

# EITC Funders Network

## ***The Impact of Federal and State Tax Policy Changes on Low-Income People:***

***What you need to know about the upcoming federal and state debates***

*October 19, 2010 \* 2:00 – 3:00 pm eastern*

**The Webinar will Begin Shortly**

# Webinar Overview

EITC

Funders Network

- During presentations, audience will be on “listen only mode.”
- We will take questions during the Q&A portion.
- How to ask a question:
  - Use the “chat function” on your screen
  - Raise your hand by pressing \*1 on your phone.
  - To lower your hand press #.
- Quick Survey

# EITC Funders Network

## Webinar Overview

### I. Welcome and Introductions

--Ami Nagle, Coordinator, EITC Funders Network

### II. Outlook of Federal Tax Credit Changes—What is Congress Thinking?

- Overview of Federal Tax Credit Expansions
- Impact of Changes on Low-Income Families
- Congressional Debate

--Steve Wamhoff, Policy Analyst of ITEP and Legislative Director CTJ

### III. Initial Q&A

### IV. Fighting Poverty by Changing State Tax Policy

- Options Available to States—EITC and Beyond
- Resources Available at ITEP to Estimate Impact of State and Local Tax Changes

--Matt Gardner, Executive Director of ITEP

### V. Q&A and Discussion

# Who We Are

## □ Who We Are

- More than 200 Members

- Every State in the Union

- Corporate Foundations

- Family Foundations

- Community Foundations

- Governmental Entities

- United Ways

## □ What We Do

- Meetings

- Webinars

- eNewsletter

- Website

- Consultation

# **The Institute on Taxation and Economic Policy**

*Recent Work on the EITC and Child Tax Credit*

**Matt Gardner**  
Executive Director

**Steve Wamhoff**  
Legislative Director

October 19, 2010

# Presentation Overview



- Introduction to ITEP & CTJ
- Federal Issues
- State Issues



# I. Introduction to ITEP & CTJ

# Introduction to ITEP



- The Institute on Taxation and Economic Policy (ITEP) is a non profit 501(c)(3), non-partisan research organization that works on federal, state, and local tax policy issues.
- ITEP's mission is to ensure that elected officials, the media, and the general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies.

# Introduction to CTJ



- Citizens for Tax Justice (CTJ) is the 501(c)(4) organization that lobbies lawmakers to ensure that they are aware of the findings in ITEP's research.
- CTJ is a public interest and advocacy organization focusing on federal, state and local tax policies and their impact on taxpayers at every income level.
- CTJ's mission is to give ordinary people a greater voice in the development of our tax laws.



## II. Federal Issues

# ITEP and CTJ's Work on Federal Issues



- ITEP uses its model to estimate the impact of various tax proposals on Americans in different income groups and in every state.
- CTJ cites these estimates in its reports, which it sends to Congressional staff, media outlets, and other policy analysts and advocates.
- CTJ then visits key Congressional staff to make sure they are aware of the findings in these reports.

# Example of ITEP and CTJ's Work



- ITEP generated figures comparing how President Obama's tax plan and Congressional Republicans' tax plan would impact taxpayers nationally and in each state.
- These figures included the impacts of Obama's proposals to make permanent the recent expansion of the EITC and CTC.
- CTJ used these figures in a report with national figures, and state-specific reports, which can be found at <http://www.ctj.org/bushtaxcuts2010.php>.

# Example of ITEP and CTJ's Work



- Example of figures from the report comparing the tax plans. The same figures are included for each state.

**Competing Approaches to the Bush Tax Cuts, Impact on U.S. Taxpayers in 2011**

		<b>Obama's Plan</b> <small>(Permanent Bush income tax cuts for those below \$200k/250k, estate tax cut, permanent EITC and child credit expansion)</small>		<b>Republican Plan</b> <small>(Permanent Bush income tax cuts for everyone, estate tax cut more, no EITC or child credit expansion)</small>		<b>Republican Plan vs. Obama's Plan</b>
<b>Income Group</b>	<b>Average Income</b>	<b>Average Tax Cut</b>	<b>Share of Tax Cut</b>	<b>Average Tax Cut</b>	<b>Share of Tax Cut</b>	<b>Average Difference</b>
<b>Lowest 20%</b>	\$ 11,705	\$ -251	2.8%	\$ -95	0.9%	\$ +155
<b>Second 20%</b>	26,569	-672	7.6%	-531	4.9%	+141
<b>Middle 20%</b>	44,270	-942	10.7%	-866	8.0%	+76
<b>Fourth 20%</b>	70,548	-1,531	17.4%	-1,520	13.9%	+10
<b>Next 15%</b>	121,220	-3,408	29.1%	-3,424	23.6%	-16
<b>Next 4%</b>	263,451	-7,008	15.9%	-7,741	14.3%	-733
<b>Top 1%</b>	1,378,168	-28,728	16.4%	-74,621	34.5%	-45,893
<b>ALL</b>	<b>\$ 72,358</b>	<b>\$ -1,740</b>	<b>100.0%</b>	<b>\$ -2,145</b>	<b>100.0%</b>	<b>\$ -405</b>
<b>Bottom 60%</b>	\$ 27,522	\$ -622	21.2%	\$ -498	13.7%	+124

# Example of ITEP and CTJ's Work



- The poorest three fifths of taxpayers would actually pay *more* under the Republican plan.
- That's because the Republican plan would not extend several tax breaks that President Obama proposes to extend.
- These tax breaks are expansions of the EITC and child tax credit (CTC) that were enacted on a temporary basis (for 2009 and 2010) as part of the American Recovery and Reinvestment Act of 2009 (ARRA).

# Example of ITEP and CTJ's Work



- CTJ participated in about 50 meetings with Congressional staff in which these figures were presented.
- Many meetings included representatives of other organizations that are part of Americans for Responsible Taxes (ART).
- State-based ART organizations held press events in their states presenting these figures and targeting their members of Congress.
- CTJ also participated in meetings with administration officials, including Treasury Secretary Timothy Geithner.

# How the EITC and CTC Fit Into the Tax Cut Debate



- The Bush tax cuts, and modifications to those tax cuts made in ARRA, all expire at the end of 2010.
- Congress must decide which parts of the tax cuts to extend and which parts should be allowed to expire as scheduled.
- The debate over what Congress should do has three parts.

# How the EITC and CTC Fit Into the Tax Cut Debate



- Part 1. The income tax cuts enacted under Bush.
  - President Obama wants to extend these fully for 98 percent of taxpayers.
  - These include expansions in the EITC and CTC that some Democrats demanded in 2001 in return for their support of Bush's first tax cuts.
  - No one expects these to expire, so they rarely come up in debate.

# How the EITC and CTC Fit Into the Tax Cut Debate



- Part 2. The estate tax repeal enacted under Bush.
  - President Obama wants to meet Bush roughly halfway by cutting the estate tax in half instead of repealing it.
  - The Republican plan, as introduced in the Senate by Republican Leader Mitch McConnell, would further cut the estate tax, in effect repealing most but not all of it.

# How the EITC and CTC Fit Into the Tax Cut Debate



- Part 3. Modifications of the Bush income tax cuts made in ARRA under Obama. (Expansions of the EITC and CTC).
  - President Obama would make these permanent, while the Republican plan would allow them to expire.
  - CTJ and the organizations it is working with on the Hill support the President's position on the CTC and EITC.
  - We want to make sure that these expansions in refundable tax credits are not traded away in negotiations over what to do about the tax cuts.

# How ARRA Changed the CTC and EITC



- The earnings threshold for the refundable part of the CTC (which would otherwise be around \$12,850 in 2011) was reduced to \$3,000.
  - A permanent extension of this provision would be exempt from PAYGO.
- The “marriage penalty” in the EITC was further reduced, meaning the income level at which the “phase-out” begins was increased by \$2,000.
  - A permanent extension of this provision would be exempt from PAYGO.
- The EITC is provided at a higher rate (45%) for families with three or more children. The highest rate previously was for families with two or more children.
  - An extension of this provision would *NOT* be exempt from PAYGO.

# New Figures from ITEP on the EITC and CTC



- The impacts of the EITC and CTC expansions. CTJ published similar figures in 2009 during the debate over ARRA.

Extending the EITC and Child Tax Credit Expansions in the Recovery Act, Impacts in 2011 in the U.S.

State Taxpayers		Average Tax Cuts for All Taxpayers			Share of Tax Cuts		Average Tax Cuts for Taxpayers Who Benefit	
Income Level	Avg Income	EITC	CTC	Combined	EITC	CTC	EITC	CTC
Lowest 20%	\$ 11,705	\$ 13	\$ 142	\$ 155	10.9%	53.8%	\$ 399	\$ 856
Second 20%	26,569	48	93	141	40.1%	35.2%	498	826
Middle 20%	44,270	53	23	76	43.7%	8.7%	518	779
Fourth 20%	70,548	6	5	11	5.0%	1.8%	492	740
Next 15%	121,220	—	1	1	0.2%	0.3%	269	664
Next 4%	263,451	—	—	—	0.0%	0.0%	600	536
Next 1%	1,378,168	—	—	—	0.0%	0.0%	375	708
<b>ALL</b>	<b>\$ 72,358</b>	<b>\$ 24</b>	<b>\$ 52</b>	<b>\$ 76</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$ 491</b>	<b>\$ 835</b>
Bottom 60%	27,522	38	86	\$ 124	94.7%	97.7%	492	838

Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, October 2010

# New Figures from ITEP on the EITC and CTC



- Find these figures in our new report at <http://www.ctj.org/pdf/arracredits.pdf>
- It includes state-by-state versions of this table.
- It also includes
  - the number of *families* helped by the EITC expansion and CTC expansion in each state,
  - the number of *children* helped by the EITC expansion and CTC expansion in each state,
  - the amount of additional *credit dollars* that would go to each state.

# Why Lawmakers Should Support the Expansions of Refundable Tax Credits



- Many of the organizations that CTJ works with and lobbies with tell lawmakers about how the EITC and CTC reduce poverty and encourage work.
- CTJ has made an additional argument using ITEP figures: The refundable credits help offset the regressive impacts of other types of taxes that Americans pay.

# Why Lawmakers Should Support the Expansions of Refundable Tax Credits



- Our report, “All Americans Pay Taxes,” shows that when you add up the different taxes people pay, the tax system as a whole is barely progressive at all.

	Average cash income	Shares of		TAXES AS A % OF INCOME		
		Total income	Total taxes	Federal taxes	State & local taxes	Total taxes
Lowest 20%	\$ 12,400	3.5%	1.9%	3.6%	12.4%	16.0%
Second 20%	25,000	7.1%	5.0%	8.7%	11.8%	20.5%
Middle 20%	40,400	11.6%	10.2%	13.9%	11.3%	25.3%
Fourth 20%	66,000	18.9%	18.9%	17.2%	11.3%	28.5%
Next 10%	100,000	14.3%	15.2%	19.0%	11.1%	30.2%
Next 5%	141,000	10.2%	11.2%	20.4%	10.8%	31.2%
Next 4%	245,000	14.2%	15.8%	21.3%	10.2%	31.6%
Top 1%	1,328,000	20.4%	22.1%	22.3%	8.4%	30.8%
<b>ALL</b>	<b>68,900</b>	<b>100.0%</b>	<b>100.0%</b>	<b>18.0%</b>	<b>10.6%</b>	<b>28.6%</b>
<b>Addendum</b> <b>Bottom 99%</b>	<b>\$ 56,200</b>	<b>79.8%</b>	<b>78.0%</b>	<b>17.0%</b>	<b>11.1%</b>	<b>28.2%</b>

**Notes:**  
 1. Taxes include all federal, state & local taxes (personal and corporate income, payroll, property, sales, excise, estate etc.).  
 2. For calculations of income shares and taxes as a % of income, income includes employer-paid FICA taxes and corporate profits net of taxable dividends, neither of which is included in the average cash income figures shown.

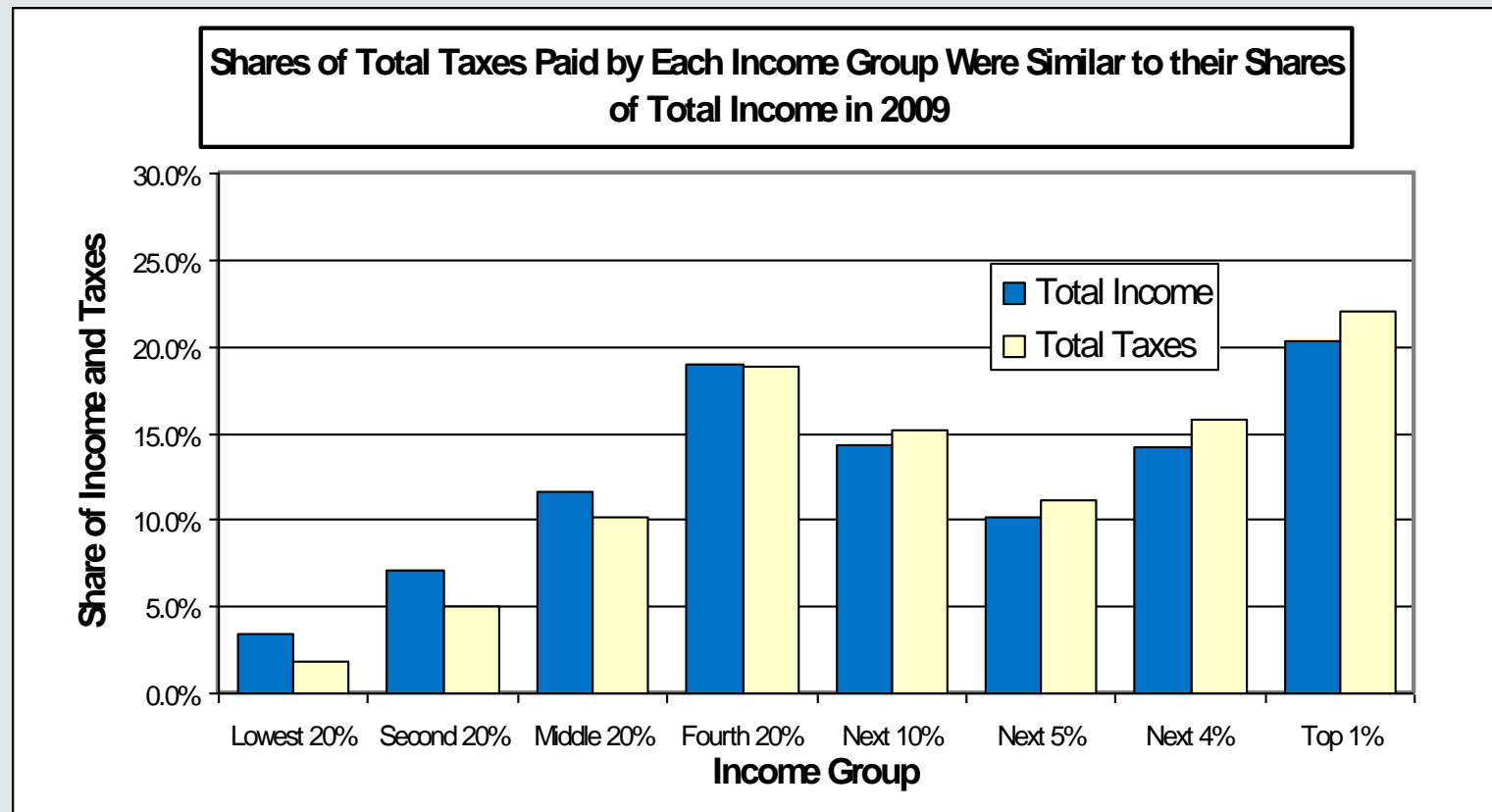
Source: Institute on Taxation and Economic Policy Tax Model, April 2010

Citizens for Tax Justice, April 2010

# Why Lawmakers Should Support the Expansions of Refundable Tax Credits



- This responds head-on to the claim that too many Americans are “not paying taxes” and getting “welfare” from the IRS.



# Other Tools



- On the CTJ website, there is an online tax calculator that tells you how you would fare under different scenarios for how Congress might deal with the tax cuts.
- We made a modified version of this online calculator that tells you specifically how the ARRA provisions expanding the refundable tax credits would affect a taxpayer.
- Find it at [www.ctj.org/federalincometaxcalculator\\_refundables.php](http://www.ctj.org/federalincometaxcalculator_refundables.php)

# Other Tools



- Example 1: A taxpayer who is married, has two children, and earns \$30,000 in 2011.
  - The calculator tells you that this family will get \$407 from the EITC expansion for married taxpayers but nothing from the EITC expansion for larger families or the CTC expansion.
- Example 2: An unmarried taxpayer who has 3 children and earns \$25,000 in 2011.
  - The calculator tells you that this family will get \$638 from the EITC expansion for larger families, nothing from the EITC expansion for married couples, and \$1,038 from the CTC expansion.

- How to ask a question:
  - ▣ Use the “chat” or “ask a question” function on your screen
  - ▣ Raise your hand by pressing \*1 on your phone.
  - ▣ To lower your hand press #.



# III. State Issues

# Why State Anti-Poverty Efforts are Vital



- For the poorest quintile of Americans, state and local taxes represent 78% of the taxes they pay– federal is just 22%.
- For the second quintile, state/local are 57% of total taxes– more than half.
- **Lesson: if the U.S. tax system is pushing low-income families below the poverty line, state and local taxes are the primary culprit.**

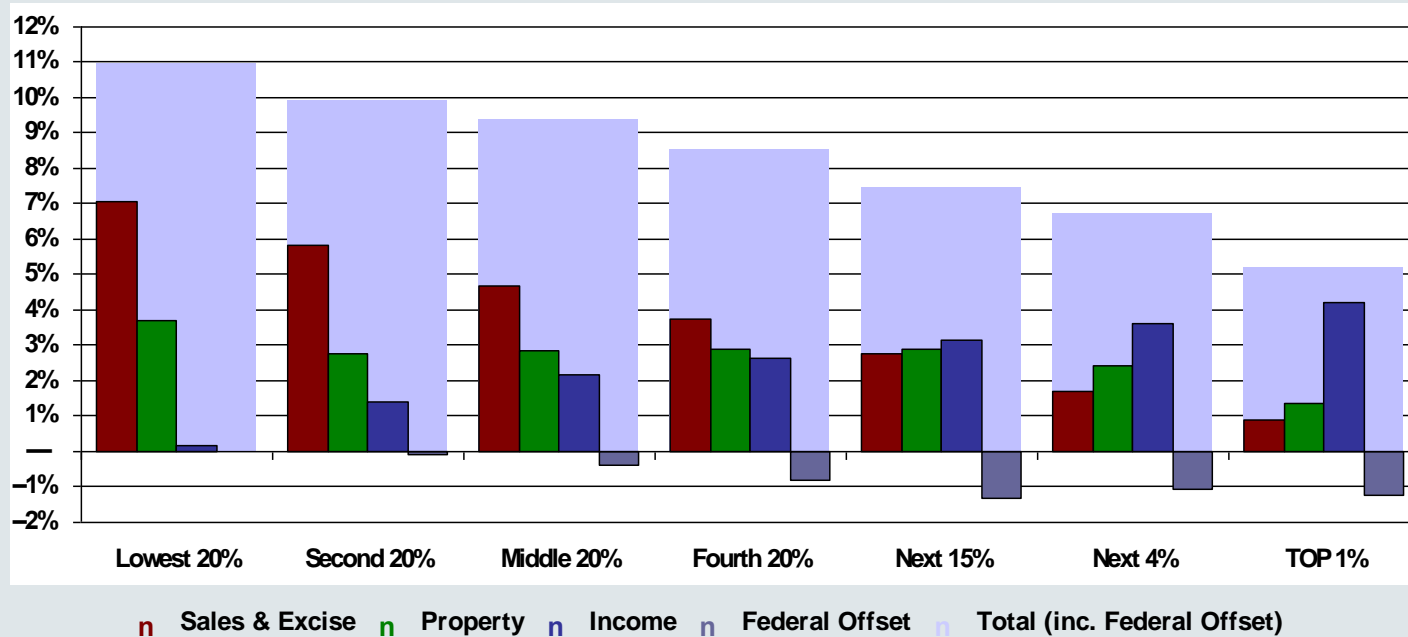
# How Unfair Are State/Local Taxes?



## Averages for All States

### State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers



# How ITEP's *Who Pays* report is created



- “Microsimulation model”: built on large sample of 750,000 actual federal tax returns.
- For each return, we add information from other sources on consumer spending (for sales taxes) and home value and rent (for property taxes).
- The result: a statistically valid sample representing the population of each state.
- We then create a computer program that recreates all the tax laws of all fifty states, from sales tax rates to every income tax deduction, exemption and credit.
- This tells us the actual \$ amount of state and local taxes paid by each income group in every state.

# Who uses microsimulation tax models?



- **Federal only:** Joint Committee on Taxation (JCT), US Treasury, Congressional Budget Office, Tax Policy Center, ITEP
- **Federal with state-by-state detail:** ITEP
- **Single-state models:** Maine, Minnesota, Texas
- **Multiple states:** ITEP

Put another way, no one else in or outside of government has the capacity to analyze state-by-state the impact of federal tax changes—and no one else can analyze the impact of state-level changes in every state.

# How ITEP Works to Help Inform State Tax Policy Debates



- Direct testimony before legislative committees and tax reform commissions
- ITEP policy briefs and reports on specific tax proposals
- Provide technical support to state-based nonprofits working on tax issues:
  - *Respond to requests for distributional analysis*
  - *Help to design progressive tax proposals*
- Outreach to state-level media: helping to improve the quality of press coverage on tax issues
- Work “behind the scenes” to help legislative fiscal offices evaluate tax plans correctly.

# Strategies for State Tax Fairness



- Progressive income taxes: Higher rates for the best-off taxpayers
- Reduce reliance on regressive sales and excise taxes
- Eliminate “loopholes” that benefit upper-income families.
- **Create and expand refundable low-income tax credits.**

# The Good News: Low-Income Credits Are More Widespread than Ever Before



- Earned Income Tax Credit: 24 states and Washington, DC
- Poverty Credits: Half a dozen states
- “Sales Tax Credits”: 5 states
- Property Tax “Circuit Breaker” Credits: >30 states for seniors; >10 states for non-elderly.
- *The bad news: “more widespread than ever before” isn’t saying that much.*

# Real-World Applications of the ITEP Model:

## *Good Intentions Gone Astray – North Carolina (2007)*



- Gov. Mike Easley (D) claims that his budget plan “*eliminates the state income tax for nearly 600,000 low-income taxpayers and cuts in half the tax for another 630,000*” at a cost of \$63 million.
- At request of NC Budget & Tax Center, ITEP evaluates Easley’s claim and finds that the plan would only eliminate taxes for 66,000 (10% of what governor claimed). Achieving Easley’s stated goals would actually cost \$350 million a year; EITC would offer bigger tax cuts for many at a much lower price.
- ***Initial Newspaper Headline:***                      Group Disputes Easley on Tax Plan for Poor  
*Governor Stands Behind His Figures*
- ***Two Days Later:***                                      Tax plan won't help all poor, Easley says  
*The governor revises the number of people who will save, saying some do not pay taxes now*
- Policy Outcome:    **Earned Income Tax Credit**

# Real-World Applications of the ITEP Model:

## *Bad Intentions Exposed – Georgia (2006)*



- State Senate almost unanimously approves exemption for first \$75,000 of retiree income. Media reports that bill's sponsor “**did not say how much the tax break would cost the state.**”
- At request of Georgia Budget & Policy Institute, ITEP evaluates cost and fairness of plan and finds it would cost \$100 million annually with 3 out of every 4 dollars going to the richest 20% of seniors. Bottom 50% of seniors would receive 1% of tax cut.
- *Next Day's Front-Page Headline:* **Big Price on Senior Tax Break**  
Analyst Says State Could Lose \$100 Million a Year
- Policy Outcome: **Bill Dies in House**

# Real-World Applications of the ITEP Model:

## *Helping State Groups Construct Alternatives – Ohio (2007)*



- Gov. Ted Strickland (D) proposes to expand a means-tested senior property tax exemption to be available to even the wealthiest seniors.
- At request of Policy Matters Ohio (EARN), ITEP evaluates Strickland plan and develops more progressive (and cheaper) alternative. The Strickland plan was estimated to cost \$260 million, with low-income seniors receiving 1% of the benefits. Progressive alternative cost \$110 million and directed 30% of benefits to the same fixed-income seniors.
- *Cleveland Plain Dealer*                      Strickland should do what's right for Ohio and amend his property tax reduction plan.
- Policy Outcome: **Strickland Plan is Ratified**

# Real-World Applications of the ITEP Model: Understanding Complex Proposals – Maryland (2007)



## Impact of O'Malley Tax Plan

*All Marylanders, 2007 income levels*

2007 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than \$20,300	\$20,300 – \$39,000	\$39,000 – \$61,600	\$61,600 – \$99,500	\$99,500 – \$198,200	\$198,200 – \$449,700	\$449,700 – Or More
Average Income in Group	\$ 12,500	\$ 29,700	\$ 49,200	\$ 77,600	\$ 133,700	\$ 280,700	\$ 1,579,000

### Tax Change as % of Income

Personal Income Tax Changes	-0.7%	-0.5%	-0.2%	-0.2%	-0.1%	0.1%	0.9%
Reduce State Property Tax Rate	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%
Corporate Tax Increases	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cigarette Tax Hike	0.3%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%
Expand Sales Tax Base	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Increase Sales Tax Rate	0.6%	0.5%	0.4%	0.3%	0.2%	0.2%	0.1%
Motor Vehicle Titling Tax	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%
<b>Total</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>1.0%</b>

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# EITC Funders Network

For more information:

- **EITC Funders Network**
  - [www.eitcfunders.org](http://www.eitcfunders.org)
- **ITEP**
  - [www.itep.org](http://www.itep.org)