement must be reinvested in the school's revolving loan fund. Loan capital is provided by Federal Capital Contributions, an institutional matching contribution equal to at least one-third of the federal contribution, and the institution's collections on prior-year student loans.[26]

The Administration proposes to expand the Perkins Loan program so that more colleges may participate and more students benefit from the program. Under the proposal, the Perkins Loan program would become a mandatory direct loan program beginning July 1, 2010, delivered by the same method as Pell Grants and Direct Loans rather than through institutional loan funds as is currently done now. Loan volume would be allocated by a method determined in consultation with Congress, encouraging colleges to control costs and offer need-based aid to limit student indebtedness. Schools would retain discretion in determining student eligibility, borrowers would be charged the current 5 percent interest rate and interest would accrue while students are in school. Under this expansion, the program would serve 2.6 million students in Fiscal Year 2010, more than the 500,000 students served in Fiscal Year 2009, while aid available to students would increase six fold, from $1.1 billion to $5.769 billion in the same period. More information about the Perkins Loan program's Fiscal Year 2010 funding request is located in *Funding Requests for Existing Programs*.[27]

Entrepreneurship

Modify the Community Development Financial Institutions (CDFI) Fund. President Obama proposes to extend the two temporary changes made to the Community Development Financial Institutions Fund program under the American Recovery and Reinvestment Act of 2009 into Fiscal Year 2010. The Administration wants to extend the waiver on the CDFI Fund program's 30-year $5 million award cap. Under this proposal, the Fund will have the discretion to use some of its additional resources to fully fund high quality applicants who received awards in previous rounds. The Administration also proposes to extend the waiver of the program's one-to-one matching provision.

In addition to the Administration's proposal to extend temporary changes, the Administration says it is currently considering ways to improve the effectiveness of the New Markets Tax Credit (NMTC) program, including the possibility of authorizing the NMTC to offset tax liability under the Alternative Minimum Tax system.

The Administration proposes funding for a new grant program, the Capital Magnet Fund (CMF), which was authorized by the Housing and Economic Recovery Act of 2008, to operate alongside the CDFI Fund's existing merit-based programs. The new program will expand financing for affordable housing and economic development projects in distressed areas and would be funded at $80 million in Fiscal Year 2008.

The temporary changes made to the CDFI Fund program in the ARRA are described in *Recently Enacted Asset-Building Legislation*. The Administration's Fiscal Year 2010 funding request for the program is outlined in *Funding Requests for Existing Programs*.[28]

Savings and Investment

Asset Limits Reform. While he has not committed to specific policy or proposals, President Obama signaled his intention to work with Congress to review asset limits for Federal means-tested programs. The Administration recognizes the potential for more flexible rules to create opportunities for families to increase their savings and asset holdings. Specifically, the budget noted that "The intersection of the new credits and outdated asset rules may disqualify new and current individuals and families from Federal benefits, including Medicaid and the Supplemental Nutrition Assistance Program (formerly Food Stamps)."[29]

Provide Making Work Pay Tax Credit. For taxable years 2011 and beyond, the Administration proposes to make permanent the making work pay tax credit, decrease the rate at which the credit phases out from 2 percent to 1.6 percent, and index to inflation the income thresholds at which the credit begins to phase out. *Recently Enacted Asset-Building Legislation* contains a description of the original credit, created by the American Recovery and Reinvestment Act of 2009.[30]

Eliminate the Advanced EITC. The Administration proposes to eliminate the Advanced Earned Income Tax Credit (EITC), which allows eligible taxpayers to receive a portion of their EITC throughout the year in their paychecks. The Advanced EITC is claimed by few taxpayers (514,000 according to the GAO) and has a high error rate. Half of all recipients received less than $100. The estimated savings to the federal government would be $125 million in FY 2010 in reduced erroneous payments.[31]

Expand EITC. Following changes to the EITC made in the American Recovery and Reinvestment Act of 2009, the Administration proposes, effective for taxable years beginning in 2011, to permanently extend (1) the 45 percent credit for families with three or more qualifying children and (2) increase the income thresholds for the phase-out of the EITC for other taxpayers. The increase would be indexed annually for inflation from its $5,000 value in 2009. The original credit and changes to the credit made under the ARRA are described in *Recently Enacted Asset-Building Legislation*.[32]

Expand refundability of the Child Tax Credit. The Administration proposes making permanent the $3,000 income threshold at which the credit begins to phase in, effective for taxable years beginning in 2011. *Recently Enacted Asset-Building Legislation* describes changes made to the credit under the American Recovery and Reinvestment Act of 2009 and previously in the Emergency Economic Stabilization Act of 2008.[33]

Impose a 20-percent tax rate on capital gains and dividends for those taxpayers with income over $250,000 (married filing a joint return) and $200,000 (single). The 2003 Jobs and Growth Tax Relief Reconciliation Act reduced the maximum tax rate on long-term capital gains from 20 percent to 15 percent, and from 10 percent to 5 percent (zero beginning in 2008) for lower-income taxpayers. Dividends had been taxed as ordinary income under prior law.

The Administration proposes to increase the tax rate on qualified dividends and long-term capital gains to 20 percent for single taxpayers with income over $200,000 and for married taxpayers filing a joint return with income over $250,000 (at 2009 levels). Lower-income taxpayers would be taxed at the rates in effect in 2009. The proposals would be effective for taxable years beginning 2011. By increasing the tax rate on capital gains and dividends, this proposal will generate $600 million in Fiscal Year 2010.[34]

Retirement

Expand Saver's Credit. The Administration proposes to expand the existing Saver's Credit, so it is more effective in helping lower-income families save. Currently, taxpayers 18 years or older who are not dependents or full-time students may receive a nonrefundable Saver's Credit equal to between 10 percent and 50 percent of their compensation (depending on taxpayer's filing status and AGI, adjusted for inflation) up to $2,000 contributed to an employer-sponsored qualified retirement plan or IRA. Qualified contributions are reduced by distributions from qualified plans and IRAs during the current tax year, up to the due date of the return, including extensions.

Under the Administration's proposal, the credit would (1) become refundable, (2) and the match rate would be modified to 50 percent up to $500 on qualified retirement savings per individual per year (indexed annually for inflation beginning in taxable year 2011). The amount of savings that could be matched would phase out at a rate of 5 percent for AGI in excess of $32,500 for single taxpayers ($65,000 for married taxpayers filing a joint return) and would be indexed annually for inflation beginning in taxable year 2011.[35]

Provide automatic enrollment in IRAs. The Administration has committed to dramatically expand access to long-term savings plans through its proposal to create "AutoIRAs." If enacted, the policy would require employers who do not currently offer a retirement plan to offer automatic enrollment in an IRA to all their employees, effective for taxable years beginning in 2012. This change would benefit the half of the workforce (over 70 million families) whose employers do not offer such savings plans. Small employers (with less than 10 employees) would be exempt. An employee would be automatically enrolled in an IRA at a default rate of 3% of the employee's compensation unless the employee opts out. Employers that offer an automatic IRA would be eligible to receive a temporary business tax credit.[36]

Table 2. Projected Effect of Savings and Investment Proposals on Receipts and Outlays[a]
(in millions of dollars)

	FY 2010	FY 2011	FY 2010-2019
SAVINGS AND INVESTMENT			
Provide making work pay tax credit	---	-31,080	-535,010
Eliminate the Advanced EITC	125	76	872
Expand EITC	---	-17	-21,419
Expand refundability of the child tax credit	---	---	-70,953
Impose a 20-percent tax rate on capital gains and dividends for those taxpayers with income over $250,000 (married) and $200,000 (single)	600	6,641	3,672
Subtotal Savings and Investment	125	-31,021	-626,510
RETIREMENT			
Expand Saver's Credit and provide automatic enrollment in IRAs	---	-232	-59,617

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2010*, "Analytical Perspectives." Table 17-3.
Note: figures in negative indicate government outlay.
[a] Includes foregone tax receipts and projected outlays.
[b] Subtotal excludes increased 20 percent tax rate on capital gains and dividends, which will affect only upper-income households.

FUNDING REQUESTS FOR EXISTING PROGRAMS

Post-Secondary Education

Federal Pell Grants. The American Recovery and Reinvestment Act of 2009 (described above) appropriated supplemental funds for the Federal Pell Grant program in February 2009. The Administration's Fiscal Year 2010 request for the Pell Grant program of $28.7 billion, which includes an estimated $7.5 billion in surplus funds from the American Recovery and Reinvestment Act of 2009, reflects its proposal to make the program an entitlement to eligible students. The Fiscal Year 2010 budget request would make $28.6 billion in aid available to 7.59 million low-income students. By comparison, Fiscal Year 2009 appropriations of $35.7 billion benefitted 7 million students compared to Fiscal Year 2008 funding of $16.3 billion for only 6 million students.[37]

Academic Competitiveness/National Science and Mathematics Access to Retain Talent (SMART) Grant. The Academic Competitiveness and National Science and Mathematics Access to Retain Talent Grants are administered under the same account. For both programs, the Ensuring Continued Access to Student Loans Act of 2008 expanded access to the grants to non-citizens, part-time students, and students pursuing certificate programs.

Academic Competitiveness Grants are awarded to first-year and second-year students who have completed a rigorous course of study in high school and who are eligible to receive a Pell Grant. Grant levels are $750 for first-year students and $1,300 for second-year students.[38]

The SMART Grant is awarded to third- and fourth-year students majoring in mathematics, science, or a foreign language critical to national security. Grants are $4,000 and together with other Federal student aid, cannot exceed a student's cost of attendance.

SMART Grant Program funding in excess of the amount needed to fund grants in a given year can be carried over for use in subsequent years. If the mandatory funding level is insufficient to fund program grants, grant levels are reduced. In Fiscal Year 2010, the Administration requests canceling $511 million in unobligated balances (unspent balances carried over from the previous year) because remaining balances are sufficient to meet estimated demand in this program through the 2010-2011 academic year, when the authorizing statute specifies the program will sunset. The Administration has not signaled an interest in continuing the program beyond then.

The President's Fiscal Year 2010 funding request for the Academic Competitiveness and SMART Grant Programs is $1.9 billion, which is projected to be reduced by $511 million to $1.4 billion when unobligated balances are cancelled.[39]

Direct Student Loans. The William D. Ford Federal Direct Lending Program, like the Federal Family Education Loan program, which the Administration proposes ending, includes Subsidized Stafford, Unsubsidized Stafford, PLUS, Graduate PLUS, and Consolidation loans. The Administration expects that its proposal to end the Federal Family Education Loan (FFEL) program and redirect resources to the Federal Direct Lending Program will mean the student loans made in Fiscal Year 2010 will bring $13.9 billion in receipts to the government over the life of the loans, compared to $6.6 billion for loans made in Fiscal Year 2009. The higher receipts for Fiscal Year 2010 loans reflect not only more aid made available to students but higher cost savings from eliminating subsidies to student lenders and redirecting loans through the Direct Lending program. Receipts to the government from loans made through the Federal Family Education Loan program will decrease to $2.7 billion for Fiscal Year 2010 loans from $24.6 billion for Fiscal Year 2009 loans. Aid available to students will increase to $19.8 billion in Fiscal Year 2010 from 18.7 billion in Fiscal Year 2009 (aid available to students, shown in Table 3, reflects the Administration's method of calculating loans made through the FFEL and Direct Lending Program together) .[40]

Perkins Loans. Under the Administration's proposal, the Perkins Loan program would become an entitlement to eligible students. This proposal and a description of the program are located in *New Policy Proposals for Fiscal Year 2010*. No new appropriation, in the form of Federal Capital Contributions, is requested for Fiscal Year 2010. However, it is expected that President Obama's proposed changes to the program will increase annual loans to students to $5.7 billion in Fiscal Year 2010 from $1.1 billion in Fiscal Year 2009 and that new loans made in Fiscal Year 2010 will bring $498 million in receipts to the Federal government over the lifetime of the loans. In Fiscal Year 2009, the Perkins Loan program received only $67 million in funds to reimburse schools for loan cancellations but no Federal Capital Contributions. Table 3 reflects aid available to students.[41]

Supplemental Educational Opportunity Grants. Federal funds are awarded by formula to qualifying institutions, which use these funds to award grants to undergraduate students. Institutions are required to give priority to Pell Grant recipients and students with exceptional need. The federal share of these grants cannot exceed 75 percent of the total grant. Although the Administration's request of $757 million for SEOG is $2 million less than Fiscal Year 2009 estimated outlays and Fiscal Year 2008 actual outlays, the Fiscal Year 2010 funding request would generate an estimated $959 million in aid to 1.3 million students.[42]

Leveraging Educational Assistance and Partnerships (LEAP). The Leveraging Educational Assistance and Partnerships program awards matching funds to states to provide grants and work-study assistance to needy students attending qualifying institutions. When federal appropriations for the program are less than $30 million, program awards must be matched on a one-to-one basis and may not exceed $12,500 per academic year per student. Appropriations in excess of $30 million are reserved for Grants for Access and Persistence, which replaces the Special LEAP program (eliminated by the Higher Education Opportunity Act of 2008), and provides need-based grants, early notification of eligibility of need-based aid to low-income students, and encourages participation in early intervention, mentoring, and outreach programs. The Federal share of these activities cannot exceed 66.66 percent. The Administration requests $64 million for LEAP, which would generate $162 million in aid to 162,000 students.[43]

TRIO Programs. The Federal TRIO programs are educational outreach programs designed to help low-income, first-generation college students and students with disabilities progress through the academic pipeline from middle school to college. The Federal TRIO programs include: 1) Educational Opportunity Centers program; 2) McNair Postbaccalaureate Achievement program; 3) Student Support Services program; 4) Talent Search program; 5) Training Program for Federal TRIO Programs Staff; 6) Upward Bound; 7) Upward Bound Math-Science; and 8) Veterans Upward Bound Program. The Administration requests $848.1 million for the TRIO programs in Fiscal Year 2010, maintaining the program's Fiscal Year 2009 funding level. In 2007, Congress provided $57 million in mandatory funding to make 4-year awards to 186 unsuccessful Upward Bound applicants for the Fiscal Year 2007 competition who achieved a certain score in the application process, an amount that is made available every year for Fiscal Years 2008 through 2011 in addition to the President's discretionary appropriation request.[44]

GEAR UP. The Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) provides competitive, six-year state and partnership matching grants to fund early intervention to increase college enrollment and student success at low-income middle and high schools. Grantees provide services to a cohort starting at seventh grade and follow the cohort through high school. Scholarships for college must be provided by state grantees and may be provided by partnership grantees. The Administration requests $313.2 million for GEAR UP in Fiscal Year 2010, the same budget authority that was given to the program in Fiscal Year 2009.[45]

Homeownership

Federal Housing Administration. The Federal Housing Administration supports homeownership for many households, including low- and middle-income families, by providing mortgage insurance to encourage lenders to make loans available to borrowers for which the conventional market would otherwise not serve. It generates revenue for the government in the fees it collects and its annual outlays vary depending on the performance of the loans and the larger housing market. Although its budget numbers are less informative in isolation, we include it here since it represents a primary means for the government to support homeownership. In Fiscal Year 2010, the Administration requests $916 million for the program, up from Fiscal Year 2008 outlays of $51 million and $88 million in Fiscal Year 2009. The significantly higher request may be due in part to a need for the Federal Housing Administration to increase its capital reserve, as it has seen defaults on its mortgages increasing during the current economic recession.[46]

HOME Investment Partnerships Program (HOME). $4.07 billion ($2.25 billion in the American Recovery and Reinvestment Act of 2009 and $1.83 billion in the Omnibus Appropriations Act of 2009) was appropriated for the HOME Investment Partnerships Program for Fiscal Year 2009, more than two times the program's Fiscal Year 2008 outlay of $1.7 billion. The president's current request for the program in Fiscal Year 2010 is $1.83 billion, through which it is estimated 78,000 units of affordable housing will be built, rehabilitated, or purchased and that some funding will support rental assistance for 17,000 units.[47]

Self-Help and Assisted Homeownership Program. This program is comprised of the Self-Help Homeownership Opportunity Program (SHOP) and the Capacity Building for Community Development and Affordable Housing Program (formerly called Section 4). The requested budget authority for Fiscal Year 2010 is $77 million.

For Fiscal Year 2010, $27 million is requested for SHOP to provide assistance to low-income homebuyers willing to contribute "sweat equity" toward the construction of their houses. Funds are provided through competitive grants to national and regional non-profits for land acquisition for home sites and improvements of utilities and other site infrastructure. Those funds will produce at least 2,000 new homeownership units for very low to low-income people.

The Capacity Building for Community Development and Affordable Housing program budget request is $50 million, which generates a match of three dollars from private sources, for a total of $200 million for program sources. The Capacity Building program provides grants to national intermediaries to develop, enhance, and strengthen the technical and administrative capabilities of community development corporations to carry out community development and affordable housing activities for low- and moderate-income persons.[48]

Housing Counseling Assistance. The Housing Counseling Assistance program provides housing counseling services to eligible homeowners and tenants through grants to nonprofit intermediaries, state government, and other agencies to work with local and national organizations. Eligible counseling activities include pre- and post-purchase education, personal financial management, reverse mortgage product education, foreclosure prevention/mitigation, and rental counseling. The objective of the program is to expand homeownership opportunities, improve access to affordable housing, prevent foreclosure, increase financial literacy, and aid in bridging the minority homeownership gap. The Housing Counseling Assistance program is a priority for President Obama and an important complement to the Making Home Affordable program, announced in March 2009. President Obama requests an increase in the Housing Counseling Assistance Program's funding to $100 million, up from $65 million in Fiscal Year 2009.[49]

HOPE for Homeowners (H4H). The HOPE for Homeowners program was created by the Housing and Economic Recovery Act of 2008 to help borrowers at risk of default to refinance into more affordable, sustainable, FHA insured mortgages. Homeowners share a portion of the equity created upon issuance of the new FHA-insured loan and a portion of the future appreciation of the property with the Department of Housing and Urban Development. The Administration intends for the program to be in place only for so long as to provide stability to the housing market, effective for Fiscal Years 2009 to 2011. The Fiscal Year 2010 requested funding level for the program is $1.25 billion compared to $209 million in Fiscal Year 2009.[50]

Family Self-Sufficiency—Voucher Program. The Family Self-Sufficiency (FSS) program is a potentially powerful asset-building vehicle that allows participating families in assisted housing to set aside, in an escrow account, money that would otherwise go to rent increases. Account holders receive their accrued FSS escrow funds plus interest upon successful fulfillment of their individualized self-sufficiency plan. A national HUD evaluation of FSS found that compared to non-participants, FSS participants had larger increases in income and less dependency on public assistance. These funds support the provision of program coordinators, who provide the essential case management that is required by program rules. The Resident Opportunities and Self-Sufficiency program, which is separate from the Family Self-Sufficiency program and funds other activities, can be used to fund service coordinators in the Family Self-Sufficiency program. The Administration requests $50 million in Fiscal Year 2010 to fund coordinators in the voucher program, a decrease from the 2009 appropriated level of $93 million.[51]

Entrepreneurship

Microloan Program. The Microloan Program at the Small Business Administration provides small loans to start-up, newly established, and growing small businesses. The Small Business Administration makes funds available to nonprofit community based lenders who act as intermediaries and make loans of up to $35,000 to borrowers. The average loan size is $13,000. The Administration's Fiscal Year 2010 funding request for the

Microloan program is the same as estimated Fiscal Year 2009 outlays, which was increased by $30 million over Fiscal Year 2008 loan levels because of an appropriation included in the American Recovery and Reinvestment Act of 2009.[52]

Community Development Financial Institutions Fund Program. The Administration requests $244 million for the Community Development Financial Institutions (CDFI) Fund program for Fiscal Year 2010. The requested funding is significantly greater than the Fiscal Year 2009 appropriation of $207 million ($107 million in the Omnibus Appropriations Act of 2009 and $100 million from the ARRA of 2009) and Fiscal Year 2008 outlays of $94 million.

Recently Enacted Asset-Building Legislation describes the CDFI Fund program and outlines the temporary changes made to it in the American Recovery and Reinvestment Act (ARRA) of 2009. *New Policy Proposals for Fiscal Year 2010* outlines the President's proposal to extend the ARRA temporary changes into FY 2010.[53]

Table 3. Funding Levels of Selected Discretionary Programs (in millions of dollars)

	Actual 2008	Estimated 2009	Requested 2010
POST-SECONDARY EDUCATION			
Pell Grants (aid available)	18,181	25,329	28,616[a]
Academic Competitiveness/National SMART Grants[b]	395	73	1,897
Direct Student Lending/FFEL Programs (aid available)	16,427	18,722	19,763
Work-Study	989	1,181	981
Perkins (aid available)	1,103	1,103	5,769
Supplemental Educational Opportunity Grants	759	759	757
Leveraging Educational Assistance and Partnerships (LEAP)	64	64	64
TRIO (discretionary funding)[c]	885	848	848
GEAR UP	303	313	313
Subtotal Education	***39,106***	***48,392***	***59,008***
HOMEOWNERSHIP			
Federal Housing Administration	51	88	916
HOME Investment Partnerships Program	1,696	4,071	1,825
Self-Help Homeownership Program (SHOP)	57	64	77
Housing Counseling	---	65	100
HOPE for Homeowners	---	209	1,250
Family Self-Sufficiency—Voucher Program	48	93	50
Subtotal Homeownership	***1,852***	***4,950***	***4,218***
ENTREPRENEURSHIP			
SBA Microloan Program (loan levels)	20	50	50
Community Development Financial Institutions	94	207	244[d]
Subtotal Entrepreneurship	***114***	***257***	***294***
SAVINGS AND INVESTMENT			
Volunteer Income Tax Assistance	8	8	8
Assets for Independence Demonstration Program	24	24	24
Subtotal Savings and Investment	***32***	***32***	***32***
TOTAL	***41,104***	***53,631***	***63,552***

Source: Office of Management and Budget, Executive Office of the President, *Budget of the U.S. Government, Fiscal Year 2010.*

[a] Includes an estimated $7.523 billion surplus funds from the American Recovery and Reinvestment Act of 2009.

[b] The Academic Competitiveness and SMART Grant Programs reflect cancellations of unobligated balances carried over from previous years.

[c] Funding levels for Fiscal Year 2008 includes $57 million in mandatory funds provided under Section 402C(g) of the Higher Education Act of 1965, as amended. Funding levels for Fiscal Years 2009 and 2010 do not reflect $57 million in mandatory funds provided under the same section of the Higher Education Act.

[d] The Fiscal Year 2010 funding request for the Community Development Financial Institutions includes $80 million designated for a new Capital Magnet Fund.

Savings and Investment

Volunteer Income Tax Assistance (VITA). The VITA Program offers free tax preparation services to low- and moderate-income people. Certified volunteers receive training to prepare basic tax returns in communities across the country. The Administration requests $8 million for the VITA Program for Fiscal Year 2010, which is equal to the program's Fiscal Year 2009 appropriation by Congress (this funding request is not shown in Table 3 because the Office of Management and Budget does not calculate outlays and projected expenditures for the program individually).[54]

Assets for Independence. The Assets for Independence (AFI) Program provides grants to community-based non-profits and government agencies to implement Individual Development Accounts programs. Deposits made by IDA accountholders into their accounts are matched with AFI funding and help low-income families save for homeownership, start a business, and enroll in postsecondary education or training. Beneficiaries of the program are individuals eligible for Temporary Assistance for Needy Families or whose household assets are less than $10,000 in value and who are eligible for the Earned Income Tax Credit or have household income less than two times the Federal poverty line.[55]

President Obama requests maintaining funding for the Assets for Independence program at $24 million for Fiscal Year 2010.[56]

EXISTING TAX EXPENDITURE PROGRAMS AS VEHICLES FOR ASSET BUILDING

Tax expenditure programs in the form of tax deductions, tax credits, preferential tax rates, tax deferrals, or income exclusions are a primary vehicle for achieving many federal policy objectives. Collectively, they subsidize a broad range of activities, including many investments related to asset building such as mortgage payments, business investments, retirement savings, and educational expenditures. As calculated by the government, the value of these asset-building tax expenditure programs is approximately $358.39 billion (Fiscal Year 2010) on an annual basis, and thus deserve scrutiny.

There are several methods for estimating the value of tax expenditures; the two most common measures are revenue losses attributed to provisions in the tax code, and budget outlay equivalent. The difference between the two is that *revenue losses* count money that would otherwise come in to the Treasury without changes to the tax law, and *outlays* are money actually spent by the government. These estimates vary slightly depending upon the specific activity and tax treatment. In the case of some refundable tax credit programs, such as the Earned Income Tax Credit, outlays and revenue effects should be considered together to capture the ultimate scale of the policy effort.

Tax expenditures as a policy vehicle work best when the benefits or incentives are related to income and are intended to be widely available. While tax expenditure programs may subsidize worthy activities and generate sizeable social and economic returns, they are not accessible to a large number of citizens that would potentially benefit from them the most. Many lower-income households do not have large enough tax liabilities to take advantage of these tax expenditure programs. Not surprisingly, 90 percent of the benefits in the two largest tax expenditure categories (homeownership and retirement) primarily reach households with incomes above $50,000 a year.[57] All told, the federal government will offer $149.87 billion in Fiscal Year 2010 support of homeownership, over $125.92 billion to subsidize retirement savings, and over $71.96 billion in support of private investment, such as the reduced tax rate on capital gains compared to income tax.

Table 4 below identifies the tax expenditures related to asset building included in the federal budget. Some are familiar and easy to understand, while others are obscure and more complicated. For the purpose of this presentation, tax advantages that can be claimed by businesses are not included, even if they help subsidize employee training. The table details projected tax expenditures for Fiscal Year 2010 and includes estimated expenditures for Fiscal Year 2008 and Fiscal Year 2009 for comparison.

Table 4. Value of Select Asset-Building Tax Expenditures (in millions of dollars)

	FY 2008	FY 2009	FY 2010
POST-SECONDARY EDUCATION			
HOPE Scholarship (American Opportunity) Credit[a]	3,770	3,800	3,890
Lifetime Learning Credit	2,470	2,460	2,510
Coverdell Education Savings Account (Education IRA)	30	40	60
Deductibility of Student Loan Interest	1,250	1,260	1,270
Deductibility of Higher Education Expenses	1,550	1,680	1,430
State Prepaid Tuition Plans	1,030	1,250	1,480
Subtotal Education	***10,100***	***10,490***	***10,640***
HOMEOWNERSHIP			
Deductibility of Mortgage Interest on Owner-Occupied Housing	88,500	97,280	107,980
Deductibility of Property Tax	29,130	20,850	14,980
Capital Gains Exclusion on Home Sales	30,090	27,980	30,460
Exclusion of Imputed Rent for Owner-Occupied Housing	-1,720	-5,850	-2,200
Credit for first-time homebuyer	9,350	1,230	-1,350
Subtotal Homeownership	***155,350***	***141,490***	***149,870***
SAVINGS AND INVESTMENT			
Capital Gains	24,240	23,640	28,920
Capital Gains Exclusion of Small Corporation Stock	60	60	60
Step-Up Basis of Capital Gains at Death	21,590	19,530	20,830
Carryover Basis of Capital Gains on Gifts	670	730	710
Exclusion of Interest on Life Insurance Savings	18,530	19,960	21,440
Subtotal Savings and Investment	***65,090***	***63,920***	***71,960***
RETIREMENT			
Net Exclusion of Pension Contributions: Employer Plans	46,120	45,670	44,370
Net Exclusion of Pension Contributions: 401(k) Plans	47,000	50,000	53,000
Net Exclusion of Pension Contributions: IRAs	11,700	12,700	13,500
Net Exclusion of Pension Contributions: Saver's Credit	890	980	1,050
Net Exclusion of Pension Contributions: Keough Plans	12,000	13,000	14,000
Subtotal Retirement	***117,710***	***122,350***	***125,920***
TOTAL	***348,250***	***338,250***	***358,390***

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2010*, "Analytical Perspectives." Table 19-1.

[a] The American Opportunity Tax Credit replaces the HOPE Scholarship Credit for taxable years 2009 and 2010.

Potential Asset-Building Resources Delivered through Tax Refunds

While not explicitly an asset-building program, the tax filing process is an opportunity for many families that receive sizeable refunds to begin saving. Of the 154.3 million people who filed returns in taxable year 2007, 77 percent, or 118.5 million tax filers, received refunds.[58] Through payroll withholding and refundable tax credits, such as the Earned Income and Child Tax Credits, the average refund for all tax filers exceeds $2,300 a year. For the 23 million low- and moderate-income families who received the EITC in 2006, the refund size was $3,100.[59]

These resources can potentially be saved and used for personal investment and asset development. In fact, 2005 and 2006 data from Michigan shows more than 50 percent of low- and moderate-income individuals who received a refund saved all (9 percent) or part (42 percent) of their refund. Among all individuals in the study, 14 percent used their refunds to pay for their own or their children's education.[60] Table 5 below provides an indication of the scale of these resources; the column on outlays refers to the money refunded to taxpayers, and the column on tax expenditures reflects foregone tax revenue that results from lowering individuals' tax liabilities.

Table 5. Funding Levels for the Earned Income and Child Tax Credits FY 2010 (in millions of dollars)

	Outlays	Tax Expenditures	Total
Child Tax Credit	17,230	27,032	44,262
Earned Income Tax Credit	49,733	6,130	55,863

Source: Office of Management and Budget, Executive Office of the President. *Budget of the U.S. Government, Fiscal Year 2010*, "Analytical Perspectives." Table 19-1.
Note: Reflects the Child and Earned Income Tax Credits as currently enacted.

THE CHANGING LANDSCAPE FOR ASSET-BUILIDNG POLICY

If President Obama's Fiscal Year 2010 Budget is passed by Congress in its entirety, the Federal Government would invest $63.55 billion in direct spending and $362.39 billion in tax subsidies, for a total of $421.94 billion, to help Americans acquire assets that promote economic mobility. By category, discretionary and tax expenditures in Fiscal Year 2010 for post-secondary education are $69.65 billion, $154.09 billion for homeownership, $294 million for entrepreneurship, $71.96 billion for savings and investment, and $125.92 billion for retirement savings (Table 7). Other resources that may promote asset building by contributing to lump sum tax refunds include the Earned Income Tax Credit and the Child Tax Credit, which together are worth over $100 billion in Fiscal Year 2010. Given the billions to dollars spent on asset building, to what extent does it help individuals realize the American dream?

The overwhelming majority of federal spending on asset building is for middle- and upper-income households. The lion's share of these resources are devoted to support for homeownership ($154.09 billion) and retirement security ($125.92 billion). Given that most of these resources are delivered through tax breaks, the poor are often excluded because they have less tax liability to be offset. Programs that specifically target low- and moderate-income Americans are more often delivered through direct spending but are worth much less than the $362.39 billion that is funneled through the tax code. For example, in the case of the Home Mortgage Interest Tax Deduction, homeowners receive $107.98 billion in subsidies each year, whereas non-homeowners, usually low- and moderate-income renters, are not given the subsidy. Furthermore, homeowners with higher incomes and larger mortgages, and who thus pay more in mortgage interest, get larger deductions because they have more income tax liability that can be offset.

For low- and moderate-income Americans, the landscape of opportunities to build assets is extremely limited: not only do most subsidies go to those who already engage in the asset-building behavior that government wants to encourage, but few subsidies exist for asset building by people with lower incomes. Like middle- and upper-income Americans, low- and moderate-income Americans have longer-term asset-building needs such as saving for post-secondary education or homeownership, but they also need to save for the short term to weather unexpected events and access to mainstream financial institutions. Both are prerequisites for long-term asset building.

While these basic inequities have been a longstanding feature of American asset-building policy, legislation enacted in the wake of the economic downturn and the President's new policy proposals for Fiscal Year 2010 promise to alter the current paradigm in significant ways.

First, the new administration's budget includes a number of proposals specifically designed to advance savings and asset-building activities targeted to low- and moderate-income families. Three specific proposals are worth emphasizing, including: AutoIRAs that offer access to savings plans by workers whose employers do not currently offer them, the expansion and enhancement of the Saver's Credit to make it more valuable to lower-income workers, and the commitment to reconsider asset limits for public assistance eligibility so as to encourage, rather than discourage, saving. Additionally, the Administration has devoted $75 billion of TARP money to helping distressed homeowners stay in their homes under the “Making Home Affordable” program.

Second, President Obama’s budget contemplates a number of reforms that involve the increased use of refundable tax credits. Without refundability, benefits are restricted to taxpayers with tax liability to be offset. With a refundable tax credit, the policy is able to deliver resources to taxpayers with low or no tax liability—the people who would benefit most.

Finally, the rhetorical framing the White House is uses to talk about economic policy has shifted. In his April 14, 2009 speech at Georgetown University, President Obama spoke of the need to move our country from an era of “borrow-and-spend” to one of “save-and-invest.” Since the American Recovery and Reinvestment Act, this new rhetorical framing has been accompanied by the introduction of proposals that clearly prioritize investments which will drive long-term term growth. However, making this transition will require a stronger focus on expanding domestic savings at the household level and in the national economy.

If the Obama Administration is to ensure the nation’s prosperity and help individuals achieve the American Dream, additional policies that enable a greater degree of savings by families at the bottom of the economic ladder will be required. As Congress completes its work of designing and passing a budget and the Obama Administration continues to develop additional proposals, we invite them to consult another of our publications, *The Assets Agenda*, for ideas on how to implement a more inclusive set of savings and asset-building policies to benefit all Americans.

Table 6. Fiscal Year 2010 Asset-Building Budget[a]
(in millions of dollars)

	Requested and Proposed 2010
POST-SECONDARY EDUCATION	
Pell Grants (aid available)	28,616[b]
Academic Competitiveness/National SMART Grants[c]	1,897
Direct Student Lending/FFEL Programs (aid available)	19,763
Work-Study	981
Perkins (aid available)	5,769
Supplemental Educational Opportunity Grants	757
Leveraging Educational Assistance and Partnerships (LEAP)	64
TRIO (discretionary funding)[d]	848
GEAR UP	313
[T] HOPE Scholarship (American Opportunity) Credit[e]	3,890
[T] Lifetime Learning Credit	2,510
[T] Coverdell Education Savings Account (Education IRA)	60
[T] Deductibility of Student Loan Interest	1,270
[T] Deductibility of Higher Education Expenses	1,430
[T] State Prepaid Tuition Plans	1,480
Subtotal Education	***69,648***
HOMEOWNERSHIP	
Federal Housing Administration	916
HOME Investment Partnerships Program	1,825
Self-Help Homeownership Program (SHOP)	77
Housing Counseling	100
HOPE for Homeowners	1,250
Family Self-Sufficiency—Voucher Program	50
[T] Deductibility of Mortgage Interest on Owner-Occupied Housing	107,980
[T] Deductibility of Property Tax	14,980
[T] Capital Gains Exclusion on Home Sales	30,460
[T] Exclusion of Imputed Rent for Owner-Occupied Housing	-2,200
[T] Credit for first-time homebuyer	-1,350
Subtotal Homeownership	***154,088***
ENTREPRENEURSHIP	
SBA Microloan Program (loan levels)	50
Community Development Financial Institutions	244
Subtotal Entrepreneurship	***294***
SAVINGS AND INVESTMENT	
Volunteer Income Tax Assistance	8
Assets for Independence	24
[T] Capital Gains	28,920
[T] Capital Gains Exclusion of Small Corporation Stock	60
[T] Step-Up Basis of Capital Gains at Death	20,830
[T] Carryover Basis of Capital Gains on Gifts	710
[T] Exclusion of Interest on Life Insurance Savings	21,440
[P] Provide Making Work Pay Tax Credit	---
Subtotal Savings and Investment	***71,992***
RETIREMENT	
[T] Net Exclusion of Pension Contributions: Employer Plans	**44,370**
[T] Net Exclusion of Pension Contributions: 401(k) Plans	53,000
[T] Net Exclusion of Pension Contributions: IRAs	13,500
[T] Net Exclusion of Pension Contributions: Saver's Credit	1,050
[T] Net Exclusion of Pension Contributions: Keough Plans	14,000
[P] Expand Saver's Credit and provide automatic enrollment in IRAs	---
Subtotal Retirement	***125,920***
TOTAL	***421,942***

Source: Office of Management and Budget, Executive Office of the President, *Budget of the U.S. Government, Fiscal Year 2010.*

Note: Figures for outlays and requested appropriations are taken from Tables 2, 3 and 4. "[T]" indicates tax expenditures and "[P]" indicates policy proposals by the Administration. Negative numbers indicate a receipt to the government. Several Administration proposals do not take effect until after Fiscal Year 2010 and their cost is reflected by "---."

[a] Excludes the value of the Child Tax Credit and the Earned Income Tax Credit, because these tax expenditures are potentially asset building and are not singularly intended to help Americans save or develop human capital.

[b] Includes an estimated $7.523 billion surplus funds from the American Recovery and Reinvestment Act of 2009.

[c] The Academic Competitiveness and SMART Grant Programs reflect cancellations of unobligated balances carried over from previous years.

[d] Funding levels for Fiscal Year 2008 includes $57 million in mandatory funds provided under Section 402C(g) of the Higher Education Act of 1965, as amended. Funding levels for Fiscal Years 2009 and 2010 do not reflect $57 million in mandatory funds provided under the same section of the Higher Education Act.

[e] The American Opportunity Tax Credit replaces the HOPE Scholarship Credit for taxable years 2009 and 2010.

[1] Reid Cramer is Director of the Asset Building Program at the New America Foundation and Collin Siu is an Emerson National Hunger Fellow working with the New America Foundation.
[2] Asset building refers to public policy and private sector efforts to enable individuals to accumulate and preserve long-term, productive assets—savings, investments, a home, post-secondary education and training, a small business, and a nest-egg for retirement.
[3] Includes $100.125 billion of potentially asset-building resources funneled through the Child Tax Credit and the Earned Income Tax Credit.
[4] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 583-84.
[5] Ibid., 981.
[6] Ibid., 380.
[7] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 217-19.
[8] Ibid., 265-66, 274.
[9] Ibid., 266, 274.
[10] Ibid., 243, 266.
[11] The Hope Scholarship Credit provided taxpayers a nonrefundable credit equal to 100 percent of the first $1,200 in qualified tuition and related expenses and 50 percent of the next $1,200 of qualified tuition and related expenses, amounts which were indexed annually to inflation and rounded down to the next lowest multiple of $100, for the first 2 years of an eligible student's post-secondary education. Eligible students had to be enrolled at least half-time in a degree or certificate program. The maximum value of the credit was $1,800 (for 2009) and phased out for single taxpayers with modified AGI between $50,000 and $60,000 ($100,000 and $120,000 for married taxpayers filing a joint return) for 2009. The income thresholds for phase-out ranges were indexed annually to inflation, with the amount rounded down to the next lowest multiple of $1,000 (*Analytical Perspectives: Budget of the US Government*, 2009, p. 243-44, 266-67).
[12] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 243, 266-67.
[13] Ibid., 244.
[14] Ibid.
[15] *Making Home Affordable: Summary of Guidelines* (Washington, DC: U.S. Department of the Treasury, 2009).
[16] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 256.
[17] Ibid., 259.
[18] Ibid., 244, 253.
[19] Ibid., 253.
[20] Matthew D. Shapiro, "Economic Stimulus: Lessons from 2001-2004 and Prospects for 2008" (presentation, Federal Reserve Bank of San Francisco Symposium, San Francisco, CA, May 9, 2008).
[21] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 249.
[22] Ibid., 243, 266-67.
[23] Office of Management and Budget, "Program Assessment: Federal Family Education Loans," http://www.whitehouse.gov/omb/expectmore/summary/10001032.2004.html (last updated January 9, 2009).
[24] *A New Era of Responsibility: Renewing America's Promise* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 24; *Terminations, Reductions, and Savings* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 8; *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 385.
[25] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budge, Executive Office of the President, 2009), 217-19; *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 380-81; *Higher Education Opportunity Act of 2008*, Public Law 315, 110th Cong., 2nd sess. (August 14, 2008); "Federal Pell Grants: Fiscal Year 2010 Budget Request" (Washington, DC: U.S. Department of Education, 2009), 2.
[26] U.S. Department of Education, "Federal Perkins Loan Program," http://www.ed.gov/programs/fpl/index.html (accessed June 3, 2009).
[27] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 378-79; "Student Financial Assistance: Fiscal Year 2010 Budget Request" (Washington, DC: U.S. Department of Education, 2009), 22-27.

[28] *Housing and Economic Recovery Act of 2008*, Public Law 289, 110th Cong., 2nd sess. (July 30, 2008); *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 980-81.
[29] *A New Era of Responsibility: Renewing America's Promise* (Washington DC: Office of Management and Budget, Executive Office of the President, 2009), 18.
[30] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 265-66, 274.
[31] *Advanced Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance* (Washington, DC: Government Accountability Office, 2007); *Terminations, Reductions, and Savings* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 8.
[32] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 266, 274.
[33] Ibid., 243, 256, 266.
[34] Ibid., 270.
[35] Ibid., 266.
[36] Ibid.
[37] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 380-81; "Federal Pell Grants: Fiscal Year 2010 Budget Request" (Washington, DC: U.S. Department of Education, 2009).
[38] Program requirements can be found on the U.S. Department of Education's Federal Student Aid website at http://studentaid.ed.gov/PORTALSWebApp/students/english/AcademicGrants.jsp
[39] *Analytical Perspectives: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 382.
[40] "Student Aid Overview: Fiscal Year 2010" (Washington, DC: U.S. Department of Education, 2009).
[41] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 378-79.
[42] Ibid., 378.
[43] Ibid., 379.
[44] "Higher Education: Fiscal Year 2010 Budget Request" (Washington, DC: U.S. Department of Education, 2009), 115.
[45] U.S. Department of Education, "Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)," http://www.ed.gov/programs/gearup/index.html (last modified May 8, 2009); "Higher Education: Fiscal Year 2010 Budget Request" (Washington, DC: U.S. Department of Education, 2009), 132.
[46] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 601.
[47] *Omnibus Appropriations of 2009*, Public Law 8, 111th Cong., 1st sess. (March 11, 2009); *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 583-84.
[48] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 584-85.
[49] Ibid., 593-94.
[50] Ibid., 599-600.
[51] Ibid., 569.
[52] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 1159; U.S. Small Business Administration, "Micro-Loans," http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/index.html (accessed June 29, 2009).
[53] *Omnibus Appropriations Act of 2009*, Public Law 8, 111th Cong., 1st sess. (March 11, 2009); *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 980-81.
[54] U.S. Department of the Treasury, Internal Revenue Service, "Free Tax Return Preparation For You By Volunteers," last updated November 14, 2008; *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 1004; *Omnibus Appropriations Act of 2009*, Public Law 8, 111th Cong., 1st sess. (March 11, 2009).
[55] U.S. Department of Health and Human Services, "Assets for Independence," http://www.acf.hhs.gov/programs/ocs/afi/fact_sheet.html (updated December 23, 2007).
[56] *Appendix: Budget of the US Government* (Washington, DC: Office of Management and Budget, Executive Office of the President, 2009), 490.
[57] *Estimates of Federal Tax Expenditures for Fiscal Years 2006–2010* (Washington, DC: United States Congress Joint Committee on Taxation, 2006).
[58] *Databook, 2008* (Washington, DC: Internal Revenue Service, 2008).

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