



Position Statement

February 3, 2009

American Recovery and Reinvestment Act

The state of the U.S. economy requires immediate and decisive action, but the need to act quickly does not relieve Congress and the President of their collective responsibility to do what is in the best, long-term interest of American workers. Past experience has taught us that the costs of business tax breaks and one-time rebates far outweigh the benefits. Before adopting new, potentially ineffective tax cuts and adding to the growing deficit, Congress and the President should seriously consider the following questions:

- Are the tax cuts designed to maximize their effectiveness?
- Will the tax cuts be temporary or permanent?
- What are the long-term budget implications of making the tax cuts permanent?

Business Tax Cuts

Since the start of the recession, two different Directors of the Congressional Budget Office have noted in Congressional testimony that compared to other stimulus options, such as government spending and increases in public benefits, business tax cuts have a relatively small impact on Gross Domestic Product (GDP).¹ Economist Mark Zandi, who also testified before Congress multiple times, had the following to say about business tax credits in a recent analysis of the House bill: “The temporary tax incentives to support business investment and hiring in the House stimulus plan do not provide a particularly large economic benefit.”² Fortunately, business tax credits make up a smaller part of the House-passed legislation than worker tax incentives; however, despite the advice of experts, the Senate is still considering a more business-friendly bill.

Alternative Minimum Tax

The Senate is also considering an extension of the Alternative Minimum Tax (AMT) patch for tax year 2009. According to the non-partisan Tax Policy Center, the AMT patch “makes no sense as [an] economic stimulus.”³ Constrained by a limited stimulus budget, the Senate should not block other, more effective proposals, with an AMT patch that will not benefit households until 2010 and will only go to relatively high-income taxpayers.

Making Work Pay Tax Credit

Throughout the economic crisis, nearly all government assistance has gone to corporations responsible for many of our current problems. The Center for Economic Progress (CEP)

¹ U.S. House. Committee on Budget. “Testimony of Douglas W. Elmendorf, Director of the Congressional Budget Office: The State of the Economy and Issues in Developing an Effective Policy Response.” Jan. 2009. 30 Jan. 2009 <http://cbo.gov/ftpdocs/99xx/doc9967/01-27-StateofEconomy_Testimony.pdf>. U.S. Senate. Committee on Finance. “Testimony of Peter R. Orszag, Options for Responding to Short-Term Economic Weakness.” Jan. 2008. 30 Jan. 2009 <<http://cbo.gov/ftpdocs/89xx/doc8932/01-22-TestimonyEconStimulus.pdf>>.

² Zandi, Mark. “The Economic Impact of the American Recovery and Reinvestment Act.” Jan. 2009. 30 Jan. 2009 <http://www.economy.com/mark-zandi/documents/Economic_Stimulus_House_Plan_012109.pdf>.

³ Tax Policy Center. “Tax Stimulus Report Card: Senate Finance Committee Bill.” Jan. 2009. 30 Jan. 2009 <http://www.taxpolicycenter.org/UploadedPDF/411830_senate_stimulus_reportcard.pdf>.

supports long-awaited efforts to help homeowners, unemployed workers, and struggling families. The Making Work Pay Credit (MWPC), which is the centerpiece of this effort to turn around the economy, will also fulfill President Obama's campaign promise to provide tax relief for 95 percent of American workers. As the credit is fully refundable, low-income households will receive the same dollar benefit as their middle-income counterparts. However, the MWPC's effectiveness as a stimulus will largely depend on how it is delivered.

- **Delivery Mechanism.** Experts suggest that to maximize the impact on GDP the MWPC should be distributed incrementally through reduced income tax withholdings from paychecks. Congress plans to offer this option, but may also enable taxpayers to claim the credit on their tax year 2009 and 2010 returns. Given a strong preference for large lump-sum tax refunds, many low-income taxpayers will choose to receive the credit when they file their tax returns in 2010 and 2011 - much too late to provide an immediate boost to the economy. In addition, economists believe that taxpayers are less likely to spend a lump-sum credit than a small increase in weekly take-home pay.

Reduced income tax withholdings will also save taxpayers the hassle and difficulty of claiming the credit on their tax returns. More importantly, this option should prevent paid tax preparers from siphoning off millions in MWPC dollars in the form of fees and predatory products like Refund Anticipation Loans.

However, adjusting income tax withholdings will create an additional set of complexities. Many taxpayers and low-income taxpayers, in particular, work multiple jobs or are self-employed, which could make it difficult to calculate the correct withholding amount. Furthermore, with unemployment expected to rise, millions of additional workers could lose their jobs throughout the next two years. Unemployed workers entitled to the full MWPC may have difficulty accessing the balance of their credit if they no longer receive a paycheck. In addition, some low-income workers may not have any withholdings to adjust. To ensure the broadest impact on the economy and to promote tax fairness, the Treasury Department must be prepared to address these potential issues that could disproportionately affect low-income workers.

- **Targeting.** Nearly 20 percent of the MWPC's \$145 billion cost will go to households earning in excess of \$100,000.⁴ Past experience indicates that high-income households are more likely save the credit or use it to pay down debt. A tax credit targeted more narrowly at low-income workers, who will spend the credit on basic needs, may provide a more effective stimulus at a substantially lower cost than the current MWPC.
- **Permanence.** The MWPC comes at a considerable cost of over \$70 billion per year. While the House and Senate limit the MWPC to tax years 2009 and 2010, it is unlikely that Congress will allow this provision to expire in the midst of an economic recovery. If Congress intends to make the MWPC permanent, then Americans deserve to know its true long-term cost, which will enable them to compare the MWPC with other possible investments like universal healthcare.

Earned Income Tax Credit

Both the House and Senate legislation would expand the Earned Income Tax Credit (EITC) for families with three or more children and reduce the marriage penalty, but neither bill addresses the fact that the EITC provides little or no benefit to many low-income, 'childless' workers.⁵ By

⁴ Tax Policy Center. "Table T09-0069 'The American Recovery and Reinvestment Tax Act of 2009': Making Work Pay Credit As Reported by Senate Finance Distribution of Federal Tax Change by Cash Income Level, 2009 Summary Table." Jan 2009. 30 Jan. 2009 <<http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=2115&DocTypeID=1>>.

⁵ Childless workers include single workers, working parents without children, and non-custodial working parents.

choosing not to include childless workers in the EITC expansion, Congress is missing a major opportunity to target stimulus dollars at over seven million low-income workers.⁶ Congress should consider the following additional changes to the EITC as part of the stimulus package:

- **Increase the credit available to childless workers:** Double the phase-in rate for childless workers to 15.3 percent and triple the maximum credit to \$1,300;
- **Make the credit available over a wider range of incomes:** Begin the credit's phase-out at over \$10,000 of income; and
- **Lower the age limit:** Eliminate the requirement that only workers over age 25 can receive the credit.

Child Tax Credit

This tax season, 13 million children will benefit from 2008 legislation that expanded the refundable portion of the Child Tax Credit for very low-income families. The House recovery bill goes even further than the 2008 legislation by entirely eliminating the refundability threshold for tax years 2009 and 2010, whereas the Senate legislation sets the threshold at \$6,000. Very low-income workers should be eligible for this benefit as well, making it possible for them to find and keep a job while providing for their children.

- **Adopt the House Child Tax Credit expansion** so that the parents of over 12 million children receive a larger tax benefit for tax years 2009 and 2010.

Faced with a trillion-dollar deficit, President Obama and Congress must make difficult choices between policies that will ultimately aid an economic recovery and pressures to adopt politically popular alternatives. We call on Congress and the President to seriously consider more targeted and less costly tax cuts for working families. Americans deserve a tax package that creates jobs, fosters work, and stimulates the economy without significantly adding to the rising federal deficit.

About the Center for Economic Progress

The Center for Economic Progress builds a stronger America by helping working families move from financial uncertainty to financial security. We offer trusted tax and financial counseling in low-income communities; advance policies and practices to create a financial system that works for all; and through the National Community Tax Coalition, lead organizations that promote economic progress for low-wage workers and their families.

About the National Community Tax Coalition

The National Community Tax Coalition works to create a more accessible and equitable tax system for American workers. Our vast and vibrant network of organizations from all sectors of society provides critical, on-the-ground financial services for working families. We actively seek to broaden the reach and impact of community tax preparers and are a leading voice in Washington, DC for low-wage workers and against unfair financial practices. We believe that together, we can strengthen economies, build communities and improve life for all American families.

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Visit us on the web at:
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⁶ Berube, Alan, Elizabeth Kneebone, and David Park. "Metro Raise: Boosting the Earned Income Tax Credit to Help Metropolitan Workers and Families." Brookings Institution: Jun. 2008. 9 Jan. 2009 <http://www.brookings.edu/~media/Files/rc/reports/2008/05_metro_raise_berube/metroraise_report.pdf>.