



Background Information

In today's discussion, panelists will consider how tax policy and reforms might affect low- and moderate-income workers. How can tax policy support workers and their families? What is the cost of tax code complexity? Would cuts lead to economic growth or reduce critical revenues? Below we present background information to inform the discussion.

Tax Expenditures

- Tax expenditures are defined in the law as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.”¹
- CFED estimates that, in 2013, 30 asset-building tax programs (promoting home ownership, savings, retirement accounts, and higher education) cost the federal government more than \$540 billion.²
- These expenditures disproportionately benefit high-income households. Households in the top quintile received 70 times more support from such programs than households in the bottom quintile.³

Credits Targeted at Low- and Moderate-Income Workers

- The Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people.
- For tax year 2015 returns filed in 2016, more than 27 million taxpayers received the EITC.⁴
- According to the IRS, the number of tax returns processed in 2016 was 150 million.⁵ This means that approximately 18% of taxpayers received the EITC.
- The IRS estimates that nationally, 21% of eligible taxpayers do not claim the EITC they deserve.⁶
- Eligibility for the EITC and the amount of the credit depends on income, marital status, and number of children. The average amount of EITC paid out in 2016 was about \$2,455.⁷
- The EITC lifted 6.5 million people out of poverty, including about 3.3 million children.⁸
- The Child Tax Credit (CTC) supports low- and moderate-income families by providing a credit of up to \$1000 per eligible child.
- The CTC lifted 2.8 million people out of poverty, including about 1.6 million children.⁹

The Cost of Complexity

- Many low- and moderate-income families use paid tax preparation services. For families with adjusted gross incomes below \$30,000 in 2010, 54.5% used paid preparers and only 1.7% used free volunteer income tax assistance (VITA).¹⁰
- Taxpayers using paid preparers spend an average of \$273 for an itemized Form 1040 with a Schedule A and a state tax return.¹¹ For many low- and moderate-income workers, the fees are even higher. Some estimate that workers eligible for the EITC spend an average of about \$400 at national tax preparation chains.¹²

Do Tax Cuts Lead to Economic Growth?

Some argue...

Cutting income taxes would encourage individuals to work, save, and invest.¹³ Reducing corporate taxes would incentivize corporations to locate in the United States, invest, and build capital.¹⁴ Such changes would lead to economic growth, which would mean more economic opportunities for low- and moderate-income workers and larger tax revenue in the future.

Others say...

Cutting income or corporate taxes would reduce revenues and increase the federal budget deficit, which could reduce national saving and raise interest rates.¹⁵ A low corporate tax rate could disproportionately benefit high-income individuals.¹⁶ The net effect of cutting income or corporate taxes on growth is uncertain, with some estimates that it is small or negative¹⁷ or only useful in limited cases.¹⁸

State and Local Taxes

In addition to federal taxes, states and localities design their own tax policies to raise revenues, incentivize behaviors, or support low- and moderate-income workers.¹⁹

Income taxes	41 states and the District of Columbia have income taxes. Local governments in 12 states levy their own income tax on top of state taxes.
Sales taxes	45 states and the District of Columbia use sales taxes, which apply to almost all goods and certain services. 38 states have separate sales taxes on specific goods, such as tobacco, alcohol, and motor fuels.
Property taxes	All 50 states and the District of Columbia impose property taxes, which generally apply to land and improvements, but sometimes also apply to personal property (machinery, equipment, and motor vehicles) as well.
Corporate taxes	44 states and the District of Columbia have corporate income taxes.
EITC	26 states and the District of Columbia have their own earned income tax credit.

Voices of Our Speakers

Alex Brill, “Trump vs. House GOP: Whose Plan Is More Pro-Growth?” Real Clear Markets, May 4, 2017, http://www.realclearmarkets.com/articles/2017/05/04/trump_vs_house_gop_whose_plan_is_more_pro-growth_102667.html.

Mireya Eavey and Joe Pennisi, “Tax-Assistance Programs and Tax Credits Boost Economy,” Herald-Tribune (Sarasota, FL), Feb. 20, 2017, <http://www.heraldtribune.com/opinion/20170220/mireya-eavey-and-joe-pennisi-tax-assistance-programs-and-tax-credits-boost-economy>.

Frank Clemente, “Corporate Welfare Won’t Create Jobs,” New York Times, Dec. 12, 2016, <https://www.nytimes.com/2016/12/12/opinion/corporate-welfare-wont-create-jobs.html>.

¹ Office of Management and Budget, “Analytical Perspectives: Budget of the US Government,” [online](#), p. 225.

² Ezra Lavin, Jeremie Greer, and Ida Rademacher, “From Upside Down to Right-Side Up,” (Washington, DC: Corporation for Enterprise Development, 2014), [online](#).

³ Ezra Lavin, Jeremie Greer, and Ida Rademacher, “From Upside Down to Right-Side Up,” (Washington, DC: Corporation for Enterprise Development, 2014), [online](#), p. 6.

⁴ Internal Revenue Service, “Statistics for Tax Returns with EITC,” [online](#).

⁵ Internal Revenue Service, “Filing Season Statistics,” Mid-November filing season statistics by AGI, [online](#). All Forms 1040 processed by the IRS on or before week 47 of calendar year 2016. Returns filed primarily reflect income earned in 2015.

⁶ Internal Revenue Service, “Statistics for Tax Returns with EITC,” [online](#). TY2010 data.

⁷ Internal Revenue Service, “Statistics for Tax Returns with EITC,” [online](#).

⁸ “Policy Basics: The Earned Income Tax Credit,” *Center on Budget and Policy Priorities*, last updated Oct. 21, 2016, [online](#).

⁹ “Policy Basics: The Child Tax Credit,” *Center on Budget and Policy Priorities*, last updated Oct. 21, 2016, [online](#).

¹⁰ “Tax Policy Center Briefing Book: Key Elements of the US Tax System: Why Do Low- Income Families Use Tax Preparers?” *Tax Policy Center*, [online](#).

¹¹ “Tax Preparation Fee Averages \$273 for Typical Individual Tax Return,” *National Society of Accountants*, Jan. 14, 2015, [online](#).

¹² Paul Weinstein Jr. and Bethany Patten, *Memo: The Price of Paying Taxes II: How Paid Tax Preparer Fees are Diminishing the Earned Income Tax Credit (EITC)* (Washington, DC: Progressive Policy Institute, April 2016), [online](#). See also: Benjamin Forman, Alan Berube, Megan Burns, and Anne Kim, *The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of EITC* (Washington, DC: Brookings Urban Center and Progressive Policy Institute, 2002), [online](#); and James R. McTigue Jr., “Paid Tax Return Preparers: In A Limited Study, Preparers Made Significant Errors,” *Testimony Before the Committee on Finance, US Senate*, [online](#), page 19.

¹³ William McBride, “What is the Evidence on Taxes and Growth?” *Tax Foundation*, Dec. 18, 2012, [online](#).

¹⁴ William McBride, “What is the Evidence on Taxes and Growth?” *Tax Foundation*, Dec. 18, 2012, [online](#).

¹⁵ William G. Gale and Andrew A. Samwick, *Effects of Income Tax Changes on Economic Growth* (Washington, DC: Brookings Institution, 2016), [online](#). And “Corporate Rate Cuts Are a Poor Way to Help the Economy and Most Workers – and Could Hurt Them,” *Center on Budget and Policy Priorities*, [online](#).

¹⁶ Leonard E. Burman, “A 15-Percent Corporate Tax Rate Could Create an Enormous Tax Shelter,” *Tax Policy*, Apr. 25, 2017, [online](#). See also: “Fact Sheet: Corporate Tax Rates,” *Americans for Tax Fairness*, [online](#).

¹⁷ William G. Gale and Andrew A. Samwick, *Effects of Income Tax Changes on Economic Growth* (Washington, DC: Brookings Institution, 2016), [online](#). See also: Jane G. Gravelle, “International Corporate Tax Rate Comparisons and Policy Implications,” *Congressional Research Service*, Jan. 6, 2014, [online](#).

¹⁸ Alexander Ljungqvist and Michael Smolyansky, *To Cut or Not to Cut? On the Impact of Corporate Taxes on Employment and Income* (Washington, DC: Federal Reserve Board), [online](#).

¹⁹ “Tax Policy Center Briefing Book: State (and Local) Taxes” *Tax Policy Center*, [online](#).