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 Sandford Medal for best paper at the twelfth International Conference on Tax Administration in Sydney.
Tax Credits for the Working Poor

A CALL FOR REFORM

MICHELLE LYON DRUMBL
Washington and Lee University School of Law
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.

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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
List of Abbreviations

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
WiFTC Working for Families Tax Credits (New Zealand)
WIC Women, Infants, and Children
WITB Working Income Tax Benefit (Canada)