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TAX CREDITS FOR THE WORKING POOR

The United States introduced the earned income tax credit (EITC) in 1975, and it remains the most significant earnings-based refundable credit in the Internal Revenue Code. While the United States was the first country to use its domestic revenue system to deliver and administer social welfare benefits to lower-income individuals or families, a number of other countries, including New Zealand and Canada, have experimented with or incorporated similar credits into their tax systems. In this work, Michelle Lyon Drumbl, drawing on her extensive advocacy experience representing low-income taxpayers in EITC audits, analyzes the effectiveness of the EITC in the United States and offers suggestions for how it can be improved. This timely book should be read by anyone interested in how the EITC can be reimagined to better serve the working poor and, more generally, whether the tax system can promote social justice.

Michelle Lyon Drumbl is Clinical Professor of Law at Washington and Lee University and was previously an attorney in the IRS Office of Chief Counsel. Her scholarship focuses on low-income taxpayers and fiscal policy. Her article examining earned income tax credit noncompliance, “Beyond Polemics: Poverty, Taxes, and Noncompliance,” was awarded the Cedric Sanford Medal for best paper at the twelfth International Conference on Tax Administration in Sydney.

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A CALL FOR REFORM

MICHELLE LYON DRUMBL

Washington and Lee University School of Law



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Dedicated to my clients

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Preface and Acknowledgments

This book emerged from my observations of, and reactions to, more than ten years of representing low-income clients before the Internal Revenue Service (IRS). During that time, my students and I have represented dozens of individuals who had problems after claiming the earned income tax credit (EITC) on the return. I was inspired to look outside the United States through conversations with Dutch tax administrators during a sabbatical in the Netherlands. Months later, while presenting at a conference on tax administration in Sydney, a conference participant from New Zealand asked me why the United States was still delivering benefits in a lump sum. I hope this book both answers her question and underscores why she asked it.

I wish to thank many people whose fingerprints are on this book in ways they will never know. More than 100 law students have enrolled in the Tax Clinic at Washington and Lee University School of Law since the clinic's inception in 2008. These students – who have represented the clinic's clients with great passion, zeal, and introspection – have informed my views on the delivery of social benefits through the Internal Revenue Code. Similarly, I have gained invaluable insights from working with our clients, each one of whom had a unique set of circumstances underlying a dispute with the IRS. Our clients teach me the virtues of patience and humility, and I look forward to continuing this work in the years ahead.

For feedback on drafts, conversations, comments, and meaningful insights along the way, I wish to thank: Miranda Fleischer, Shuyi Oei, Keith Fogg, Les Book, Ben Leff, Ariel Stevenson, Lilian Faulhaber, Susan Morse, Nina Olson, Francine Lipman, Diane Ring, Leandra Lederman, Michael Hatfield, Susannah Camic Tahk, Larry Zelenak, Alice Abreu, Katie Pratt, Brian Galle, Damon Jones, Michelle Layser, Kristin Hickman, Heather Field, Bret Wells, Bobby Dexter, Kathleen DeLaney Thomas, Shawna Cheney, David Duff, Wei Cui, Graham Reynolds, Robin Wilson, Blaine Saito, and Patricia McCoy.

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Abbreviations

ACTC	Additional Child Tax Credit
AEITC	Advance Earned Income Tax Credit
AOTC	American Opportunity Tax Credit
APR	annual percentage rate
CBO	Congressional Budget Office
CCB	Canada Child Benefit (Canada)
C-CPI-U	Chained Consumer Price Index for All Urban Consumers
CCTB	Canada Child Tax Benefit (Canada)
CEP	Center for Economic Progress
CFPB	Consumer Financial Protection Bureau
CHIP	Children's Health Insurance Program
CPAG	Child Poverty Action Group (New Zealand)
CPI	Consumer Price Index
CRA	Canada Revenue Agency
CTC	Child Tax Credit
DCIA	Debt Collection Improvement Act of 1996
EITC	Earned Income Tax Credit
FICA	Federal Insurance Contributions Act
FPLP	Federal Payment Levy Program
FWFF	Fix Working for Families (New Zealand)
GAO	US Government Accountability Office
IRS	Internal Revenue Service
NCLC	National Consumer Law Center
NRP	National Research Program
OASDI	Old-Age, Survivors, and Disability Insurance
OBR	offset bypass refund

OECD	Organisation for Economic Co-Operation and Development
PATH	Protecting Americans from Tax Hikes Act of 2015
PAYE	pay-as-you-earn
PPI	Progressive Policy Institute
PTIN	preparer tax identification number
RAC	refund anticipation check
RAL	refund anticipation loan
SECA	Self-Employment Contributions Act
SSA	Social Security Administration
SSDI	Social Security Disability Insurance
SSI	Supplemental Security Income
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
TCE	Tax Counseling for the Elderly
TCJA	Tax Cuts and Jobs Act of 2017
TIGTA	Treasury Inspector General for Tax Administration
VITA	Volunteer Income Tax Assistance
WfFTC	Working for Families Tax Credits (New Zealand)
WIC	Women, Infants, and Children
WITB	Working Income Tax Benefit (Canada)