As Congress moves in earnest to take on tax reform, the Tax Alliance for Economic Mobility is working to promote tax reform that puts low- and moderate-income people first, and fuels upward economic mobility instead of exacerbating an already-growing wealth divide.

The principles outlined in this document were developed by the Steering Committee for the Tax Alliance for Economic Mobility, and may not reflect the views of individual members of the Tax Alliance.

The tax code should work for everyone. That is the core principle for the Tax Alliance and its 42 diverse members. This means the tax code should be inclusive, progressive, and equitable — so that it helps all Americans get ahead. The tax code should be impactful and lift low-income Americans out of poverty rather than taxing them further into it. It should be accessible, simple, and transparent so that it works as hard for workers and low-income Americans as it does for those at the top.

Tax reform should be fair. Through the tax code, the government spends close to $700 billion on wealth-building subsidies to help Americans buy a home, go to college, save for retirement, and invest — yet the benefits of these subsidies accrue almost exclusively to those who have already built substantial wealth. Tax reform can and should correct this upside-down problem, to ensure the tax code gives the working class a fair chance to get ahead instead of falling further behind.

Tax reform should reform tax expenditures to ensure they help those who need it most. The tax code’s wealth building subsidies around homeownership, higher education, and retirement are well-intentioned but flawed in that they only help those who are already wealthy or high-income. Homeownership provisions of the tax code should be reoriented so they subsidize housing costs—not debt—and help communities of color build wealth through homeownership. Higher education subsidies in the tax code should support lower-income families as soon as they start saving — not until after expenses are incurred through costly student loans. Retirement provisions should expand access to retirement for lower-income Americans and limit expenditures for high-income households.

Tax reform should preserve and expand on what works. Unlike many other tax incentives that primarily benefit higher-income taxpayers, the EITC and CTC are well-targeted and progressive. They also are proven to encourage work and support children’s development throughout life. Reforms should focus on building on their successes by closing gaps in who the credits reach and improving their effectiveness.

About the Tax Alliance

The Tax Alliance for Economic Mobility, co-chaired by Prosperity Now (formerly CFED) and PolicyLink, convenes racial justice advocates, asset-building advocates, tax reform experts, and researchers to identify near- and longer-term policy priorities to expand savings and investment opportunities for lower-income households through reform of the U.S. tax code.

The Alliance includes a coalition of national organizations that have agreed on shared principles and are working to educate and engage their networks about why inclusive, progressive, and equitable tax reform is crucial to building the long-term security of families, communities, and the national economy.
Workers and their families want a Congress that is on their side when it comes to tax reform — not a Congress that is going to change the rules to benefit billionaires. As tax reform progresses and large sums of money are moved around, Congress should put workers and their families first to make sure they are more financially secure.

**What follows are four sets of principles for a tax reform bill that is progressive, inclusive and equitable.**

### 1. Increasing Financial Security for Working Families

The EITC has a glaring gap for “childless workers”—adults not raising dependent children in the home. The credit completely excludes young childless workers below the age of 25 who are trying to get a toehold in the economy, and those over age 65. Largely because low-income childless workers and non-custodial parents are either completely ineligible for the EITC or receive only a small EITC, they are the lone group that the federal tax code taxes into or deeper into poverty.¹

The CTC is only partially refundable—it only begins to phase in after $3,000 of earnings, and then only at a rate of 15 cents for each additional dollar of earnings up to the $1,000-per-child maximum. This limits the value of the tax credit for the poorest families: for example, families with two children do not receive the full tax credit until their earnings reach $16,333. As a result, children in the poorest families qualify for only a very small CTC or no tax credit at all, even though they are the children who need it most and for whom it would have the largest beneficial impact. This is particularly true for the youngest children, who have higher poverty rates than older children and for whom research finds even modest improvements in family income can have big developmental impacts.²

**Build on the opportunity-boosting successes of the EITC and CTC by strengthening these tax credits and making them more inclusive.**

The EITC and CTC should be expanded to workers that are currently excluded or receive disproportionately small benefits, and are thus largely locked out of the tax credits’ proven successes. A key priority in this area is extending the EITC’s pro-work success to childless adults and non-custodial parents by strengthening the EITC for these workers. Policymakers should oppose proposals that go in the wrong direction by denying tax credits to hardworking families and their children. For example, proposals to deny the CTC to immigrant parents who pay their taxes using an IRS Individual Taxpayer Identification Number (ITIN) should be rejected. Many of these families are mixed status, and several million of their U.S. citizen children would be affected. In addition to increasing hardship, such proposals likely would have long-lasting harmful effects on children impacted, given the research linking workers’ tax credits with positive impacts on children’s development.

**Increase take-up and improve accessibility.**

About four of five eligible workers claim the EITC nationwide, but more can be done to ensure that all workers claim the tax credits they have earned. Federal support for the Volunteer Income Tax Assistance program, which helps low-income taxpayers file their returns, should be strengthened. Researchers and policymakers should also explore options for allowing filers additional choices about how to receive the EITC (such as periodic options), while ensuring that they allow filers to continue to choose to receive their tax credits in the way that

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makes the most sense for their families. Policymakers should also continue to improve coordination of the
credits with initiatives to improve emergency and long-term savings, such as the split refund and myRA
programs, and other financial security and opportunity-building initiatives that can be accessed at tax time.
Proposals that would reduce the accessibility of the credits—and would increase hardship and reduce their
effectiveness at improving opportunity—should be rejected. Examples include proposals that would significantly
increase the paperwork burden on honest low-income families seeking to file for the tax credits that they have
earned—barriers that do not exist for tax credits and subsidies that go to high-income families and businesses.

2. Making Higher Education Tax Expenditures Work for Everyone

The federal government is currently spending billions on ineffective higher education tax programs that mainly
benefit the wealthy.

The majority of tax-based benefits for higher education go to households with incomes above $50,000 per year;
compared to Pell grants, which mostly go to households with an annual income below $20,000. Even the
American Opportunity Tax Credit delivers more value to the top 40% of households than the bottom 40%.
Furthermore, while there is evidence of the impact of Pell Grants on college access and success, emerging
research has found that tax-based aid has “little to no causal effect on college going.”

3. Using the Tax Code to Encourage Savings and Investment for Retirement

“Right now the tax code is biased against savings and investment.” – Speaker Paul Ryan, 6/20/17

The federal government spends billions on tax incentives for retirement, but little help goes to most working
families. In 2013, the federal government spent $137 billion on tax incentives to support savings for retirement.
The top 1% of earners received nearly $20 billion of these tax benefits—that’s double the combined total support
provided to the entire bottom 40% of earners. Even the combined support for the bottom 60% of earners does
not match the total level of support provided to the top 1%. This upside-down picture is partially to blame for the
low level of retirement savings among most working families.

The Saver’s Credit is a bright spot for working families, but it needs reform. The Saver’s Credit is an exception to
this upside-down picture of retirement tax incentives. Aimed at increasing retirement savings for low- and
moderate-income families, the Saver’s Credit reduces tax liability by up to $1,000 ($2,000 for married couples).
Depending on income, the value of the credit ranges from 10% to 50% of retirement savings.

While the Saver’s Credit in its current form is a step in the right direction, the policy needs reform to help
working families. The Saver’s Credit needs to be made fully refundable so that all working families—whether or
not they owe income tax—can receive support for retirement savings. The credit should also be restructured to
more effectively incentivize low- and moderate-income families to save for retirement, by simplifying the benefit
levels and providing the credit as a savings match directly into the filer’s retirement savings account.

4. Reduce Subsidies for Mortgage Debt and Larger Homes Owned by High-Income
Households

Congress is justified in investing in homeownership programs, which can have positive impacts on individuals, communities, and the economy. One of the largest of these programs is the Mortgage Interest Deduction (MID), a homeownership subsidy provided through the tax code. In 2015, the MID cost the federal government nearly $70 billion. By comparison, the budget of the Department of Housing and Urban Development (HUD)—which funds low-income housing assistance and community development—was just $45 billion.

The MID fails to expand economic mobility because it fails to achieve its goal of boosting homeownership, and because it disproportionately benefits high-income, predominantly white households. Specifically, the MID suffers from three flaws:

1. As an itemized deduction, the MID excludes most low-income households and increases in value as a taxpayer’s income increases.
2. The MID directly subsidizes debt and larger homes rather than homeownership itself.
3. The MID provides little benefit to communities of color.

As policymakers evaluate reform options, they should focus on improvements that will expand economic opportunity. To accomplish this goal, MID reforms should:

1. Ease barriers to low- and moderate-income renters becoming homeowners. MID reforms should ensure that federal homeownership benefits effectively assist families who wish to become homeowners and target support to lower-income households who can benefit the most.
2. Increase benefits for renters. MID reforms should be accompanied by a renters’ credit or other measures to ensure that renters—including those with incomes below the poverty line—do not miss out on housing tax benefits merely because they cannot afford or don’t choose to become homeowners.
3. Help communities of color build wealth through homeownership. MID reforms should ensure that communities of color are not excluded, even unintentionally, from federal homeownership benefits.
4. Reduce subsidies for mortgage debt and larger homes owned by high-income households. MID reforms should ensure that upper-income families do not receive a disproportionate share of federal homeownership benefits.

While economic mobility stagnates, the racial wealth gap grows, and millions of families lack access to affordable housing, making such a significant investment in a program that benefits only a portion of the population that is disproportionately white and high-income is inefficient and inequitable. These high-level principles for MID reform can lead the way to a more equitable program that will fulfill the same objective of expanding homeownership and affordable housing, while also boosting economic mobility throughout the country.

These principles for reform of tax-based aid can lead to more equitable programs that will expand opportunity throughout the country.

Signed,

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4 Indivar Dutta-Gupta signs onto this document as an individual. The views expressed herein do not necessarily reflect the views of the Georgetown Center on Poverty and Inequality.