marguerite casey foundation

THE EARNED INCOME TAX CREDIT:
ANALYSIS AND PROPOSALS FOR REFORM




Marguerite Casey Foundation is an independent grantmaking foundation created by Casey Family Programs to help expand Casey's outreach and further enhance its nearly 40-year record of leadership in family well-being. Based in Seattle, Washington, the Foundation's mission is to help low-income families strengthen their voice and organize their communities in order to achieve a more just and equitable society for all. Marguerite Casey Foundation supports community-based leadership and promotes education, activism and advocacy among families, parents, and youth.

Marguerite Casey Foundation 1300 Dexter Ave. North, Suite 115, Seattle, WA 98109
Phone: (206) 691-3134 Fax: (206) 286-2725 **www.caseygrants.org**




EXECUTIVE SUMMARY

The Earned Income Tax Credit (EITC) was originally enacted in 1975, in the wake of the failure of President Nixon's proposed Family Assistance Plan. Although it began as a temporary and limited alternative to President Nixon's proposal, the EITC has, in the years since, been made permanent and been refined and expanded. In 1986, the EITC was a critical reason why President Reagan could proclaim that the Tax Reform Act took millions of working poor off the income tax rolls, and there were important further expansions in 1990 and 1993. Further, the EITC has been amended several times to address noncompliance problems and to try to simplify the filing process, and the IRS has undertaken programs of enhanced enforcement and expanded outreach to educate potentially eligible taxpayers about the credit. In addition, since 1997, the EITC has been complemented by a Child Tax credit that provides additional benefits to many families.

The current version of the EITC provides a limited tax credit for low-income workers, which is based on income and family status and is fully refundable. The credit applies at three different rates with a low rate (7.65 percent) for taxpayers with no children, a much higher rate (34 percent) for taxpayers with one child, and an even higher rate (40 percent) for taxpayers with two or more children. Once a taxpayer's income reaches a certain amount — $7,660 for a single parent with two children — the credit reaches a peak and then begins to phase-out, eventually reaching zero. Taxpayers filing jointly have phase-out levels (that is, the maximum amount that they can earn and still receive the credit) that are higher than for taxpayers filing singly. The largest credit is $4,300, for a taxpayer with two children and an annual income of between $10,750 and $15,040. All of the benefits of the EITC go to taxpayers earning less then $35,458; roughly 90 percent go to families in the lower one-third of the income bracket; over 60 percent go to taxpayers earning less than $20,000.

The EITC has become the nation's largest federal program to support low-income working families. In 2003, it directly benefited 19.6 million working families, at cost of $34 billion, and each year it is responsible for lifting millions of people, including more than 2 million children, out of poverty. It also provides an important incentive to work, increasing the effective wage for a single parent with one child by $1.25 an hour; a Treasury Department expert recently wrote that "the EITC encourages work, as well as alleviates poverty." In addition to the federal EITC, seventeen states and the District of Columbia have adopted their own versions of the EITC, which "piggyback" on the federal EITC and thereby magnify its impact.

There is widespread agreement that the EITC is important and effective. However, even among its supporters, there are several key concerns about its current structure and operation. There are three main concerns.

The first concern is the lack of participation by some eligible taxpayers. As many as 25 percent of the taxpayers eligible for the EITC fail to claim it.

The second concern is noncompliance. The IRS estimates that about one-third of people claiming the EITC over estimate their benefits because of a combination of deliberate fraud and honest mistakes caused by complexity.

The third concern is the EITC's uneven impact on working families with different family structures. The EITC provides relatively generous benefits for families with one or two children, but much smaller relative credits for others, such as families with more than two children and childless workers.

In addition, there continues to be some opposition to the EITC, or at least to its expansion. Critics argue that the EITC is too generous and is not sufficiently integrated with other public welfare programs, such as benefits under the Temporary Assistance for Needy Families program and the Food Stamps program.

Marguerite Casey Foundation makes grants to organizations working in advocacy and organizing; leadership development; public policy change; and cross-sector collaboration. Through its grantees, the Foundation has gained significant knowledge about the EITC and believes that the EITC is a worthwhile program. The Foundation also believes that the EITC can be reformed, especially in the context of a comprehensive review of the federal tax system, and recommends consideration of the following reforms:

- The most sweeping reform would be an extensive simplification of the EITC to combine it with other relevant provisions of the tax system, such as the Child Credit, to establish an appropriate unified credit for low-income working families. Such changes, however, would have a significant revenue cost, which would have to be offset by other changes in the tax system. Further, reforms such as a flat tax or consumption tax could have mixed or even negative effects on EITC recipients, unless appropriate adjustments are made.

- It also is possible, even short of sweeping reform, to improve the structure and level of the EITC, to better achieve its goals, such as eliminating federal taxes on low-income working families and offsetting payroll taxes.

- It may be appropriate to make two more targeted reforms, without changing the overall structure of the credit. The first reform would be to provide greater EITC benefits for families with more than two children. The second would be to provide greater EITC benefits for childless workers – specifically, to offset not only the employee's share of payroll taxes, but also the employer's share. It also may be possible to reduce the EITC's marriage penalty and high effective rates in the phase-out range.

- The process for claiming the EITC could be further simplified, along lines that were proposed by the Treasury Department in 2004, such as by eliminating the current test for disqualified investment income. Simplification would, however, require that some current policy objectives be superseded.

- Further steps could be taken to increase outreach to potential EITC beneficiaries, so that they are aware of the availability of the EITC and receive appropriate training and assistance; this may be especially important in immigrant communities in which large numbers of eligible taxpayers face language barriers.

- Finally, it may be appropriate to consider limitations on the use of refund anticipation loans and to establish other taxpayer protections in conjunction with the EITC; this could be done voluntarily, by state legislation, or by federal legislation.

Marguerite Casey Foundation hopes, through our full report *The Earned Income Tax Credit: Analysis and Proposals for Reform*, to stimulate further thought and debate about the EITC and its role in the federal tax system.

I. INTRODUCTION

We are in the midst of the most sweeping review of the federal tax system in at least 20 years. President Bush has called for a fundamental review of the system and has established a panel of expert advisors whose recommendations are likely to trigger a lengthy and complex debate.[1]

As the panel, the President, and Congress do their work, one important issue will be the role of the Earned Income Tax Credit (EITC).[2] As the nation's largest federal income support program for low-income working families, the EITC is a powerful tool that lifts families out of poverty. Initially enacted in 1975, the EITC has evolved from a small temporary tax credit into a complex program that benefits 19.6 million low-income taxpayers and is essential to the progressiveness of the tax system, and it is the nation's largest program to provide income support to working families.

At the same time, the EITC is far from perfect. It has developed ad-hoc, for different and sometimes conflicting purposes. It treats some taxpayers significantly better than others, with little rational basis for the distinction. And, despite efforts to simplify, the EITC remains complex, with the result that it is both underutilized by taxpayers who are eligible and overclaimed by taxpayers who are not. The EITC is, in short, an important element of the federal tax system, but one that can be significantly improved.

Marguerite Casey Foundation is a private, independent grantmaking foundation created by Casey Family Programs to help expand Casey's outreach and further enhance its nearly 40-year record of leadership in family well-being. Based in Seattle, Washington, Marguerite Casey Foundation's mission is to help low-income families strengthen their voice and organize their communities in order to achieve a more just and equitable society for all. The Foundation supports community-based leadership and promotes education, activism, and advocacy among families, parents, and youth. Since its inception in 2001, the Foundation has disbursed more than $75 million to 280 community-based organizations in its funding regions that span California, the Deep South (Alabama, Mississippi, Florida, Arkansas, Louisiana, Georgia), the Southwest-US/Mexico Border (Texas, New Mexico, Arizona), and Chicago, as well as the Foundation's home state of Washington.

Since its inception, the Foundation has supported community organizations that educate working families about the EITC and provide free tax services to low-income families. In the course of this and other work, the Foundation has learned the importance of the EITC and gained extensive experience with its practical application.

This report draws from the Foundation's experience and from an analysis of nonpartisan scholarly work on the EITC, to provide an independent and objective exposition of the development of the EITC and its current operation and effectiveness. Based on this exposition, the report supports the EITC and encourages improvements to it, including reforms to improve the level and structure of the EITC and to reduce its complexity. The recommendations that follow are the sum of lessons learned from the Foundation's grantees that are actively engaged with the Earned Income Tax Credit federal program to help their constituencies rise up from poverty.

II. THE DEVELOPMENT OF THE EITC

The Federal EITC

The concept of a tax credit for the working poor emerged in the late 1960s during debates about the problems of poverty, on the one hand, and welfare dependency, on the other. In August

1969, President Nixon proposed the Family Assistance Plan (FAP), which would have provided a guaranteed cash income to all families, as an alternative to public assistance. In proposing the plan, President Nixon said that the nation should "assure an income foundation throughout every section of America for all parents who cannot adequately support themselves and their children."[3]

President Nixon's effort to establish the FAP failed. Despite some initial support, the FAP was sharply criticized. Many social welfare advocates argued that the proposed level of benefits was too low. Others, led by Senator Russell Long, then Chairman of the Senate Finance Committee, objected to, as Long put it, "paying people not to work."[4]

As it became clear that the FAP did not have sufficient congressional support, Senator Long developed an alternative proposal: a tax credit for low-income taxpayers who work, which he called a "work bonus."[5] Long's proposal passed the Senate in 1974, but the House rejected it. Finally, with President Ford calling for stimulative tax cuts, Congress enacted Long's proposal as part of the Tax Reduction Act of 1975.[6]

The 1975 Act created the EITC as a refundable credit of 10 percent of the first $4,000 of earned income, for a maximum credit of $400 available to taxpayers with at least one child. The credit was phased-out for income between $4,000 and $8,000. The Senate Committee report described the purpose of the EITC this way:

> This new refundable credit will provide relief to families who currently pay little or no income tax. These people have been hurt the most by rising food and energy costs. Also, in almost all cases, they are subject to the social security payroll tax on their earnings. Because it will increase their after-tax earnings, the new credit, in effect, provides an added bonus or incentive for low-income people to work, and therefore, should be of importance in inducing individuals with families receiving Federal assistance to support themselves. Moreover, the refundable credit is expected to be effective in stimulating the economy because the low-income people are expected to spend a large fraction of their increased disposable incomes.[7]

Over the next 10 years, the EITC was made permanent, the income threshold was raised to $5,500 (for a maximum credit of $550),[8] and various refinements were made to reflect the interaction between the EITC and federal welfare programs.[9]

The Tax Reform Act of 1986 firmly established the EITC as a key element of federal tax policy. President Reagan had proposed a comprehensive review of the tax code in order to achieve "an historic reform for fairness, simplicity, and incentives for growth…[that would] simplify the entire tax code, so all taxpayers, big and small, are treated more fairly."[10] When he presented his detailed tax reform proposal to Congress, Reagan emphasized the importance of the EITC. His proposal stated that:

> The Earned Income Tax Credit serves as an offset to social security and income taxes and provides work incentives for many low-income families with dependents. However, inflation has reduced the value of the credit. Moreover, increases in income attributable to inflation have reduced the number of families eligible for the credit and the amount of the credit for many of those who remain eligible.

To address these concerns, President Reagan proposed to increase the EITC and index it for inflation. Congress accepted the proposal, and the expanded EITC was a major reason why, in signing the Tax Reform Act, President Reagan could proclaim that one of its principal benefits was that "millions of working poor will be dropped from the tax rolls altogether."[11]

Two important enhancements were made in the early 1990s. First, in 1990, as part of an omnibus budget bill, Congress increased the credit and, for the first time, added a supplemental credit for families with two or more children. Second, in 1993, at the beginning of his first term, President Clinton proposed to substantially increase the EITC. He explained that:

> [T]his will be the first time in the history of our country when we'll be able to say that if you work 40 hours a week and you have children in your home, you will be lifted out of poverty. It is an elemental, powerful, and profound principle. It is not liberal or conservative. It should belong to no party. It ought to become part of the American creed.[12]

Congress responded to Clinton's proposal by further increasing the credit and making a small credit available for taxpayers between the ages of 25 and 64 with no children. This new credit was created, in significant part, to offset the effect of tax increases on low-income workers.[13]

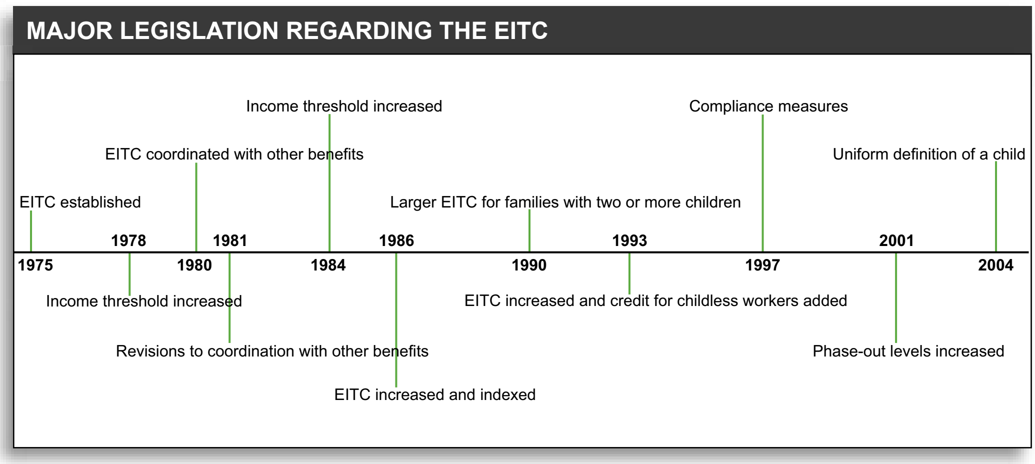
In 2001, Congress expanded the credit to reduce the "marriage penalty" that occurs when taxpayers receive a lower credit after they are married than when they were single. Congress did so by increasing the income amount at which the credit begins to phase-out by $1,000 for taxpayers filing joint returns (the increase rises to $3,000 by 2007).[14]

Beginning in the late 1980s, concerns grew about the level of taxpayer compliance with EITC provisions. A 1994 IRS study concluded that taxpayers overclaimed EITC benefits by $4.4 billion, or 26 percent. The most common causes of noncompliance were (1) claiming children who did not satisfy the residency test (which requires that the child live with the taxpayer for at least half of the year), (2) incorrectly applying the "tiebreaker" rules for determining who can claim the EITC on behalf of a child when the child is cared for by more than one individual (e.g., a child who lives with his or her mother and grandmother in the same residence, determining "with whom" the child lived for purposes of the credit), (3) erroneously filing as the head of a household rather than under some other tax status, and (4) misreporting income.[15] The IRS estimated that about one-half of the returns with an EITC overclaim were the result of intentional errors.[16]

Congress responded. It held hearings,[17] at which the low rate of compliance was cited by some Members of Congress who argued that the EITC should be limited or at least not expanded. Congress also amended the law. In 1995, citing concerns about noncompliance,[18] it passed a bill containing deep cuts in the EITC, but the bill was vetoed and the cuts were dropped from the bill that eventually was enacted.[19] In 1997, it took several further steps to increase compliance – requiring paid tax return preparers to exercise due diligence in preparing EITC claims, requiring taxpayers who overclaimed the EITC to be recertified before becoming eligible to claim the credit again, and giving the IRS access to other government agency databases in order to cross-check eligibility.[20] Congress also established a 'modified adjusted gross income' rule for the EITC, requiring certain taxpayers to include certain nontaxable sources of income, such as tax-exempt interest and pension payments, in the calculation of gross income for determining eligibility for the EITC.[21] Additionally, the IRS undertook programs of enhanced enforcement and expanded outreach to educate potentially eligible taxpayers about the credit.[22]

Despite these initiatives, compliance concerns have persisted. In 2002, a new IRS study of tax returns filed in 1999 concluded that taxpayers overclaimed EITC benefits by 27 to 32 percent.[23] Congress responded further by appropriating $54 million in fiscal year 2004 for a new compliance initiative, which included the introduction of pilot tests to evaluate new methods for reducing overclaims, such as requiring certain categories of taxpayers (essentially, caretakers of children other than their parents, such as grandparents) to "precertify" their eligibility to receive the credit before claiming it.[24] Although the precertification initiative generated criticism[25] and subsequently has been scaled back somewhat, it currently is the subject of ongoing pilot tests.

As a related matter, there have been attempts to simplify the EITC requirements. In 1990, Congress reduced the complexity of the test used to determine whether a taxpayer could claim the EITC.[26] In 2001, it simplified the definition of earned income under the EITC.[27] In 2004, the Administration proposed a series of simplification proposals, of which Congress enacted one, amending various overlapping and inconsistent definitions of a child to create a uniform definition for purposes of the EITC, the dependency exemption, the child credit, the dependent care credit, and head of household filing status.[28]



Outreach Efforts

There have been extensive efforts, by advocacy and community organizations and by the IRS itself, to provide low-income families with better information about the benefits and eligibility requirements of the EITC, as well as to provide training materials on the EITC, including extensive efforts by the Center for Budget and Policy Priorities, the National Community Tax Coalition, and others.[29] Through the work of its grantees, Marguerite Casey Foundation has been involved in these efforts. Some examples include:

- In May 2004, the Foundation awarded $150,000 to Alabama Arise to educate low-income families in Alabama about their eligibility for EITC and other tax benefits.

- In December 2003, the Foundation awarded $375,000 to the Children's Defense Fund to launch a national initiative to ensure low-income working families and their children receive tax assistance, such as the EITC and the Child Tax Credit, as well as other benefits for which they are eligible.

- In October 2003, the Foundation awarded $1 million to the Association of Community Organizations for Reform Now to experiment with providing free tax services in four key metropolitan cities. This program now has expanded to 45 cities nationwide.

- Since 2001, the Foundation has funded numerous community-based organizations such as the Fresno Center for New Americans in California, the Colonias Development Council in New Mexico, the Federation of Childcare Centers of Alabama, and Onward Neighborhood House in Chicago, to reach out to limited-English speaking immigrant communities needing assistance in claiming their EITC benefits.

Marguerite Casey Foundation grantees have communicated to the Foundation about their outreach and work on the ground to engage families in EITC programs. One such success story comes from Children Defense Fund, New York.

> Sharon is a 28-year old single mother who works full-time as a home health aide earning about $20,000 a year in New York City. With two growing sons to support, every dollar for Sharon counts. In the past, she has gone to neighborhood tax sites and paid more than $100 to have her taxes prepared and an additional $250 just to take out a loan to get her refund back faster. After subtracting the $350 in fees paid to the commercial tax preparer, Sharon's refund had reduced by almost 18 percent.
>
> When Sharon learned about a free tax preparation site in her neighborhood, the experts there helped her to find a variety of other ways to reduce her tax burden, thus increasing her EITC refund. Sharon remarks that she "will definitely pass the word along to [her] friends."

It is through such outreach that an increasing amount of low-income working families can benefit from this credit.

The Child Credit

There has also been a change to the tax code that, while not affecting the EITC directly, has a significant related effect. In 1997, Congress established the Child Tax Credit, which provides taxpayers with a credit, currently $1,000 per child.[30] According to the House Ways and Means Committee, the credit was established because "a tax credit for families with dependent children will reduce the individual income tax burden on those families, will better recognize the financial responsibilities of raising dependent children, and will promote family values."[31] However, the Child Credit is refundable only to a limited extent, so it is not fully available to many EITC recipients.[32]

State EITC Programs

In addition to the federal EITC, seventeen states and the District of Columbia provide their own EITCs, which "piggyback" on the federal EITC, with rates ranging from 4 to 50 percent of the federal rate. One state – Wisconsin – goes further than the federal government by allowing taxpayers to claim a higher credit for families with three or more children.

YEARS STATE EITC PROGRAMS WERE ENACTED[33]			
Colorado	1999	Minnesota	1991
District of Columbia	2000	New Jersey	2000
Illinois	2000	New York	1994
Indiana	1999	Oklahoma	2002
Iowa	2002	Oregon	1997
Kansas	1998	Rhode Island	1996
Maine	2000	Vermont	1988
Massachusetts	1997	Virginia	1994
Maryland	1987	Wisconsin	1989

III. CURRENT OPERATION OF THE EITC

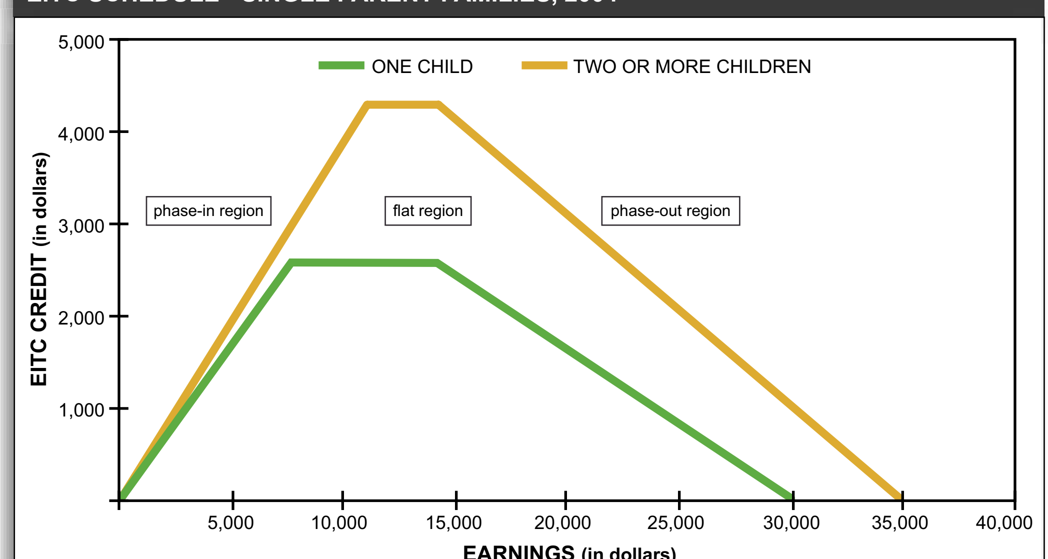
The EITC currently provides a tax credit for low-income workers based on their income and family status. People receive the credit whether or not they have federal income tax liability (that is, the credit is "fully refundable"). The credit applies at three different rates, depending on the characteristics of the family. There is a low rate (7.65 percent) for taxpayers with no children, a much higher rate (34 percent) for taxpayers with one child, and an even higher rate (40 percent) for taxpayers with two or more children. Once a taxpayer's income reaches a certain amount, currently $7,660 for a single parent with two children, the credit reaches its peak, after which it begins to phase-out and eventually decline to zero. Taxpayers filing jointly have phase-out levels (that is, the maximum amount that they can earn and still remain eligible for the credit) that are higher than taxpayers filing singly. The largest credit is $4,300, for a taxpayer with two children and an annual income of between $10,750 and $15,040.

Overall, the structure of the credit is as follows:

Family Status	Basic Rate	Peak	Phase-Out Rate	Phase-Out Level	Maximum Credit
Single/no children	7.65%	$5,100-$6,390	7.65%	$11,490	$390
Joint/no children	7.65%	$5,100-$7,390	7.65%	$12,490	$390
Single/1 child	34%	$7,660-$14,040	15.98%	$30,338	$2,604
Joint/1 child	34%	$7,660-$15,040	15.98%	$31,338	$2,604
Single/2 or more children	40%	$10,750-$14,040	21.06%	$34,458	$4,300
Joint/2 or more children	40%	$10,750-$15,040	21.06%	$35,458	$4,300

The following graph shows how the credit operates for a single parent family with children:

EITC SCHEDULE - SINGLE PARENT FAMILIES, 2004 [34]



In order to determine eligibility for the credit and to calculate the maximum credit amount, a taxpayer not only must determine where he or she fits on this scale, but also must apply three sets of rules.

First, if the taxpayer is claiming a credit for a child, he or she must determine whether the child is a "qualifying child." The child must live with the taxpayer for more than half of the year. If two taxpayers both care for a child but file their taxes separately, and they cannot agree on which one of them will claim the child, the taxpayers must apply a set of "tiebreaker" rules (e.g., the parent with whom the child lived the longest during the year is the one who can claim the child).

Second, Congress has limited the extent to which a taxpayer claiming the EITC can have investment income (i.e., income from interest and dividends, capital gains, royalties and rental income from personal property, and income from passive activities). This income must be calculated separately and, if the amount is $2,650 or more, the taxpayer is excluded from receiving the EITC.

Third, to address fraud, Congress has directed the IRS to exclude certain taxpayers. Accordingly, if a taxpayer's claimed EITC has been denied in previous years, the taxpayer must apply a set of recertification rules to claim the EITC again. For example, if the EITC was denied and the IRS determined that the taxpayer's error was attributable to reckless or intentional disregard of the rules, the taxpayer is prohibited from claiming the EITC for two years, after which the taxpayer must complete additional paperwork to prove eligibility.

Once eligibility to receive the EITC is established, the credit applies according to family income, size and structure as the following examples illustrate:

- A single person with no children, earning $10,712 (the income from working full-time at the federal minimum wage of $5.15/hour) would have federal income tax liability of $276 and an EITC of $59, for a net federal income tax liability of $217. (The poverty level for a single person is $9,570.)

- A single parent with two children, earning $20,000, would have federal income tax liability of $355, an EITC of $3,040, and a refundable Child Tax Credit of $1,388, for a net federal income tax refund of $4,065. (The federal poverty level for a family of three is $16,090.)

- A single parent with four children, earning $20,000, would have no federal income tax liability, an EITC of $3,040, and a refundable Child Tax Credit of $1,388, for a net federal income tax refund of $4,028. (The poverty level for a family of five is $22,610.)

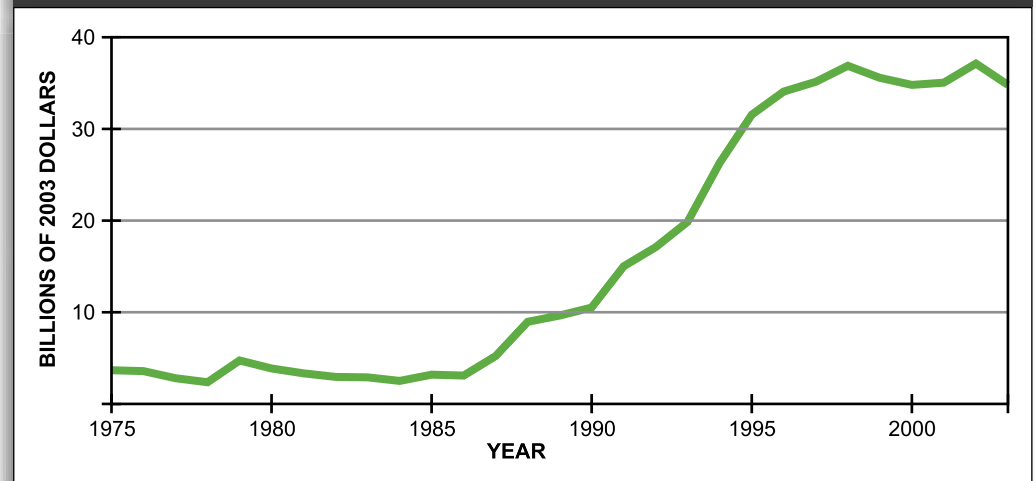
- A couple filing jointly, with an income of $30,000 and two children, would have a federal income tax liability of $793, an EITC of $1,144, and a refundable Child Tax Credit of $1,210, for a net federal income tax refund of $1,561. (The poverty level for a family of four is $19,350.)

- A couple filing jointly, with an income of $30,000 and four children, would have federal income tax liability of $171, an EITC of $1,144, and a refundable Child Tax Credit of $2,888, for a net federal income tax refund of $3,861. (The federal poverty level for a family of six is $25,870).

IV. THE EFFECTIVENESS OF THE EITC

The EITC has evolved into the nation's largest federal income support program for low-income working families, growing from a program that benefited 6.2 million families at a cost of $1.2 billion in 1975 to one that benefited 19.6 million families at a cost of $34 billion in 2003.[35]

COST OF EITC IN BILLIONS OF 2003 DOLLARS[36]



To put the EITC in perspective, in 2003, the Temporary Assistance for Needy Families program benefited 2.1 million families at a cost of $24.5 billion and the Food Stamps program benefited 7.4 million families at a cost of $21 billion.[37]

COMPARISON: EITC reaches more families than Temporary Assistance for Needy Families (TANF)

	EITC	TANF
Cost (billions)	$33.4	$24.5
Families (millions)	19.6	2.1
Average Benefit	$142/month	$351/month

Many who have reviewed the EITC have concluded that it not only provides significant benefits to working families, but does so relatively efficiently. All of the benefits of the EITC go to families earning less than $35,458; over 60 percent go to families earning less than $20,000; and roughly 90 percent go to families in the lower third of income.[38]

To look at it another way, in 2001, the EITC was directly responsible for lifting 4.7 million people, including 2.2 million children, above the poverty level.[39]

Many who have reviewed the EITC also have concluded that it provides an incentive for work. As an example, for a single parent who makes $7.50/hour and has one child, the EITC results in an effective wage increase of $1.25/hour. One detailed study concluded that "[t]he EITC accounts for over sixty percent of the increase in the weekly and annual employment of single mothers between 1984 and 1996."[40] In a 1996 article, Nobel laureate Gary S. Becker said that "Empirical studies confirm the prediction of economic theory that the EITC increases the labor force participation and employment of people with low wages because they need to work in order to receive this credit."[41] And a Treasury Department expert recently noted that several recent studies have found that "the EITC encourages work, as well as alleviates poverty."[42] Moreover, the EITC accomplishes this without imposing a cost on employers, which has been a longstanding criticism of the minimum wage.[43]

EITC IMPACT ON THOSE ENTERING THE WORKFORCE		
Increase in net annual income for entering workforce at:	**Part-time work**	**Full-time work**
Without the EITC	$5,356	$10,712
With the EITC	$7,177	$13,316
Impact of EITC on net income	$1,821/year	$2,604/year
Impact of EITC per hour worked	$1.75/hour	$1.25/hour

Notwithstanding these conclusions, those who support the EITC have expressed several significant concerns with its current operation.

One concern is the lack of participation by some eligible taxpayers. Between 75 and 86 percent of eligible taxpayers claim the EITC, and, although this participation rate is relatively high compared to many public welfare programs, it means that millions of eligible families fail to participate. Participation may be particularly low among immigrant populations.[44]

A second concern is noncompliance. As explained above, there continues to be a relatively high rate of noncompliance, which increases federal costs and undermines the integrity of the federal tax system.

A third concern is that the EITC does not go far enough to address the concerns of the working poor. Generally speaking, the EITC has achieved the goal of eliminating federal income taxes for low-income families with two children. However, it has been argued that the EITC does not provide adequate benefits to families with more than two children and to childless workers and, more generally, that it fails to fully accomplish the goals of offsetting the effects of payroll taxes and creating incentives to work.

Through research and conversations with its grantees, Marguerite Casey Foundation has found that one of the fundamental problems is complexity – both in navigating through the form itself and in the language used. Daniel Solis, Executive Director of Alianza Para El Desarrollo, a Marguerite Casey Foundation grantee, states that:

> One of the major barriers we face at Alianza is translating the complex language of the Earned Income Tax Credit to our constituents. Many of those eligible for the EITC only have up to a 5th grade education – the form is too complicated for them to understand on their own. Further, our constituents speak their native Spanish and we need volunteers who can really communicate the necessary information in a language they understand. This can lead to capacity challenges and the risk of not capturing all of the necessary information from our constituents.

In addition to these concerns, there continues to be some general criticism of the EITC from those who believe that it is too generous, is not properly integrated with social welfare programs, and is susceptible to excessive noncompliance. These criticisms were described in a 2003 letter from Congresswoman Sue Myrick and Congressman Ernest Istook to the House Republican Leadership. Among other things, they called for further steps to increase compliance, for an evaluation of the EITC in the context of other federal income support programs (such as Food Stamps, WIC, Temporary Assistance to Needy Families, and housing subsidies), and for the consideration of time limits on EITC eligibility. These steps, they wrote, "will enable honest public discussion about these public assistance programs, and whether the benefits of our earlier welfare reform efforts are being undone by [the EITC and] other programs."[45]

There also has been concern that the EITC has contributed to the decline in the number of Americans paying taxes and that this may reduce the popular appeal of tax cuts.[46] Finally, there is concern that the EITC injects non-tax considerations into the tax system, making the overall system more complex and less efficient.

Marguerite Casey Foundation believes that the EITC has been a valuable tool, providing a relatively efficient way to reduce taxes on the working poor, offset the impact of payroll taxes, and encourage work. Therefore, this report accepts the view that the EITC is an important and appropriate element of the federal tax system that should be supported. It can, however, be improved. The next section discusses possible improvements.

V. ISSUES AND POSSIBLE REFORMS

A. Comprehensive Simplification of the EITC

The EITC does not exist in isolation. In the course of a comprehensive review of the tax system, many other issues that affect low-income working families, in addition to the EITC, are likely to be considered.

The most significant is the Child Credit, which was enacted in 1997 to provide further tax relief to families with children. The purposes of the Child Credit overlap with those of the EITC. However, the two credits operate independently, with separate schedules and forms. Moreover, the Child Credit is only partly refundable, and a family claiming both the EITC and the Child Credit must make a complex calculation, which requires resorting to two separate sets of instructions, in order to obtain a refund (perhaps only partial) of the Child Credit. In addition, low-income working families are significantly affected by other aspects of the federal tax system, including tax rates, the personal exemption, and standard deduction, and various other credits and incentives that may be available to them, including the child and dependency credit, education credits, and the savers credit.

In this broad context, it is appropriate to consider fundamental tax reform that would combine the EITC with other provisions in order to achieve a simpler system that provides equal or greater benefits to low-income working families. Donna A. Lawrence, Vice President of National Field Operations and Executive Director of Children's Defense Fund New York, a Marguerite Casey Foundation grantee, states that:

> One of the most effective reforms for the EITC would be to simplify, streamline, and align the benefit programs for low-income families. Our constituents should be able to be self-sufficient in filling out the EITC form, but it is much too complex for them to understand without assistance. We are working to meet their needs by devising simplified ways to convey the messages they need to know, but I think that this should be happening at a national level to ensure consistency.

Many other Marguerite Casey Foundation grantees agree with this statement, which supports the recommendations that follow.

1. Unification of EITC with other credits

One significant proposal, made by Paul Weinstein of the Progressive Policy Institute, as well as by Congressman Rahm Emanuel, is to replace the EITC, the Child Credit, and the Child and Dependent Care Credit with a unified "Family Tax Credit" (FTC). Families would receive a 50 percent refundable credit for every dollar that they earn, with a maximum credit of $5,200 (joint return, three children). Weinstein argues that this proposal:

> Not only would... be more generous than the EITC, it also would affect more families. The EITC evaporates entirely for two-child families that make more than $35,458. Under the FTC, families with two children and income between $35,000 and $120,000 would be eligible for a $3,500 credit . . .The FTC would also greatly simplify the tax code. It would eliminate 200 pages of code with a 12-line form that would make it easier for families to determine whether they qualify for this important tax incentive.[47]

A second significant proposal, made by Robert Cherry and Max Sawicky of the Economic Policy Institute, would replace the EITC, the Child Credit, and the Dependent Care Credit with a unified "Single Family Credit" that is refundable and that is reduced, but not eliminated, as income rises.[48]

A third significant proposal, recently made by Adam Carosso, Jeff Rohally, and C. Eugene Steuerle of the Urban Institute, would unify the EITC, the Child Credit, and personal exemption into a Unified Child Credit (UCC), with a single rate (50 percent), refundability percentage, and phase-out structure. The result, they explain, is not only that the system is simpler, but also that "[f]or many families, the combination of a 50 percent phase-in rate (versus 40 percent for the EITC in current law) and the indexing of the entire credit amount (as opposed to just the EITC, but not the child credit in current law) will enhance the total credit amount awarded."[49]

Each of these proposals would result in a simpler system for current EITC recipients (as well as many other families) and would move closer toward the goals of eliminating federal taxes on low-income working families, offsetting the impact of payroll taxes, and encouraging work. At the same time, each would have substantial costs to the Treasury because of foregone taxes on, and payments to, these low-income families. For example, it is estimated that the Unified Child Credit would reduce federal revenue by about $25 billion a year.[50]

Another approach would replace the current system with a "flat tax," eliminating virtually all tax credits (as well as exclusions and deductions), including the EITC and the Child Credit. Generally, these proposals seek to eliminate income taxes on working families by establishing a higher personal exemption. For example, in testimony before the President's Advisory Panel on Tax Reform, Professor Robert Hall of the Hoover Institution proposed a flat tax that would increase the personal exemption, for a family of four, from $12,400 under current law to $41,000.[51]

The impact of such a reform on low-income working families would be uneven. The EITC serves several purposes; while one is to eliminate federal income taxes on the working poor, others are to offset the impact of payroll taxes and create a greater incentive for work. The combination of repeal of the EITC and a higher personal exemption would achieve the first purpose, but, for many lower-income families, not the second and third. Specifically, many families that now receive a refundable EITC because their credit exceeds their income tax payments (and hence offsets payroll taxes and provides a further incentive to work) would be worse off under such a proposal than under current law.

2. Consumption tax

A different approach to fundamental tax reform is to replace the existing income tax with a consumption tax, in the form of either a national sales tax or a value-added tax. Most prominently, a bill introduced in the 108th Congress would have repealed the income and payroll taxes and replaced them with a national sales tax of 23 percent.[52]
From the perspective of low-income working families that currently receive the EITC, the impact of consumption tax proposals would be mixed, but mostly negative. On the positive side, by eliminating the income and payroll taxes, the proposals would eliminate the need for an EITC to offset those taxes. On the other hand, the impact of a consumption tax generally, and a retail sales tax specifically, is regressive. The national sales tax proposal would partly offset the regressive impact by providing a monthly rebate for families earning less than the poverty rate, but the mechanics of providing this rebate (and the compliance issues that the rebate would generate) would dilute the simplification benefits of eliminating the need to file for an EITC. Further, a rebate designed simply to offset the regressive effect of the sales tax would fail to achieve two important goals of the current EITC – to create an incentive to work and to help lift working families out of poverty. Apparently recognizing this, a 2002 memorandum from Pamela Olsen, the Assistant Treasury Secretary for Tax Policy, noted that in the context of a national consumption tax, "if the effect of current low- and middle-income credits were to be retained, a separate administrative mechanism would need to be developed."[53]

B. The Structure and Level of the EITC

If the EITC is not replaced with an alternative system, it can nevertheless be improved. One improvement would be to the structure and level of the credit. Although the EITC has developed into a major program providing significant benefits for millions of working families, it has expanded ad-hoc, evolving from a single credit for taxpayers with children to a multi-tier credit with separate rates and phase-out levels for taxpayers with two or more children, for taxpayers with one child, and for taxpayers without children. As this has occurred, as Professor Lawrence Zelenak recently wrote, "Congress has never offered a coherent account of the purpose (or purposes) of the EITC, and the structure of current law does not suggest any well-defined purpose."[54]

1. Tying EITC to the poverty level

Some propose to address this problem by expressly tying the EITC to the poverty level. "It seems," Professor Zelenak argues, "a matter of simple justice. No family should have to live in poverty when the head of the family is employed full-time."[55] This can best be done, he continues, by reformulating the EITC and integrating it with the dependency exemption and the child credit, as follows:

> [S]tarting from a $3,000 per child EITC for minimum wage workers [based on the approximately $3,000 by which the federal poverty guidelines increase for each child], it should be possible to integrate the EITC, the dependency exemption, and the child tax credit into a single child tax benefit. The per child amount of the integrated benefit would be $3,000 at the poverty level, would be phased down to $1,750 for middle income taxpayers, and further phased down to $1,000 for upper income taxpayers.[56]

Specifically, Zelenak proposes the following structure for low-income workers. The figures shown are the proposed credit amount for a single worker, filing as a head of household and the amount of the credit that is available under the current system is in parenthesis:

Number of Dependent Children	Official Poverty Level	Precredit Wages	EITC	After-Credit Wages
0	$10,000	$10,000	0 ($114)	$10,000 ($10,114)
1	$13,000	$10,000	$3,000 ($2,604)	$13,000 ($12,604)
2	$16,000	$10,000	$6,000 ($4,000)	$16,000 ($14,000)
3	$19,000	$10,000	$9,000 ($4,000)	$19,000 ($14,000)
4	$22,000	$10,000	$12,000 ($4,000)	$22,000 ($14,000)

This proposal also would establish phase-out levels and, potentially, make an adjustment for joint filing by adding an increased credit for a taxpayer with a spouse. To address single workers, Professor Zelenak proposes a new credit, separate from the EITC, to offset payroll taxes.

2. Tying EITC to the minimum wage

Alternatively, Isabel Sawhill and Adam Thomas have proposed, as one of several options, that the overarching EITC goal be to "make work pay," and that this goal be achieved by tying the basic credit to the amount that a person earns at the minimum wage, with all of the benefit levels adjusted accordingly. This option, they argue, "has the advantage of bringing a lot of new workers into the job market."[57]

3. Targeted reforms

In addition to proposals to reformulate the EITC, there have been proposals to make more limited changes to address specific concerns. These proposals have focused primarily on two issues: whether to provide a further credit for taxpayers with more than two children and whether to maintain and expand the credit for childless workers.

a. *Workers with more than two children*

The EITC initially applied at a single rate to workers with children, regardless of the number of children. That changed in 1990, when Congress added a higher credit for families with two or more children. However, it stops there: families with more than two children receive the same EITC as families with only two.

Some commentators have speculated that this limitation may be intentional because, "a two-child ceiling for purposes of the EITC calculation might be intended to avoid giving low-wage workers an incentive to have more children than they can support without the credit subsidy."[58] On the other hand, it is well established that family costs rise along with the number of family members, and this is reflected not only in the federal poverty level guidelines, but also in key provisions of the tax code, which provide an additional personal exemption and a child credit for each child, without any limitation on the number of children. Further, the poverty level for children in families with three or more children (28.6 percent) is more than twice as high as it is for children in smaller families.[59]

Considered in this light, the EITC falls short for some families with more than two children. For example, a single parent earning $20,000 with four children would have no federal income tax liability, an EITC of $3,040, and a refundable Child Tax Credit of $1,388, for a net federal income tax refund of $4,428. But the family also would pay federal payroll taxes of $1,530 (employee's share only), leaving the family barely above the poverty level for a family of five ($22,610); and, if the employer's share of payroll taxes are taken into account, leaving the family substantially below the poverty level.

The straightforward solution would be to provide a larger credit for families with three or more children, either by increasing the credit for each additional child (with no limit, as is the case with the personal exemption), or by establishing an additional tier providing a higher credit for larger families. This has been proposed several times in Congress[60] as well as by the Center for Budget and Policy Priorities,[61] and it is also a feature of the Wisconsin state EITC. A similar result could be achieved by making the Child Credit fully refundable, but this would result in a fully refundable credit that, unlike the EITC, is not tied to earned income.

b. *Childless workers*

For almost 20 years the EITC was limited to workers with children; childless workers were ineligible. That changed in 1993, when Congress made childless workers eligible for a credit of 7.65 percent of the first $5,100 of earnings, for a maximum credit of $390.

It can be argued that this credit is sufficient, or even generous, for people who have no children to support and who are not among those that the EITC was originally intended to benefit (workers with children). On the other hand, it appears that at least part of Congress's intent in adding the credit for childless workers was to offset the impact of payroll taxes; although there is little legislative history explaining the 1993 provision, it set the EITC for childless workers at 7.65 percent, precisely the same as the rate for the employee share of payroll taxes.

If offsetting the impact of payroll taxes is a significant intent, the current EITC for childless workers may fall short. It covers the employee's share of payroll taxes, but not the employer's share, and it is generally believed that, as an economic matter, both the employee's and the employer's share are borne by the employee.[62] With this in mind, a single person earning the minimum wage, with no children, has federal income tax liability of $276 and an EITC of $59, for a net federal income tax liability of $217. However, he or she pays $1,639 in federal payroll taxes when both the employee and employer share of those taxes are taken into account.

This shortfall could be eliminated by increasing the credit for low-income workers without children to 15.3 percent, which would offset not only the employee's share of payroll taxes, but also the employer's share.[63] In support of such a proposal, Robert Greenstein of the Center for Budget and Policy Priorities has argued that taxes have increased dramatically for the poorest one-fifth of workers and that, accordingly, "if any workers need a tax cut, these workers do."[64] Further, he notes the study concluding that the EITC has created an important incentive to work for single mothers and argues that:

> Employment remains relatively low among some groups of single men. For example, in 1999, some 74.5 percent of African-American men aged 25-34 who do not reside with children were employed (as compared to an 86 percent employment rate among all men in this age group). In other words, one-fourth of African-American men in this age group were not employed. If enlarging the EITC for workers not raising minor children induced an increase in employment among this group, as increases in the EITC for families with children have done among single mothers — expanding the EITC for childless workers would be particularly beneficial.[65]

c. *Marriage penalty*

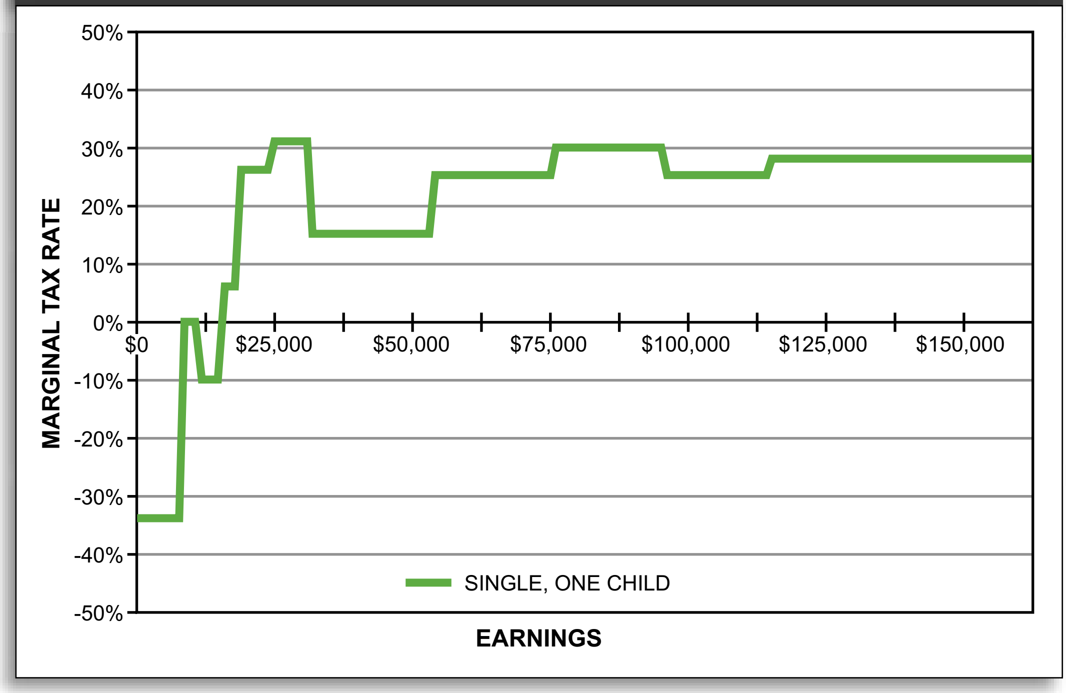
The EITC imposes a "marriage penalty" on some couples, but there is no simple solution. The structure of the EITC, similarly to the structure of many other tax provisions, results in some taxpayers receiving a lower credit if they marry than if they remain single. For example, two parents, each with two children and each earning $15,000, would be eligible for a total EITC of $8,206 if they remain single, but of only $934 if they marry.

This consequence was addressed in part in 2001 by increasing the EITC phase-out level for joint returns. It could be addressed further by extending the phase-out level or providing an additional credit for more than two children, as discussed above, or through a set of coordinated changes to rates, the personal exemption, and the EITC, as has been proposed by the Center for American Progress.[66] However, the EITC marriage penalty, like other aspects of the marriage penalty, is difficult to eliminate in a system that features both progressive rates and joint filing.

d. *EITC phase-out structure*

The operation of the EITC phase-out has the effect of raising marginal tax rates to more than 30 percent (more than 40 percent if payroll taxes are taken into account) for taxpayers in the phase-out range because, as income rises, the credit declines. In other words, for taxpayers in the income range at which the EITC phases-out (for example, a couple with two children and a joint income of $30,000), each additional dollar of income not only is subject to tax, but also results in a decline of the EITC. The result is a "spike" in marginal tax rates.

MARGINAL TAX RATES FOR SINGLE PARENTS WITH ONE CHILD[67]



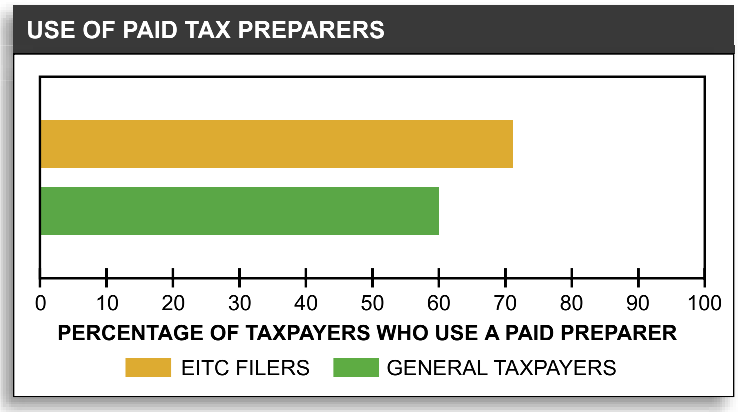
Professor Hilary Hoynes recently said that "[h]igh marginal tax rates in the phase-out region provide disincentive to increase work (or wage rates) for those already in the labor market," and "decrease the incentives to enter the labor market for some secondary earners (lower earning parent in married couple)."[68]

However, like the marriage penalty, the problem of high marginal rates is difficult to solve completely because the high marginal rates are inherent in the use of the phase-out system, and could be eliminated only by abolishing the phase-out altogether – which would be costly and would result in high-income taxpayers receiving a benefit designed to assist low-income workers.[69]

e. *Complexity and compliance*

As the EITC has been repeatedly modified over the years, the process for filing has grown complex– from a single line on the tax return in 1975 to a separate schedule accompanied by a 53-page instruction booklet today. There have been efforts to reduce complexity, but it persists and has three negative consequences.

The first is cost. Seventy-two percent of EITC filers use a paid preparer, compared to 60 percent of taxpayers in general.[70] According to the National Consumer Law Center, the average cost for commercial tax preparation is $120,[71] which significantly reduces the benefit from the EITC.



The second negative consequence is underutilization. It is estimated that only 75 to 86 percent of eligible workers actually receive the EITC.[72] While the participation rate is high compared to some other programs that supplement the incomes of low-income workers, the participation rate means that between 1.4 and 2.5 million fully eligible families fail to claim it.[73] Mike Kromry from the PICO National Network, a Marguerite Casey Foundation grantee, states that:

> Simplification of the language used in the instructions – and in the EITC form itself – are both critical to expanding participation in the EITC program. One of the fundamentally important elements in the development of the Denver EITC match was to dramatically reduce the paperwork, simplify language and make the forms more consumer friendly. This really helped us increase the number of eligible low-income families accessing the EITC.

The third negative consequence is noncompliance. Although some experts believe that recent IRS data overstates the degree of current noncompliance because it fails to account for recent simplification and outreach efforts,[74] noncompliance continues to be relatively high.

A significant amount of the noncompliance likely results from the continued complexity of the filing process. In 2000, a report of the Congressional Joint Committee on Taxation described the level of errors in calculating the EITC and said that "[w]hile there may be a variety of reasons for such errors, the Joint Committee staff believes a significant factor is complexity."[75] Likewise, the Treasury Department recently said that "some of [the errors in the calculation of the EITC] may have been caused by taxpayer confusion over unusual family situations and the complicated tax rules that were created to address these situations."[76]

One approach to EITC simplification is to adopt a proposal that combines the EITC with other benefits, in a simplified credit along the lines of the Family Tax Credit or Unified Child Credit discussed above.

An additional, more incremental, approach would be to review the various EITC rules, streamlining where possible, and potentially eliminating rules that add substantial complexity but provide relatively little benefit. Congress took a significant step in 2004 by establishing a unified definition of a qualifying child for purposes of applying the EITC, the personal exemption, the child credit, and the determination of head of household status. In addition, the Bush Administration has proposed further simplification, including:

• *Eliminating the disqualified investment income test*. The Treasury Department has said that "[t]o determine if they are eligible for the EITC, low-income workers must meet three different income tests. The most complicated of these tests concerns investment income, including capital gains, properties sales, rents, and royalties. Most EITC claimants do not have income from any of these sources, but they have to read through 22 lines of complicated instructions...in order to learn that the disqualified investment income test does not affect their eligibility for the EITC."[77] Accordingly, the Administration has proposed to eliminate the disqualified income test altogether.[78]

• *Allowing a separated spouse to claim the EITC.* The Treasury Department has explained that "an individual who has separated from his or her spouse, but who cannot afford a lawyer to obtain a divorce or legal separation, is required to understand a complicated three-part test to determine his or her filing status under current law. Separated spouses may have to consult two IRS publications... They must compile and retain documentation showing that they provided over half the cost of maintaining the home in which they and their children reside."[79] Accordingly, the Administration has proposed to allow married taxpayers who file separate returns to claim the EITC if they have lived apart from their spouse for the last six months of the year and live with their child for at least half the year, whether or not they provide over half the cost of maintaining the household in which they reside.[80]

In each case, simplification may have costs. Congress has adopted the various EITC rules to achieve policy objectives, generally to target the EITC to particular populations and to increase compliance. For example, the rules for determining disqualified investment income, and excluding taxpayers whose investment income exceeds a given amount, apparently were intended to exclude taxpayers who were considered to have adequate independent income and consequently do not need the EITC. However, in the case of the rules described above, and potentially others, the benefits of simplification, and resulting participation and compliance, are likely to exceed the costs.

Another issue in the area of complexity and compliance is the treatment of undocumented workers. Although EITC benefits may only be paid to taxpayers who have valid Social Security numbers (SSNs), the Treasury Department Inspector General has estimated that a significant amount of EITC payments go to undocumented workers who have SSNs, but not ones that authorize them to work in the United States. Congress is considering proposals to address this, by requiring the IRS to match SSNs filed for EITC purposes to make sure that the SSNs authorize work.[81] There have been concerns, however, that such an approach could have the unintended consequence of excluding some eligible taxpayers, such as in families where the person filing the tax form does not have a work-related SSN, but another family member (such as a spouse) does, or in families where the person filing the tax form initially obtained a non-work SSN, but has since been authorized to work, and has not obtained a new SSN.[82] The challenge may be to address the compliance problem without excluding large numbers of eligible families or creating excessive additional complexity.

f. *Outreach*

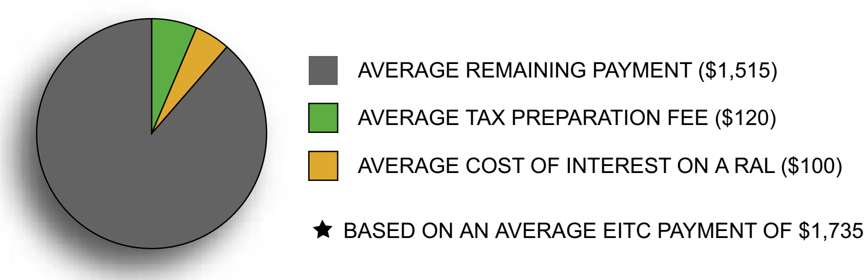
Many programs have been established to educate potential EITC recipients about the benefits of the EITC and to help them file their taxes, including programs undertaken by the IRS itself, by advocacy and community groups, and by states.

As described above, Marguerite Casey Foundation has been involved in funding these outreach efforts since its inception. Such outreach programs should be maintained and expanded. For example, where possible, the process of preparing a tax return and filing a claim for an EITC refund could be linked to opening a low-cost bank account. In addition, a recent study by the Metropolitan Policy Program of the Brookings Institution found that, in low-income communities with high immigrant populations, 70 percent of EITC claimants used commercial tax preparers, but only 1 percent used a volunteer preparer, indicating, the study concluded, that "added volunteer tax preparation capacity in these neighborhoods could benefit low-income filers."[83]

g. *Refund anticipation loans*

Any discussion that considers the level and structure of the EITC and ways to reduce complexity should also consider the impact of refund anticipation loans (RALs). These are short-term, high-interest loans secured by the value of a taxpayer's expected tax refund. In essence, a taxpayer pays a lender a fee in order to receive the EITC refund more quickly.

While there is some evidence that the use of RALs may have declined slightly in recent years,[84] in 2003 nearly 57 percent of RAL consumers, or almost seven million families, were EITC recipients,[85] and the National Consumer Law Center (NCLC) estimated that EITC recipients spent $519 million on RAL loan fees that year.[86] Further, a national survey of consumers commissioned by the NCLC found that two-thirds of those who had taken out a RAL did not realize that it was a loan.[87] Given that it takes the IRS only 10 days, on average, to process an electronically-filed return and electronically deposit the return into the taxpayer's bank account,[88] the overall concern is that low-income taxpayers may use RALs unnecessarily, thereby incurring high fees that, as the NCLC put it, "undermine the effectiveness of the EITC in supporting low-wage workers."[89] To be more specific, for a taxpayer receiving the average EITC payment of $1,735, the average cost of interest on a RAL, and the average tax preparation fee, would reduce the payment by $220, or 12.7%.



There are several potential ways to address the use of RALs by EITC recipients and other low-income taxpayers.

One approach is to provide more tax and financial assistance services to low-income families. Many community organizations provide free or discounted tax preparation assistance, check cashing services, and waivers of commercial administrative fees for EITC and other low-income customers, as well as free bank accounts that enable low-income taxpayers to receive their refunds quickly through direct deposit.[90] Marguerite Casey Foundation supports these efforts. Some examples include:

- In December 2003, the Foundation awarded $1.5 million to the Association of Community Organizations for Reform Now to conduct a campaign to limit the use of RALs in several ways, such as directly targeting tax preparers to change their practices, conducting door-to-door outreach to warn families about the high costs of RALs, operating VITA sites which offer free tax preparation, and advocating stronger consumer protection standards. In another important effort, H&R Block, a major commercial tax preparer, has eliminated its application fee.[91]

• In January 2003, the Foundation awarded $750,000 to the PICO National Network, a faith-based network of community organizations located in Oakland, California, to support the development of a coordinated effort to combat predatory lending practices and fraud targeted toward immigrant families seeking legal and tax services.

• September 2004, the Foundation awarded $300,000 to Strategic Action for a Just Economy in Los Angeles, California to assist with its banking program that prevents working families from entering the world of "fringe" banking that consists of expensive check cashers, pawn-shops, pay-day loans, and predatory lenders.

In 2003 Colonias Development Council (CDC) became a Marguerite Casey Foundation grantee. In speaking with women involved in their Columbus Child Development Center Project about how they have benefited from the EITC services CDC offers, Executive Director Sheila Black relays one such success story:

> I was happy the tax service was free. Before I always paid more than $100.00 which was hard for me. I was not aware of the Earned Income Tax Credit and I was always led to believe I could only get the child tax credit for two of my five children only. When CDC helped with taxes people were thankful and happy. That is why there was always a line when CDC came to help us with our taxes.
>
> *Lola (Maria) Gaytan, Columbus, New Mexico*

The Foundation's support has allowed these organizations to form national campaigns to educate and assist thousands of taxpayers eligible for the EITC.

A second approach to address the use of RALs by EITC recipients and other low-income taxpayers is to impose limits on RALs at the state level. One state, Connecticut, has enacted legislation requiring tax preparation services to first register with the Commissioner of Banks before being allowed to authorize, provide, or facilitate RALs.[92]

A third approach is to impose limits on RALs at the federal level, such as by prohibiting RALs, by prohibiting the attachment, set-off, or other seizure of EITC benefits, or by establishing an interest rate cap.[93] Senator Daniel Akaka (D-HI) and others have proposed legislation, the Taxpayer Abuse Prevention Act,[94] which would impose some such limitations. The purpose of the bill, Senator Akaka said, is to "restrict predatory RALs and expand access to mainstream financial services."[95] To accomplish this, the bill would prohibit future EITC payments from being assigned or offset for a debt, prohibit lenders from requiring mandatory arbitration of disputes over RALs, terminate the Treasury Department's Debt Indicator Program, and take several steps to increase the use, by low-income persons, of electronic transfer accounts, advance payment of the EITC, and the use of low-cost direct deposit bank accounts in general.

TEN CITIES WITH HIGHEST PERCENTAGE OF EITC RECIPIENTS USING A RAL[96]			
City	Number of EITC Recipients	Number of EITC Recipients who received RAL	Percentage of EITC recipients who received RAL
Pine Bluff, AR	7,777	5,084	65%
Birmingham, AL	49,081	29,213	60%
Portsmouth, VA	11,089	6,575	59%
Norfolk, VA	26,101	15,089	58%
Atlanta, GA	78,998	44,320	56%
Little Rock, AR	20,976	11,734	56%
Harlingen, TX	9,901	5,444	55%
Columbia, SC	26,821	14,699	55%
Jacksonville, FL	74,842	40,912	55%
Lake Charles, LA	12,920	6,963	54%

Dorian Ross from the Federation of Childcare Centers of Alabama (FOCAL), a Marguerite Casey Foundation grantee based in Montgomery, Alabama, has been organizing local communities and sharing valuable information about the EITC. She states that:

> Accessibility and outreach are two of the challenges her organization faces. Since the IRS regulates when VITA sites are allowed to operate, but not when tax preparers are allowed to file refunds, around 80 percent of FOCAL's constituents have already filed their taxes with fee-charging tax preparers before January 16th.

When filing with the tax preparers, Dorian believes that the constituents are not adequately educated on what they are – and are not – legally allowed to file. Like many other nonprofit organizations working with the EITC, FOCAL is trying to encourage their constituents to be more self-sufficient in filing for tax refunds. To do so, individuals need to be properly educated on the form itself and have an established back account, as the forms are filed electronically.

> In her work, Dorian met with a man who had five W-2 forms, but did not even earn $10,000, nor did he have a bank account. The staff at FOCAL were able to work with this individual to establish a bank account and a checking account in his name as well as provide financial literacy on how to best use these services. From her experience on the ground, Dorian believes that "80 percent of EITC applicants use tax preparers unnecessarily. What they need is education on the EITC form and financial literacy in general so they know how to establish things like bank accounts." Dorian and many others believe that simplification of the form and consistency in how the refunds are filed will hopefully eliminate the issue of waste, fraud, and abuse.

VI. CONCLUSION

The EITC can be improved, especially in the context of comprehensive tax reform. Improvements to the EITC might include:

- Combining the EITC and other tax provisions, such as the personal exemption and the child credit, into a single family credit.

- Clarifying that the purpose of the EITC is lifting working families out of poverty or offsetting payroll taxes, and setting the EITC level accordingly.

- Expanding the credit for childless workers, so that it offsets the employer as well as the employee share of payroll taxes.

- Expanding the credit for families with more than two children.

- Simplifying the credit, by eliminating rules that add substantial complexity but provide little benefit, such as by eliminating the disqualified income test, allowing a separated spouse to claim an EITC, and simplifying the definition of income.

- Expanding outreach programs.

- Considering limits on the use of refund anticipation loans.

The consideration of such reforms may help move closer to the goals, as the Senate Finance Committee put it in proposing the EITC in 1975, of providing an "added bonus or incentive for low-income people to work," and, as President Reagan said in signing the Tax Reform Act in 1986, of assuring that "millions of working poor will be dropped from the tax rolls altogether."

Such reforms can complement the hard work of community groups all across the country, including Marguerite Casey Foundation grantees. As one recipient of the EITC said, "one of the most effective reforms for the EITC would be to simplify, streamline, and align the benefit programs for low-income families."

The Earned Income Tax Credit plays a critical role in the federal tax system. It reduces taxes on low-income workers, offsets the impact of payroll taxes, creates an incentive to work, and helps lift poor families out of poverty.

ACKNOWLEDGEMENTS

Marguerite Casey Foundation would like to thank the many individuals and organizations that helped create and inform this paper. The Foundation thanks its grantees for their continued work to help low-income families strengthen their voice and organize their communities. Particular thanks to:

Alabama Council on Human Relations
Alianza Para El Desarrollo
ARISE Citizens' Policy Project
Arkansas Public Policy Panel
Association of Community Organizations for Reform Now
Casa Familiar
Center for Community Change
Children's Defense Fund
Colonias Development Council
Federation of Childcare Centers of Alabama
Fresno Center for New Americans
Low Income Families' Empowerment Through Education
Pacific Institute for Community Organizations
Southern Mutual Help Association
Statewide Poverty Action Network
Strategic Actions for a Just Economy
Texas RioGrande Legal Aid, Inc
Welfare Rights Organizing Coalition

FOOTNOTES

[1] EXEC. ORDER NO. 13,369 (Jan. 7, 2005). The executive order initially directed the Advisory Panel to report to the President by July 31, 2005; that deadline was extended to September 30, 2005. In the course of its hearings, the Advisory Panel heard from one panel of witnesses who testified principally about the EITC. Meeting of March 23, 2005, Panel on Low-Income Taxpayers, available at http://www.taxreformpanel.gov/meetings/meeting-03232005.shtml.

[2] 26 U.S.C. §32.

[3] Richard Nixon, Special Message to the Congress on Reform of the Nation's Welfare System (Aug. 11, 1969). The FAP would have provided an annual payment of $1,600 a year for a family of four with an income of less than $1,000.

[4] Dennis J. Ventry, Jr., The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credit, 1969-99, 53 NAT'L TAX J. 983, 992 (2000).

[5] Id.

[6] TAX REDUCTION ACT OF 1975, Pub. L. No. 94-12, 89 Stat. 26 (1975).

[7] S. REP. NO. 94-36, at 11 (1975).

[8] This threshold was established in two stages. The Revenue Act of 1978, Pub. L. No. 95-600 (1978), increased the income limit to $5,000; the Deficit Reduction Act of 1984, Pub. L. No. 98-369, (1984), increased the income limit to $5,500.

[9] The Technical Corrections Act of 1979, Pub. L. No. 96-222, 85 Stat. 798 (1980), required that EITC payments be treated as income for individuals who also received AFDC or SSI benefits. The Omnibus Budget Reconciliation Act of 1981, Pub. L. No. 97-35, 95 Stat. 357 (1981), required welfare agencies to assume that individuals eligible for both AFDC and EITC receive their EITC benefits through the advance payment option. The Deficit Reduction Act of 1984, Pub. L. No. 98-369, 98 Stat. 494 (1984), modified this position, requiring states to count EITC payments when determining eligibility for AFDC benefits only when they could verify that the EITC payment actually was received. The Omnibus Reconciliation Act of 1990, Pub. L. 101-508 (1990), essentially reversed the thrust of these changes, providing that EITC payments are not counted to determine AFDC eligibility. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Pub. L. 104-93 (1996), generally allowed states to decide the AFDC treatment of EITC benefits, and virtually all states exclude EITC payments when calculating eligibility for AFDC benefits.

[10] President Ronald Reagan, State of the Union Address (Jan. 25, 1984).

[11] President Ronald Reagan, Remarks on Signing the Tax Reform Act of 1986 (Oct. 22, 1986).

[12] Remarks by the President at Earned Income Tax Credit Event, President Clinton Proposes to Expand the Earned Income Tax Credit in Order to Increase the Reward for Work and Family, THE WHITE HOUSE OFFICE OF THE PRESS SECRETARY (July 29, 1993) available at http://clinton4.nara.gov/WH/New/html/20000112_2.html.

[13] OMNIBUS RECONCILIATION ACT OF 1993, Pub. L. 103-66 (1993). Taxpayers between the ages of 25 and 64 were excluded so that students and Social Security beneficiaries would not qualify. For a description of the purposes of the 1993 amendment, see 139 Cong. Rec. H5532, H5533 (July 30, 1993)(remarks of Congressman Richardson).

[14] THE ECONOMIC GROWTH AND TAX REFLIEF RECONCILIATION ACT OF 2001, P.L. 106-16 (2001).

[15] Report to the Chairman, Committee on Ways and Means, House of Representatives, and to the Honorable Larry E. Craig, U.S. Senate, Earned Income Credit: IRS' Tax Year 1994 Compliance Study and Recent Efforts to Reduce Noncompliance, U.S. GEN. ACCT. OFF., p. 1, 16-21 (July 1998).

[16] Statement of Michael Brostek, Director, Tax Issues, Before the Comm. on Finance, United States Senate Federal Taxes: Information on Payroll Taxes and Earned Income Tax Credit Noncompliance, U.S. GEN. ACCT. OFF., at 12 (Mar. 7, 2001).

[17] E.g., IRS' Earned Income Tax Credit Compliance 1995 Study: Hearing Before the House Comm. on Ways and Means, 105th Cong. (1997).

[18] For example, one Senator argued that the EITC reduction proposal "redirects the EITC back to the truly needy [and], reduces the potential for fraud and abuse." 141 Cong. Rec. S15793 (October 26, 1995)(remarks of Senator Kempthorne). See also 141 Cong. Rec. S8404 (June 14, 1995)(remarks of Finance Committee Chairman Roth, calling for changes in order to "reform fraud, abuse, and runaway spending" in the EITC program).
[19] Id.
[20] TAXPAYER RELIEF ACT OF 1997, Pub. L. 105-34, 111 Stat. 788 (1997).
[21] Id. at para. 1085(d).
[22] Statement of Michael Brostek, supra note 16, at 14.
[23] Report to Congressional Requesters, Earned Income Tax Credit: Implementation of Three New Tests Proceeded Smoothly, But Tests and Evaluation Plans Were Not Fully Documented, U.S. GOV. ACCT. OFF., at 1 (Dec. 2004).
[24] The IRS announced that it intended, beginning in July 2003, to ask 45,000 persons who were expected to claim the EITC on their 2003 tax returns to provide more information on their relationship to and/or residency status of the qualifying children listed on their 2002 return. These 45,000 people would receive their 2003 EITC checks only if they complied with the IRS's precertification requirements.
[25] The senior Democratic member of the House Ways and Means Committee, Congressman Rangel, introduced a bill to "prohibit the implementation of discriminatory precertification requirements for the earned income tax credit." H.R. Rep. No. 1894, 108th Cong., 1st Sess. (2003); See generally, Robert Greenstein, The New Procedures for the Earned Income Tax Credit, CENTER ON BUDGET AND POLICY PRIORITIES (June 12, 2003).
[26] OMNIBUS RECONCILIATION ACT OF 1990, Pub. L. 101-508 (1990).
[27] ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001, Pub. L. 107-16 (2001).
[28] WORKING FAMILIES TAX RELIEF ACT OF 2004, Pub. L. No. 108-311, 118 Stat. 1166 (2004).
[29] The Center on Budget and Policy Priorities (http://www.cbpp.org/eic2005) provides electronic toolkits that contain EITC fact sheets, FAQs, simplified eligibility requirements, instruction manuals, and special alerts that track changes made to the EITC that may affect potential applicants; this outreach campaign reaches more than 20,000 organizations each year. The National Community Tax Coalition brings together more than 500 groups that help working families understand and apply for tax benefits (http://www.tax-coalition.org). Corporate Voices for Working Families provides an "Employer's Guide to Promoting the Earned Income Tax Credit" (http://www.cvworkingfamilies.org/toolkits/eitc). Many advocacy organizations, such as the Earned Income Tax Credit Campaign Partnership (http://www.eitc-la.com), United Way of the Bay Area (http://uwba.org/uw_impact/bacf_eitc), and several other organizations provide toll-free help hotlines, access to do-it-yourself tax preparation software, and "program locator" links that connect potential applicants to organizations such as the Volunteer Income Tax Assistance program, which has 85 sites throughout Los Angeles staffed with volunteers that are trained in tax preparation, some of whom are professionals with accounting backgrounds (including IRS employees) (http://www.eitc-la.com/vitapro.html). The State Earned Income Tax Credit Online Resource Center provides one stop access to information about state EITCs, efforts to enact the credit in particular states, and ways to get involved in local EITC campaigns (http://www.stateeitc.org). Individual states such as West Virginia, Michigan and Texas have established their own EITC outreach campaigns, and New York City's Department of Consumer Affairs 2005 EITC Campaign provides EITC information in 11 languages (http://www.nyc.gov/html dca/html/eitc-eng.html).
[30] 26 U.S.C. 24.
[31] H. REP. NO. 105-148 at 310 (1997).
[32] The Child Credit is refundable to the extent of 15 percent of taxable income exceeding $10,000 (indexed) or, for families with three or more children, to the extent by which payroll taxes exceed EITC benefits. 26 U.S.C. 24(d).
[33] See Duane M. Elling, Tax Credits Provide Boost for Low-Income Families, CHARLES STEWART

MOTT FOUNDATION: PATHWAYS OUT OF POVERTY, Vol. 2. No. 3 (Sept. 2003); See also http://www.stateeitc.org/map/index.asp.

[34] Source: Hilary W. Hoynes, Presentation to President's Advisory Panel on Federal Tax Reform, New Orleans (Mar. 23, 2005) available at http://www.taxrefompanel.gov/meetings/docs/hoynes.ppt#283,9,EITC Schedule - Single Parent Families, 2004.

[35] U.S. House of Representatives Committee on Ways and Means, Background Material and Data on the Programs Within the Jurisdiction of the Committee on Ways and Means, at 13-41 (2004).

[36] Id.

[37] Hilary W. Hoynes, The Earned Income Tax Credit, Presentation to President's Advisory Panel on Federal Tax Reform, Slide 14 (Mar. 23, 2005).

[38] Isabel Sawhill and Adam Thomas, A Hand Up for the Bottom Third: Toward a New Agenda for Low-Income Working Families, THE BROOKINGS INSTITUTE, at. 5 (May 2001).

[39] Id.

[40] Bruce D. Meyer and Dan. T. Rosenbaum, Welfare, The Earned Income Tax Credit, and the Labor Supply of Single Mothers, NATIONAL BUREAU OF ECONOMIC RESEARCH WORKING PAPER SERIES at 42 (Sept. 1999).

[41] Gary S. Becker, How to End "Welfare As We Know It"—Fast, BUSINESS WEEK, June 3, 1996.

[42] Janet Hotzblatt, Trade Offs Between Targeting and Simplicity: Lessons from the U.S. and British Experiences with Refundable Tax Credit, 2004, cited in Robert Greenstein, The Earned Income Tax Credit: Boosting Employment, Aiding the Poor, CENTER FOR BUDGET AND POLICY PRIORITIES, July, 2005.

[43] See Richard V. Burkhauser and Joseph J. Sabia, Why Raising the Minimum Wage Is a Poor Way to Help the Working Poor, Employment Policies Institute, July, 2004.

[44] See Alan Berube, Tienes EITC? A Study of the Earned Income Tax Credit in Immigrant Communities, BROOKINGS INSTITUTION'S METROPOLITAN POLICY PROGRAM, April, 2005.

[45] House Conservatives: "Tax Code Should Not Be the Place for Welfare," Press Release of the Republican Study Committee, June 11, 2003, available at http.house.gov.burton/RSC. See also Hearing Before the House Ways and Means Committee on the 1995 Compliance Study, 105th Cong. at 67 (1995) (Congressman Portman, arguing that "We are talking about a program that is a cash benefit. Eighty to 85 percent of it, whether you call it welfare or not, is a [refundable] credit and that is a cash benefit program"); Laurence M. Vance, Tax Credit or Income Transfer?, available at http:lwerockwell.com/vance.vance11.html (describing the EITC as "the ultimate free lunch").

[46] See Patrick Fleenor and Scott A. Hodge, Number of Americans Outside the Income Tax System Continues to Grow, THE TAX FOUNDATION, June 9, 2005, available at http://www.taxfoundation.org/publications/show.542.html.

[47] Paul Weinstein Jr., Family-Friendly Tax Reform, PROGRESSIVE POLICY INSTITUTE 8 (2005).

[48] Max B. Sawiky and Robert Cherry, Making Work Pay with Tax Reform, ECONOMIC POLICY INSTITUTE (December, 2001).

[49] Adam Carasso, Jeff Rohaly, and C. Eugene Steurle, A Unified Children's Tax Credit, URBAN INSTITUTE, May 15, 2005.

[50] Id.

[51] Robert E. Hall, The Flat Tax and the X-Tax, Presentation to the Tax Reform Panel, May 11, 2005.

[52] H.R. 25, 108th Cong. (2003).

[53] Memorandum from Pamela F. Olsen to Secretary O'Neill (Nov. 7, 2002). This memorandum was released by author Ron Suskind as part of the materials reviewed in writing a book about Treasury Secretary O'Neill's service as Secretary. It is available at http://thepriceofloyalty.ronsuskind.com/thebushfiles/archives/000093.html.

[54] Lawrence Zelenak, Redesigning the Earned Income Tax Credit as a Family-Size Adjustment to the Minimum Wage, 57 TAX. L. REV. 301, 312 (Spring 2004). Zelenak continues that "[t]he somewhat incoherent nature of current law might be the result of a compromise between conflicting visions of the credit's purpose, rather than the lack of any clear vision, but it is difficult or impossible to find attractive accounts of the purpose of the credit even in the academic

literature." Id. at 346.
[55] Id. at 310.
[56] Id. at 336.
[57] Isabel Sawhill and Adam Thomas, A Hand Up for the Bottom Third: Toward a New Agenda for Low-Income Working Families, THE BROOKINGS INSTITUTE at 6, 29 (May 2001). Sawhill and Thomas consider four other options: adding an additional tier to the credit for families with three or more children, reducing the marriage penalty by extending the phase-out plateau for married couples, collapsing the existing three tiers into a single tier set at the level currently available to taxpayers with two ore more children, and increasing the overall benefit level by 25 percent.
[58] Lawrence Zelenak, Redesigning the Earned Income Tax Credit as a Family-Size Adjustment to the Minimum Wage, 57 Tax. L. Rev. 301, 311 (Spring 2004).
[59] Robert Greenstein, Should EITC Benefits Be Enlarged For Families with Three or More Children? CENTER FOR BUDGET AND POLICY PRIORITIES (July 10, 2000) at 5.
[60] See THE TAX RELIEF FOR WORKING FAMILIES ACT, S2825, 107th Cong. (2000). The Clinton Administration made a similar proposal in its proposed budget for fiscal 2001.
[61] Robert Greenstein, Should EITC Benefits Be Enlarged For Families with Three or More Children? CENTER ON BUDGET AND POLICY PRIORITIES (July 20, 2000) at 5.
[62] The staff of the President's Advisory Panel on Tax Reform recently said, summarizing a Treasury Department analysis, that "[t]he individual income tax is assumed to be borne by payers ... [and] payroll taxes (employer and employee shares) by labor." Meeting of July 20, 2005, Staff Presentation on Distribution Tables, Appendix, available at http://www.taxreformpanel.gov/meetings/meeting-0705.shtml See also Robert Greenstein, Should the EITC for Workers Without Children be Abolished, Maintained, or Expanded?, CENTER ON BUDGET AND POLICY PRIORITIES, July 7, 2000, at 5 ("[m]ost economists believe that both the employer and employee shares of the payroll tax are borne by workers in the form of lower wages").
[63] Id at. 3.
[64] Id. at 4.
[65] Id. at 3.
[66] Center for American Progress, A Fair and Simple Tax System for Our Future: A Progressive Approach to Tax Reform at 12 (2005).
[67] Hilary Hoynes, Testimony Before the President's Panel on Tax Reform Mar. 23, 2005.
[68] Id.
[69] See Lawrence Zelenak, Redesigning the Earned Income Tax Credit as a Family-Size Adjustment to the Minimum Wage, 57 TAX. L. REV. 301, 328 (Spring 2004).
[70] David Marzahl, Issues, Challenges and Opportunities Low Income Taxpayers and the Tax Code, Testimony to the President's Advisory Panel on Federal Tax Reform at 7 (2005).
[71] Chi Chi Wu, Jean Ann Fox, Picking Taxpayers' Pockets, Draining Tax Relief Dollars: Refund Anticipation Loans Still Slicing Into Low-Income Americans' Hard-Earned Tax Refunds, THE NATIONAL CONSUMER LAW CENTER/CONSUMER FEDERATION OF AMERICA 2005 REFUND ANTICIPATION LOAN REPORT Jan. 2005 at 5.
[72] Regina T. Jefferson, The Earned Income Tax Credit: Thou Goest Whither? A Critique of Existing Proposals to Reform the Earned Income Tax Credit, 68 TEMP. L. REV. 143, 145-46 (Spring 1995).
[73] Id.
[74] See Robert Greenstein, The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor, Appendix , CENTER FOR BUDGET AND POLICY PRIORITIES, July 2004 (analyzing EITC error rate calculations).,
[75] 2001 Simplification Study, CONGRESSIONAL JOINT COMMITTEE ON TAXATION, Vol. 1, at 71 (2001).
[76] General Explanation of the Administration's Fiscal Year 2005 Revenue Proposals, at 87 (2004).
[77] Id. at 88.
[78] Id.
[79] Id. at 87.

[80] Id. at 89.
[81] A provision accomplishing this is included in the bill that the Senate Finance Committee has reported to reauthorize the Temporary Assistance for Needy Families program, S. 667 (2005).
[82] See Proposal to Make Certain Immigrants Ineligible for EITC Raises Serious Concerns" NATIONAL IMMIGRATION LAW CENTER, March 31, 2005.
[83] Alan Berube, Tienes EITC? A Study of the Earned Income Tax Credit in Immigrant Communities, THE BROOKINGS INSTITUTION: METROPOLITAN POLICY PROGRAM, at 10 (April 2005).
[84] Alan Berube and Tracy Kornblatt, Step in the Right Direction: Recent Declines in Refund Loan Usage Among Low-Income Taxpayers, THE BROOKINGS INSTITUTION: METROPOLITAN POLICY PROGRAM (April 2005).
[85] Chi Chi Wu, Jean Ann Fox, Picking Taxpayers' Pockets, Draining Tax Relief Dollars: Refund Anticipation Loans Still Slicing Into Low-Income Americans' Hard-Earned Tax Refunds, THE NATIONAL CONSUMER LAW CENTER /CONSUMER FEDERATION OF AMERICA 2005 REFUND ANTICIPATION LOAN REPORT at 6 (Jan. 2005) (hereinafter cited as "NCLC/CFA Report").
[86] Id .
[87] Id. at 1.
[88] Marian Wright Edelman, "Fast Money" Tax Refund Anticipation Loans: Very Bad Business, CHILDREN'S DEFENSE FUND (Feb. 17, 2005).
[89] NCLC/CFA Report, supra, note83, at 6.
[90] Id.
[91] Id. at 5.
[92] A National RAL Platform: Issues and Options, NATIONAL CONSUMER LAW CENTER (Oct. 2004) at 2-3.
[93] Id.
[94] S. 324, 109th Cong. (2005).
[95] 151 CONG. REC. S1200 (daily ed., Feb. 9, 2005).
[96] http://www.irs.gov/taxstats/index.html