

Tax Expenditures for Asset Building in 2014

By C. Eugene Steuerle and Caleb Quakenbush

Each year, the federal government directs enormous resources toward helping families build assets: home equity, retirement and personal savings, human capital in the form of higher education, and business ownership. Some of this spending is done through direct spending — Pell grants, for example — but a large portion of asset subsidies is directed through the tax code.

In 2014, tax expenditures for wealth-building sum to more than \$370 billion, and under current law they are projected to grow to \$554 billion over the next 5 years. The largest asset-building subsidies are for homeownership (\$200 billion) and retirement savings (\$125 billion), with higher education tax expenditures (\$34.5 billion) comprising much of the rest. Smaller incentives such as for private businesses and health savings accounts round out the list.¹

¹These totals update a broad review of tax subsidies for asset development, which contains a list of individual tax expenditures considered. See Benjamin Harris, C. Eugene Steuerle, Signe-Mary McKernan, Caleb Quakenbush, and Caroline Ratcliffe, "Tax Subsidies for Asset Development: An Overview and Distributional Analysis," Washington: The Urban Institute, 2014.

These figures come from totaling individual income tax expenditures, as published by the Joint Committee on Taxation in "Estimates of Federal Tax Expenditures," and by Treasury for the exclusion of net imputed rental value of owner-occupied homes in the "Analytical Perspectives." A tax expenditure is counted here as an asset-building subsidy if its chief rationale is to increase ownership of an asset and it is claimed directly by the household purchasing the asset. For example, a deduction for charitable contributions to universities is not counted because it is claimed by the donor, while the deduction for student loan interest is included because it is claimed by the household borrowing to finance a member's college education.

A handful of large tax expenditures, predominantly deductions and exclusions, comprise the majority of these expenditures. In the homeownership category, the two largest expenditures are the exclusion for imputed rental income (\$76 billion) and the mortgage interest deduction (\$68 billion). The net exclusion for contributions and earnings in employer-based pensions (\$77 billion) make up about 60 percent of retirement subsidies. The higher education category is the exception, where credits for tuition — the lifetime learning credit and the American opportunity tax credit — make up \$23 billion, or two-thirds of expenditures in that category.

Total Individual Income Tax Expenditures for Asset Development by Asset Category, 2014-2018 (in billions)					
Asset Category	2014	2015	2016	2017	2018
Homeownership	\$200.6	\$216	\$232.3	\$247	\$261.2
Retirement and life insurance	\$125.1	\$163.1	\$195.1	\$227.3	\$255.6
Higher education	\$34.5	\$36.4	\$37.1	\$37.7	\$28.5
Small business development	\$6.8	\$3.9	\$4.4	\$4.2	\$4
Other savings	\$3.2	\$3.5	\$4	\$4.3	\$4.8
Total	\$370.2	\$422.9	\$472.9	\$520.5	\$554.1



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