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National Community Tax Coalition policy briefing
January 26, 2012

Good morning everyone,

Thank you to Jackie Lynn Coleman, the staff of National Community Tax Coalition, the New America Foundation and the more than a dozen co-sponsors of today's event. As you have already heard, the Earned Income Tax Credit coupled with free tax preparation is a multifaceted effort to improve the lives of working families. It is a reward for work, an opportunity to catch up or advance, and a tool for economic development.

First, the EITC is the largest poverty relief program for working families in the United States. This cannot be understated. Its refundability gives it power to help families provide for basic needs and support their children. What's more, the EITC program dwarfs other cash assistance and traditional welfare programs in providing benefits. It is also supplemented at the state level, as 23 states have EITC programs for their income tax code that are a set percentage of the federal credit. So every policy improvement of the federal EITC has a ripple effect at the local level.

Second, the EITC feeds the "tax-time" moment that we see as the best opportunity for asset building for working families. Certainly, many families use the money to catch up on bills and housing costs. But more and more families are using part of their tax refund to save. Six years ago, fewer than 10 percent of our survey respondents indicated they would use some of their refund for savings. In the last 2 years, nearly half reported that they will save some.

The key is that we now have to provide avenues for that saving. The savings bond at tax time program, pushed so successfully by Doorways 2 Dream Funds, National Disability Institute, NCTC, and others is a perfect example of innovation in savings at tax time. In two years, more than 45,000 families purchased savings bonds at tax time – saving more than $10 million. What's more, 25 percent of buyers in 2010 bought again in 2011.

We need to open the infrastructure at tax time for asset building opportunities. It needs to be extremely easy and possibly a "default" in certain areas for saving. We should make it easy for a savings and checking account set-up for tax refunds, which would eliminate check cashing issues, allow for direct deposit for quick refunds, and discourage extra charges from paid preparers at tax time. We also need an easy pipeline for 529 savings accounts at tax time. Many parents and grandparents think about their children at tax time, something we have seen with the savings bond programs, and thinking about education and future economic achievement is a perfect tax time opportunity.

Along with infrastructure changes, we need to improve the parts of the tax code as they relate to savings incentives. The tax code rewards short- and long-term savings for upper-income families from tax deductions on mortgage interest to special treatment of IRAs. Our current incentives for low- and moderate-income families pale in comparison. The current Savers Credit is nonrefundable, meaning for most low-income families, there is no additional incentive or reward for saving before or at tax time. Additionally, the Savers Credit only recovers retirement savings products, not a broader array of options as it should. My colleagues at New America have developed an idea called the Saver's Bonus, which would create a simple mechanism on the tax form to allow working families to save for retirement, or their child's college costs, or to save for emergencies.

Third, the policy implications for free tax preparation and the EITC are numerous. The EITC is too important, too potent, too much of a lifeline to be reduced by high-cost paid preparation. It dilutes a public assistance program that is intended to boost wages. We need to invest in free tax preparation for working families. It is crucial to support the two pieces of legislation (S.896 and H.R. 2151) that codify Volunteer Income Tax Assistance (VITA) and allow community-based tax preparation groups to operate. Each year, only 1/3 of the coalitions that need funding from the IRS get it. We need to fund them – all of them. Very few programs have as high of a return on investment as the VITA program does. In Ohio, our largest three coalitions bring in $25 for every $1 spent on tax operations. The Recovery Act temporarily expanded the EITC in two ways. First, it added a "third tier" of the EITC for families with three or more children. These larger families can now receive up to $629 more than families with two children. This addition recognizes that larger families face a higher cost of living and that families with three or more children are more than twice as likely as smaller families to be poor. Second, the Recovery Act expanded marriage penalty relief in the EITC, reducing the financial burden some couples receive when they marry by allowing married couples to receive larger tax benefits.

These two expansions together benefited over seven million people and kept an estimated 500,000 people out of poverty. They originally were scheduled to expire at the end of 2010 but Congress has extended them through 2012. We should make these changes permanent.

As successful as it is, even the EITC could use some modernization. Low-wage filers who are not claiming dependents receive very little from the EITC. This is problematic as many of them support children they do not claim. The family dynamic has changed in the 30-some years since the EITC was enacted. The Brookings Institution did a well-researched report on the modest cost of doubling the EITC for filers not claiming children and the dramatic economic impact it would provide. We should give this serious consideration.

We should also consider ways to broaden the scope of "earned income." Thousands of families are under-employed, working limited hours for limited pay. The recent recession showed us that for all its positive attributes, the EITC is really a program that supplements a decent minimum wage and relatively strong employment. The EITC is now ingrained into our social safety net. We need to be innovative and think about ways for the EITC to work for families with lost wages, hours, and job prospects. These additional asset-building measures will do some of that but paying closer attention to the entire safety net for working families is key.

Thank you for your time and interest. I look forward to our continued discussion.