

Pursuing Good Rather than Harm with the EITC and CTC

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Michelle Lyon Drumbi, [Tax Credits for the Working Poor: A Call for Reform](#) (2019).

Mention the IRS, and for most, the first thought to come to mind is *not* alleviating poverty. Most people think of the IRS as the nation's tax collector, processing tax returns and enforcing the tax laws to finance the government. Yet, for many years now, the IRS also has served as one of the federal government's most significant antipoverty agencies. The IRS administers the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC), providing billions of dollars of social welfare benefits each year to millions of families and individuals. The EITC and CTC are very popular, at least in part because they are perceived by Congress as especially efficient relative to other antipoverty programs. Consistent with that popularity, both programs have grown a lot since their inception. But their administration by the IRS, while efficient, presents its own set of difficulties—including for the very beneficiaries these programs are intended to help. In her book, *Tax Credits for the Working Poor: A Call for Reform*, [Michelle Drumbi](#) takes a deep dive into the challenges as well as the benefits of giving the IRS responsibility for administering these important social welfare programs.

The comprehensiveness of Drumbi's treatment alone makes this book a valuable addition to the tax policy literature. She offers plenty of statistics; a thorough survey of pros, cons, and policy alternatives; and a wonderful synthesis of existing scholarship. But the book's true strength is the human story that it tells. Too often, discussions of the EITC and CTC focus wonkishly on economic efficiency, comparisons of bureaucratic expertise, and statistics alone. Drumbi's account does not neglect that side of the equation. But she also draws upon her experience running a low-income taxpayer clinic to tell the stories of EITC and CTC beneficiaries, who often suffer the downside consequences of relying on tax officials to administer social welfare programs on the cheap.

The book opens with a short history of the EITC and CTC programs, demonstrating the huge role that the IRS now plays in federal anti-poverty efforts. In 2016, 27 million families and individuals received \$67.9 billion in EITC benefits, and 19 million families received \$25.7 billion in CTC benefits. Because program beneficiaries self-identify and self-declare their eligibility by filing tax returns and calculating for themselves the benefits they are due, the EITC and CTC are less expensive to administer than other federal antipoverty programs. Drumbi also reports studies documenting that EITC and CTC beneficiaries as experiencing pride rather than shame from their participation in those programs, contrasting being treated by commercial tax preparers as “a client, a taxpayer” with the stigma and “dread associated with a trip to see the welfare caseworker.” Perhaps for this reason, the EITC and CTC enjoy higher participation rates than many other federal social welfare programs.

But determining EITC and CTC eligibility is complicated. That complexity makes it easy for EITC and CTC claimants to commit unintentional errors. It also drives most program participants to rely on professional tax return preparers or commercial tax return preparation software to claim their benefits. Thus, EITC and CTC claimants are placed “in the unusual position of paying money to receive an anti-poverty cash payment.” Many return preparers are not licensed. Others offer refund anticipation loans or other arguably predatory financial products to EITC and CTC recipients. Fraud and identity theft are common. High error rates attributable to complexity and fraud mean that EITC and CTC claimants are subject to much higher IRS audit rates than middle-income taxpayers. The IRS enforcement apparatus is oriented toward pursuing tax scofflaws for nonpayment of taxes and “does not differentiate between intentional and unintentional overclaims” for benefits. IRS audits follow a paper process, conducted by mail, that can be difficult to navigate for taxpayers with limited resources. Cryptic, computer-generated audit letters fail to explain clearly what the taxpayers who receive them are expected to do. Financial penalties for mistakes are high. As Drumbi concludes, “this

is a very sad way to administer a social benefit program. The United States can do better.”

And with that, Drumbl turns to ideas for reform. Many countries have programs that are similar conceptually to the EITC and CTC. Drumbl documents case studies of similar tax credit programs in New Zealand and Canada. She acknowledges that no approach is perfect and “the grass is always greener on the other side.” Drawing from those case studies, however, she argues that “Congress can and should reform both the EITC and the [CTC] to better serve low-income families.”

Some of Drumbl’s suggested reforms are small. For example, Congress can simplify the definition of who is a qualifying child. At present, parents can claim children for EITC purposes until they reach nineteen years of age, or twenty-four if the child is a full-time student. For the CTC, parents can only claim that same child until the age of seventeen irrespective of student status. No policy rationale exists for the difference. The different cutoffs merely create more opportunity for inadvertent errors. She also suggests dividing the EITC into separate work support and family support credits—not a new idea, but one for which she offers more detailed proposals. Other of Drumbl’s proposed reforms are more substantial. For example, she suggests relying on household income rather than marital status in calculating credits and transitioning to year-round, periodic payments rather than annual lump sum payments.

Whether or not one agrees with all of Drumbl’s proposed reforms, everyone who is interested in tax policy and antipoverty programs should read this carefully-researched and thoughtfully-developed book. Federal efforts to alleviate poverty among the working poor are laudable when they work, but perhaps less so when poorly designed legislation and administration place heavy additional burdens on families that are already struggling. As Drumbl’s book demonstrates, the latter is all too common.

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