

U.S. DEPARTMENT OF THE TREASURY

Press Center



Speech by Assistant Secretary Michael S. Barr at the Aspen Institute – Hill Briefing on Tapping Tax Time

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Hello, it is great to be here with all of you. Thank you to Lisa Mensah and the Aspen Institute for inviting me to be here to speak with you today. I am honored to be on a panel with such distinguished presenters.

The Obama administration is moving forward aggressively to empower all Americans to build their financial security. We are simultaneously building both the solid foundation of financial access, financial education, and consumer protection required for asset building as well as specific programs to encourage and empower people to save for the short and long term. There is no doubt that there is a significant need for both. Many Americans lack both emergency savings and longer term retirement savings. Significant numbers of Americans are living pay check to pay check with little to no savings to fall back on when there is an economic crisis in their household, such as losing a job, a medical emergency, or the need for a major car repair. It is also well documented that in aggregate Americans are not saving enough for retirement, with low- and moderate-income people being the farthest behind.

The 2011 budget begins an effort to commit more resources to asset building for low- and moderate-income people. Let me highlight a few specific proposals.

Automatic IRAs would offer convenient access to tax-favored saving for workers whose employers do not currently offer a 401(k) or any other retirement saving plan. I am sure Mark Iwry, the architect of this proposal, will go into more detail on this topic.

Expansion and enhancement of the Saver's Credit will make it more valuable to lower income workers and cover millions of additional households. The proposal would provide a uniform refundable 50% credit as a direct-savings match for low- and moderate-income workers who contribute to retirement-savings plans, whether or not they have any federal income tax liability. All eligible savers would receive equitable tax treatment.

We proposed reform of asset limit rules that determine eligibility for public assistance programs so they encourage, rather than discourage, saving. This enables low-income people on public assistance programs to build savings that can be used to invest in their future to help them climb out of poverty.

Our proposed Bank On USA initiative will encourage local and state collaborations between government, financial service providers, community organizations, and financial educators to address basic financial access issues and innovative savings approaches.

And last but not least, today's topic of discussion, the opportunity for asset building efforts related to tax time. The administration has begun to take action on the great opportunity to improve the tax administration process while simultaneously providing opportunity for low- and moderate-income people to get access and build assets.

1. Making tax time safer by licensing and examination tax preparers.
2. Eliminating the provision of the Debt Indicator to banks for use in making refund anticipation loans.
3. Undertaking a Tax Time Account pilot that will launch in 2011, and will inform the structure and value of expanded tax time account efforts in the future.
4. Exploring how to allow individuals to pay for tax preparation directly out of their refund with proper fraud protection.
5. Improving the process to make it possible for people to save part or all of their tax refund by enabling direct purchase of savings bonds in the tax process.

For low- and moderate-income people, tax time is a logical time to help them obtain access to mainstream financial products and build assets. This is in large part driven by the fact that for many low- and moderate-income people their tax refund is the largest income payment they will receive during the entire year. A few rough statistics help to clarify this point:

- 70 million tax filers with incomes under \$30,000 received \$82 billion in federal tax refunds (an average of almost \$1,200 per filer).
- 21 Million filers received \$38 billion from EITC alone (average of \$1,800 per filer). Large EITCs can be over \$4,000
- The largest credits go to those earning \$7,500 - \$20,000 a year, making the EITC a large portion of income for many Americans.

Given that people are receiving this large payment at tax time, providing them with a choice, as part of the tax process, to enroll in a basic transaction and savings account would serve a number of purposes. It would streamline the tax administration process, reducing fraud and delivering refunds more quickly. It would reduce the cost to the individual because they no longer need to cash a check. It would store their funds in a safe place. It also would provide an opportunity to build savings and to continue using the account to conduct future financial transactions, such as receiving other sources of income into the account, paying bills, and purchasing goods.

In 2011, we are conducting a tax time account pilot. The pilot will test the benefits of basic debit card financial accounts provided to individuals just prior to tax time. It will help us learn which product features are most appealing, which product framing and product education approaches work best, and whether people find the product useful for their ongoing financial activities. We will evaluate the results of the pilot to inform future decisions about the viability, structure, and timing of offering similar accounts as an integrated part of the tax filing and refund process.

We will be testing a few different offers through two different methods. The first is Direct Mail. Treasury will mail information about how to sign up for the new accounts to low and moderate income individuals who have received paper check refunds in prior years or who otherwise have not provided bank account information to Treasury.

The second is Payroll Outreach. Treasury will partner with the private sector to insert offers to enroll in the pilot into the paychecks and paystubs of select individuals who are not currently using direct deposit to receive their tax refunds.

We will make offers to hundreds of thousands of people to ensure that we have enough enrollees to learn something statistically significant about the offers and pilot participants' behavior. We are fortunate to be working with the Urban Institute to conduct a rigorous evaluation of the pilot and help us gain this important information from the pilot. We are excited about the pilot and the potential for it to inform future policy decisions about tax time account provision.

I look forward to taking questions after we hear from my fellow panelists.

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