



Testimony of

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Before the

Committee on Finance,
United States Senate

Regarding

The Future of Individual Tax Rates: Effects on Economic Growth and Distribution

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Thank-you, Chairman Baucus, Ranking Member Grassley, and Members of the Committee. My name is David Marzahl and I am the President of the Center for Economic Progress (CEP). CEP helps hard-working families move from financial uncertainty to financial security by providing them with free, high quality tax preparation and financial services. We operate volunteer-driven tax sites in more than 30 Illinois communities – making CEP’s Volunteer Income Tax Assistance (VITA) program one of the largest and oldest statewide programs of its kind. As a founder and current Steering Committee Member of the National Community Tax Coalition (NCTC), I am pleased to offer the views of leading community based tax preparation and asset building organizations across the country.

NCTC is comprised of over 1,700 members that provide free tax preparation and asset building services to low- and moderate-income families. Our local partners help families claim tax credits they might otherwise overlook, ensuring they receive the full tax refund to which they are entitled. For many, that refund provides a once-a-year opportunity to pay down debt, purchase necessities and start building assets. Together, we are the nation's 4th largest provider of tax preparation services, completing an estimated 3 million federal tax returns each year.

On behalf of these VITA programs and the 3 million taxpayers that we serve each year, we thank the Committee for their efforts in passing the 2009 American Recovery and Reinvestment Act (ARRA / the Recovery Act). The Recovery Act achieved many of the reforms we have supported, including expanding the Earned Income Tax Credit (EITC) for married couples and families with three or more children and ensuring more parents have access to the Child Tax Credit (CTC).

As a non-profit organization and a VITA Program we are primarily concerned with the impact on the working families that we serve if Congress fails to extend the 2009 ARRA provisions. The following provisions are scheduled to sunset this year and will have a direct impact on our constituency:

- **10 percent tax bracket:** The 10 percent tax bracket will sunset, making 15% the lowest marginal tax rate.
- **Earned Income Tax Credit:** The 45% credit for families with three or more children and marriage penalty relief will sunset. Marriage penalties are often an unintended consequence of tax complexity. Thanks to changes to the tax code since 2001 that adjusted the 10% and 15% tax brackets, the standard deduction, and the EITC phase-out ranges to reduce or eliminate the marriage penalty for many taxpayers. The Recovery Act provided additional marriage penalty relief for EITC recipients.
- **Child Tax Credit:** The maximum credit will fall from \$1,000 per child to \$500 per child and the credit will no longer be refundable (with an exception for some families with three or more children).
- **American Opportunity Tax Credit:** The partially refundable education credit with a maximum benefit of \$2,500 will sunset. The non-refundable HOPE and Lifetime Learning education credits will remain.
- **Making Work Pay Tax Credit:** The \$400 (\$800 for married couples) refundable credit will sunset.

With these provisions at risk, we respectfully ask the Committee to consider the following:

Permanent Expansion of Vital Tax Credits

Building Financial Security

Parents who work full time should be able to support their families and provide a standard of living that prevents their children from living in poverty. The 2009 ARRA provisions need to be made permanent in order to create sustainable economic growth and ensure a more equitable tax code. These provisions are helping to build economic security through:

- **The EITC:** The expansion of the EITC for families with three or more children and for married couples. This change brought an estimated \$4.7 billion to hard-working families, many who have been impacted by the recession.
- **The CTC:** Compared to tax year 2008, 2.9 million more children in very low-income families are able to access the refundable portion of the CTC. Nearly 100 percent of this \$14.8 billion tax benefit goes families earning less than \$38,000.
- **The American Opportunity Tax Credit:** This education credit makes college more accessible to American workers and their children by providing access to refundable tax credits.

Tax Credits as a Work Incentive

The expanded EITC and the Child Tax Credit provides an important incentive for parents to work while giving them the financial boost they need to support themselves and their children. Under the expanded CTC, very-low-income families are given a much stronger incentive to work full-time to support their families. During the 2009 Tax Year, a parent with two children who worked just 10 hours a week at a minimum wage job received less than \$100 from the CTC. However, a parent with two children, working full-time, received a credit of about \$1,800.

VITA sites across the country witnessed this work incentive at play in a number of our clients' lives. This past tax season, Just Harvest, a Coalition member organization in Pittsburgh, PA, served a family of 4 (two parents, two kids) getting by on an income of \$16,353. The Dad works as a cashier at a gas station and the mom stays home with the kids. Because of the stimulus-related changes in the Child Tax Credit, their CTC this year was the maximum \$2000. Under the previous law, they would have received only \$540.

Thanks to the changes that the IRS and Treasury have made to the tax form and the efforts of many VITA programs to provide asset building services at the tax sites, it has becoming easier for clients to save a portion of their refund. It is now easy for taxpayers to split their refund or purchase a U.S. savings bond through the tax return.

Meanwhile more VITA programs are offering year-round financial coaching and asset building services. Many programs across the country are also working with financial institutions and local credit unions to help taxpayers open checking or savings accounts and access various savings and money management products at tax time. Not surprisingly, the size of the refund often provides an incentive to the taxpayer to make a decision to constructively use the dollars they receive

The typical taxpayer we serve has two to three W2's, meaning they work at least that many jobs in a given year. Despite their focus on securing and keeping a job, 15% of our clients were unemployed at some point last year, five full percentage points above the Illinois average. In this tough economy, with falling wages the norm, many of our clients still benefited from taking part-time or lower-paying jobs because they qualified for the partial or full child tax credit. As more of our clients return to

work, and, hopefully full-time employment, they will have more incentive to stay employed and increase their salary.

Simplification

As practitioners we hope that the Committee streamlines the existing tax code to ensure that it promotes economic stability and opportunity for *all* Americans. A simplified tax code will not only increase the quality of tax returns but it will also decrease the cost burden imposed on taxpayers.

Due to our complicated tax code, many American workers are spending hundreds of dollars each year just to settle their tax bill with the federal government. The more complex the tax return, the more a paid preparer charges for that tax return as most paid preparers charge per form. The CTC, ACTC, Child and Dependent Care Credit, and EITC, all require separate forms, and provide a perverse incentive to commercial preparers to make more money.

Timely Decision-Making

In addition to building a tax code that works for all, as practitioners we ask that the Senate make timely decisions about tax law changes. The timing of these decisions has a tremendous effect on our program's ability to serve our communities. If Congress delays making tax law changes until very late in the year it has the following impacts:

1. **The IRS** is delayed in producing necessary publications.
2. **Tax return software companies** are not able to update their software accordingly in time for the kick-off of the tax season.
3. **Certified volunteers** are not able to adequately prepare for the upcoming tax season. Our practitioners are trained in November or December. If tax law changes are implemented close to or after the kick-off of tax season, our volunteers need to retrain. From a quality assurance stand point, this is problematic.
4. **Taxpayers** who wish to file their return at the beginning of tax season, may not be able to access a free community VITA program due to delays in the tax season.

As outlined in the testimony above, we support the permanent expansion of the EITC for married couples and families with three or more children and increased support through the Child Tax Credit for parents working to raise their children. Increased simplification of the tax code and timely decisions from Congress will only improve our efforts to provide a tax system that works for all taxpayers.

Thank you for the opportunity to testify. The Center for Economic Progress and the National Community Tax Coalition look forward to working with you to ensure that the all working families have access to the opportunities and resources necessary to gain and sustain financial security.