Background Information

In today’s discussion, panelists will consider how tax policy and reforms might affect low- and moderate-income workers. How can tax policy support workers and their families? What is the cost of tax code complexity? Would cuts lead to economic growth or reduce critical revenues? Below we present background information to inform the discussion.

Tax Expenditures
- Tax expenditures are defined in the law as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.”
- CFED estimates that, in 2013, 30 asset-building tax programs (promoting home ownership, savings, retirement accounts, and higher education) cost the federal government more than $540 billion.
- These expenditures disproportionately benefit high-income households. Households in the top quintile received 70 times more support from such programs than households in the bottom quintile.

Credits Targeted at Low- and Moderate-Income Workers
- The Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people.
- For tax year 2015 returns filed in 2016, more than 27 million taxpayers received the EITC.
- According to the IRS, the number of tax returns processed in 2016 was 150 million. This means that approximately 18% of taxpayers received the EITC.
- The IRS estimates that nationally, 21% of eligible taxpayers do not claim the EITC they deserve.
- Eligibility for the EITC and the amount of the credit depends on income, marital status, and number of children. The average amount of EITC paid out in 2016 was about $2,455.
- The EITC lifted 6.5 million people out of poverty, including about 3.3 million children.
- The Child Tax Credit (CTC) supports low- and moderate-income families by providing a credit of up to $1000 per eligible child.
- The CTC lifted 2.8 million people out of poverty, including about 1.6 million children.

The Cost of Complexity
- Many low- and moderate-income families use paid tax preparation services. For families with adjusted gross incomes below $30,000 in 2010, 54.5% used paid preparers and only 1.7% used free volunteer income tax assistance (VITA).
- Taxpayers using paid preparers spend an average of $273 for an itemized Form 1040 with a Schedule A and a state tax return. For many low- and moderate-income workers, the fees are even higher. Some estimate that workers eligible for the EITC spend an average of about $400 at national tax preparation chains.

Do Tax Cuts Lead to Economic Growth?

Some argue…
Cutting income taxes would encourage individuals to work, save, and invest. Reducing corporate taxes would incentivize corporations to locate in the United States, invest, and build capital. Such changes would lead to economic growth, which would mean more economic opportunities for low- and moderate-income workers and larger tax revenue in the future.

Others say…
Cutting income or corporate taxes would reduce revenues and increase the federal budget deficit, which could reduce national saving and raise interest rates. A low corporate tax rate could disproportionately benefit high-income individuals. The net effect of cutting income or corporate taxes on growth is uncertain, with some estimates that it is small or negative or only useful in limited cases.
State and Local Taxes

In addition to federal taxes, states and localities design their own tax policies to raise revenues, incentivize behaviors, or support low- and moderate-income workers.¹⁹

| Income taxes | 41 states and the District of Columbia have income taxes. Local governments in 12 states levy their own income tax on top of state taxes. |
| Sales taxes | 45 states and the District of Columbia use sales taxes, which apply to almost all goods and certain services. 38 states have separate sales taxes on specific goods, such as tobacco, alcohol, and motor fuels. |
| Property taxes | All 50 states and the District of Columbia impose property taxes, which generally apply to land and improvements, but sometimes also apply to personal property (machinery, equipment, and motor vehicles) as well. |
| Corporate taxes | 44 states and the District of Columbia have corporate income taxes. |

EITC | 26 states and the District of Columbia have their own earned income tax credit. |

Voices of Our Speakers


¹⁹ “Tax Policy Center Briefing Book: State (and Local) Taxes” Tax Policy Center, online.