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CLASP Principles for Federal Tax Policy

Executive Summary

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CLASP
Policy solutions that work for low-income people

Across America, families and communities need public investments that reduce poverty, promote economic opportunity for children and adults, and reduce racial and ethnic disparities. Taxes are the way we come together as a nation to make these investments.

In addition to providing revenue for necessary public goods, a well designed tax code can reduce poverty among children, workers and families, promote mobility, and combat the inequities caused by systemic racism. While the tax system includes some features that fight poverty—most notably the refundable Earned Income Tax Credit and Child Tax Credit—too often the tax code falls short and perpetuates racial and wealth inequality in our nation. And the tax code’s positive features often fall short of their full potential benefit to families with low incomes because of the challenges they face in accessing the credits they are eligible for.

The tax system has been an important tool in our national response to the interlocking health and economic crises caused by the COVID-19 pandemic. Policymakers used it to distribute stimulus payments in the spring of 2020. This effort highlighted the potential to rapidly deliver funds to many people. However, some people with the greatest needs were left out.

Taxes will necessarily be part of the political debate over the next years. Much larger investments are needed to support state and local economies, create opportunity, and begin to close the gaps caused by our nation's history of systemic racism. Policymakers will have the opportunity to undo the inequity of the 2017 tax law, reversing its giveaways to the richest households and large corporations. Proposals ranging from providing people with another short-term stimulus payment to permanent universal child allowances and basic income will use refundable credits as part of their delivery systems. This raises the question of what it will take so everyone eligible for these supports can receive them with a minimum of burden.

The Center for Law and Social Policy (CLASP) has developed these principles to provide a framework for policymakers and advocates that uses an economic and racial justice perspective to assess the range of proposals they will evaluate in the next few years.

In offering these principles, CLASP draws on our expertise about policy that reduces poverty, improves the lives

of people with low incomes, tears down systemic barriers that hold back people of color, and advances racial and economic justice.

We propose the following principles for decisionmakers and others to use when creating or weighing changes to the tax system:

1. Taxes must provide revenue to support investments in the public goods needed for a nation that is healthy, thriving, racially just, and economically secure.
2. The tax code as a whole—and individual provisions—should be progressive and reduce poverty and inequality.
 - a. The tax code should be made more progressive, including with respect to unearned investment income, wealth, and inheritances.
 - b. Shifting to fully refundable tax credits and other improvements can make the tax code more effective at reducing poverty.
 - c. Tax credits should not leave out those who have been systemically disadvantaged.
 - d. Policymakers should compare the benefits and distributive effects of tax credits or deductions to similar investments in public programs.
3. Policymakers should center equity in decisions regarding how taxes are administered.
 - a. Tax policy should establish payment mechanisms that meet the needs of people with low incomes.
 - b. Tax policy should reduce the cost and administrative burdens of filing.
 - c. Audits and verification requirements should not fall disproportionately on people with low incomes.

For a full discussion of these principles and how they apply to key provisions of the tax code, please view the full version of [CLASP's Principles for Federal Tax Policy](#).

The tax code will be critical as lawmakers grapple with how to recover from the COVID-19 pandemic and consequent economic crisis and with how to address racist policies that have harmed people of color and denied them wealth-building opportunities. The tax system also can provide financial support to families through mechanisms ranging from one-time stimulus payments to a reoccurring child allowance. We urge lawmakers to turn to these principles as they consider large and small changes to the tax code. These principles can guide lawmakers in creating tax policy that promotes equity rather than perpetuates or widens existing disparities.

Conclusion

In addition to providing revenue for necessary public goods, a well-designed tax code can reduce poverty among children, workers and families, promote mobility, and combat the inequities caused by systemic racism. While the tax system includes some features that fight poverty, most notably the refundable tax credits, too often the tax code falls short. The 2017 TCJA law provides an example of how a tax law can perpetuate racial and wealth inequality in our nation. And the tax code's positive features often fall short of their full potential benefit to families with low incomes because of the challenges they face in accessing the credits they are eligible for.

The tax code will be critical as lawmakers grapple with how to recover from the COVID-19 pandemic and consequent economic crisis and with how to address the racist laws and institutions that have historically hurt people of color and denied them wealth-building opportunities. The tax system also can provide financial support to families through mechanisms ranging from one-time stimulus payments to a reoccurring child allowance. We urge lawmakers to turn to these principles as they consider large and small changes to the tax code. These principles can guide lawmakers in creating tax policy that promotes equity rather than perpetuates or widens existing disparities.