CLASP Principles for
Federal Tax Policy

CLASP
Policy solutions that work for low-income people

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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. For example, lawmakers explicitly denied benefits to people in families where one or more adults do not have a Social Security number. Structural barriers to having a bank account, mailing address, or internet access caused other people to struggle to access payments they were due.

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 bill, 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. Overall, society faces a broader opportunity to look at tax policy from an economic and racial justice agenda.

In this report, the Center for Law and Social Policy (CLASP) outlines a set of principles to provide a framework for policymakers and advocates that uses an economic and racial justice perspective to assess the range of proposals that they will evaluate in the next few years

In offering the following 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 are particularly focused on some key values:

a. the importance of a progressive tax code to fund needed public policies and investments and begin to redress the harms caused by generations of laws and regulations that have denied economic opportunity to people of color;

b. the role that well-targeted refundable tax credits can play, along with investments in public programs and labor standards, as part of a broad strategy for reducing poverty and improving the wellbeing of people with low incomes; and

c. the importance of implementing and administering tax programs – like other public programs – in ways that reduce the burden on participants and promote equity.

All of these elements are critical to an economic and racial justice agenda, as people of color have disproportionately low incomes and wealth due to systemic racism.

With that context, 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.

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.

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. An effective tax system must provide adequate revenue for the critical services and supports needed for society, and all its members, to thrive.

Investing in racial equity and human needs programs can drive prosperity

Moreover, because public policy has so often been racist—helping white people build opportunity and wealth, while denying Black people and other people of color equal benefits—policymakers have a moral obligation to invest in programs that begin to repair the harm. For example, when lawmakers created the

Social Security program, they excluded agricultural and domestic service workers. Among Black workers, more than three in five were employed in those industries.[1] This exclusion cost Black people benefits totaling $143 billion in 2016 dollars.[2]

"Our nation's children, workers, and the economy benefit when we invest in policies and programs that reduce poverty."

Robust public investments in key programs can put individuals and their families with low incomes on a path toward economic stability. Such effective programs include child care; postsecondary education and skills training for youth and adults; comprehensive paid family and medical leave; public assistance; housing; and health coverage. In 2019, a National Academies of Sciences (NAS) report compiled compelling research finding that reducing child poverty improves individuals' health, mental health, educational attainment, and earnings into adulthood.[3] Investing in refundable tax credits and other public programs that reduce poverty improves children's wellbeing and the future skills and capacity of America's labor force.

Constraining tax revenues undermines critical public programs, limits equity, and hurts states and localities

For decades, it has been a constant political struggle to ensure that taxes bring in enough revenue to support a thriving society. In part, this is because corporations and wealthy individuals have supported the election of legislators opposed to taxes, and have successfully lobbied to shape the tax code in their favor.[4] Further, constraining tax revenues has been used as a tool to try to limit the scope of government. Since at least the presidency of Ronald Reagan, those opposing government spending have used a combination of tax cuts and concerns about the ensuing deficit to try to force cuts in critical government services. President Reagan's budget director David Stockman famously referred to this strategy as "starving the beast."[5] It has been a highly effective approach at the state level, as most states are required to balance their budgets each year.[6] But it has also significantly shaped the federal political landscape.

More recently, the 2011 federal Budget Control Act set arbitrary caps on government "discretionary" spending for each year through 2021. Congress has subsequently acknowledged that these caps are too low to meet national priorities and has given itself additional flexibility. And yet, the caps have contributed to the consistent underfunding of key needs such as child care, housing, job training, and infrastructure.[7] Republicans' concerns about the deficit disappeared at the prospect of passing the Trump administration's 2017 Tax Cuts and Jobs Act (TCJA), which increased the deficit by an estimated $1.9 trillion over 10 years while benefitting the wealthiest Americans as well as large corporations.[8] Further, once the TCJA was enacted, President Trump immediately suggested that key programs like Medicare, Medicaid, and Social Security would need to be cut in order to reduce the deficit.[9] Senate Republicans have also used concerns about the deficit to justify limiting the scope and duration of a COVID-19 response package.[10]

When federal spending is constrained, the responsibility to invest in critical programs and services increasingly shifts to the states or local governments. This dynamic is problematic for several reasons. First, many issues, such as climate change and public health, require a coordinated national solution. Second, federal spending serves to partially equalize services and resources across the country. Federal investments are needed to ensure that residents in low-income states and cities—particularly people of color residing in the South—-are not permanently trapped in a cycle of low investment.[11] Third, in general, state and local revenue sources are significantly less progressive than federal taxes, with a heavy reliance on sales and excise taxes.[12] And finally, because the federal government is able to borrow money, it can respond with necessary spending in times of recession. By contrast, states and localities are often forced to cut critical programs, due to declining revenues, precisely when they are needed the most.[13]

2. The tax code as a whole – and individual provisions – should be progressive and reduce poverty and inequality.

A progressive tax code means that people or companies with higher incomes pay a higher share of it in taxes than those with lower incomes. This approach promotes equity. Less progressive taxes, such as payroll taxes, can be part of an overall progressive system when they are used to fund programs and services that benefit people with low incomes. However, overall progressivity is maximized when such programs are also funded with progressive sources of revenue.

Income inequality has grown sharply in the U.S. over the past 40 years, with share of total income going to the fifth of the population with the highest income climbing from 46 to 54 percent between 1979 and 2016. By 2016, the top 1 percent received 16 percent of all income, more than all the income received by the bottom 50 percent. Even though the U.S. federal income tax system is progressive, it has done very little to counteract the growth in inequality.[14] An increasing body of evidence suggests that income inequality is harmful in itself, even beyond its contribution to poverty, limiting health and education and contributing to slower overall growth.[15]

a. The tax code should be made more progressive, including with respect to unearned investment income, wealth, and inheritances.

The overall progressivity of the U.S. tax code should be increased

The U.S. tax code is progressive, with individual marginal rates on income from 10 to 37 percent as income rises.[16] However, the top rates are significantly lower than they were for most of the 20th century. The top marginal rate was over 90 percent during the 1950s and remained at or above 50 percent until 1986.[17]

In addition, this progressive structure is undermined by other aspects of the tax code, including:

- the cap on the wage tax for Social Security (meaning that higher earners pay a smaller share of their wages towards the Social Security program);
- the favorable treatment of investment income compared to wages; and
- extensive opportunities for deductions that primarily benefit people with higher incomes.

The corporate tax code also includes massive opportunities for legal tax avoidance—so much so that 60 of the Fortune 500 companies, including Amazon, paid zero federal income taxes in 2018.[18]

As policymakers look for additional revenue in order to support needed programs, they should begin by increasing the progressivity of the tax code and closing loopholes.

Progressive tax policy must reduce the wealth gap to improve racial equity and opportunity for people with low incomes, and start to overcome the legacy of historically racist policies

Wealth in the U.S. is even more inequitably distributed than income: the wealthiest 1 percent of families holds about 40 percent of all wealth, and the bottom 90 percent holds less than one-quarter.[19] In addition, there is a deep racial wealth divide created, in large part, by government policy. For example, between 1934 and 1968, the Federal Housing Administration (FHA) prevented people of color from purchasing homes through a practice called "redlining." On residential housing maps, the FHA outlined areas in which mortgage lending would not be available—typically areas where people of color lived. This practice resulted in homebuyers of color receiving just 2 percent of government mortgages.[20] Being denied traditional credit led many would-be homeowners of color to find recourse in "land contracts." These contracts were predatory arrangements in which buyers "purchased" homes at inflated prices. But the contract usually was nothing more than a renter's lease; one missed payment could lead to eviction and loss of all equity. The practice of selling homes on contract stripped more than $500 million in wealth (about $3 billion in 2017 dollars) over a 30-year period from Black families in Chicago alone.[21]

Today, as a result of redlining and similar intergenerational discriminatory policies, the median wealth of Black households is $17,600, compared to $171,000 for white households, according to the Federal Reserve's Survey of Consumer Finances.[22] White households living near the poverty line typically have about $18,000 in wealth—due primarily to the cumulative effect of intergenerational wealth transfers. By contrast, Black households in similar economic conditions typically have a median wealth close to zero.[23]

Tax policy does very little to address wealth inequality and the racial wealth gap. Much wealth is never taxed. The estate tax has been narrowed to only affect a very small percentage of households, and when inherited property is sold, the heirs are only taxed on the capital gains since they inherited it, so the gains previously accrued are never taxed.[24]

Proposals such as a modest wealth tax,[25] restored inheritance taxes,[26] or a financial transactions tax[27] could be major sources of new revenues and ways to reduce inequality. The 2017 TCJA doubled down on transferring wealth to the richest people by providing them, and corporations, with tax breaks. The TCJA was a giveaway to the wealthy at the expense of children and families living in poverty. Undoing these changes should be a starting point for creating a more equitable and just tax code that works to close the racial wealth divide.

b. Shifting to fully refundable tax credits and other improvements can make the tax code more effective at reducing poverty

Through refundable tax credits like the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC), the tax system has become a critical part of our nation's approach to reducing poverty, particularly for families with children. Together, these programs directly lifted **10.6 million** Americans above the poverty line in 2018—including 5.5 million children. They reduced the depth of poverty for an additional 17.5 million people.[28] In addition, because the EITC rewards work, it has an even greater anti-poverty effect when taking into account the people who work more -- and therefore earn more -- because of the availability of the credit.[29]

Refundable tax credits offer far-reaching benefits, but need improvement

Providing direct support to families with low incomes, such as through the EITC and CTC, has been shown to positively affect their health, asset building and savings, and children's educational achievement. For instance, credits as little as $1,000 **have been shown** to improve children's test scores and increase the likelihood that they will attend college and earn high wages as adults.[30]

These credits have a large impact on poverty because they are refundable, meaning that even people without federal income tax liability can receive them. However, they are limited to households with earned income over a certain threshold. For example, for a single parent with two children, the full value of the EITC does not phase in until the parent's earnings reach $14,570. They do not receive the full value of the CTC until their earnings are over $30,000.[31]

In addition, policymakers have structured these credits in way that denies some struggling workers any opportunity to achieve financial security. The EITC for workers without dependent children is too small, and has too many restrictions, to have a significant anti-poverty impact.[32] As a result, single workers without dependent children are the only group being taxed deeper into poverty.[33]

Expanding key tax credits could further reduce poverty

Increasing the value of the credits and otherwise expanding their reach would make these strong anti-poverty tools even more effective. A recent National Academy of Sciences panel on reducing child poverty used a greatly expanded EITC as the core of all of its proposed packages to dramatically reduce child poverty.[34] Several bills that address these issues have been introduced, such as:

- The proposed Working Families Tax Relief (WFTR) bill would increase the EITC, make the CTC fully refundable, and create a young child tax credit. It would raise the incomes of **46 million households** and lift 29 million people above or closer to the poverty line, including 11 million children.[35]
- The Economic Mobility Act would also expand the EITC. In doing so it would raise incomes for about 15.5 million workers, ages 19-66, who do not have children. However, it would exclude full-time students ages 19-24.[36] It would also make the CTC fully refundable and create a young child tax credit.

Redesigning other tax incentives can boost prosperity for people with low incomes

The tax code also includes many other credits, deductions, and provisions designed to encourage and reduce the cost of designated activities, such as homeownership, child care, college attendance, and saving for retirement. The tax code incentivizes these activities because lawmakers believe they are beneficial to society. But these incentives disproportionately and consistently benefit people with higher incomes, because they are designed as *deductions* or *non-refundable credits*, which do not benefit people with low incomes. *(See box below for an explanation of the differences between such tax deductions and credits.)* These aspects of the tax code do not reduce poverty. They also would be more effective at promoting the range of "social good" activities if they were redesigned to reach people with lower incomes. As currently crafted, the benefits of these credits largely go to people who would have undertaken these activities anyway. People with low incomes are less likely to receive a credit or deduction, though a subsidy would make more of a difference in their ability to buy a home or go to college.[37]

The value of a tax deduction vs. tax credit

A tax deduction reduces the amount of a person's or family's income subject to taxation, while a credit reduces the taxes they owe. While these seem similar, they have very different effects.

In the context of a progressive income tax, any tax **deduction** provides the most benefit to people with the highest taxable incomes.[38] For example, a $10,000 deduction is worth $3,700 to a household in the 37 percent tax bracket. But it is only worth $1,000 to a household in the 10 percent tax bracket that itemizes its deductions. It is not worth anything at all to people who take the standard deduction, as nearly 90 percent of taxpayers may now do. [39]

By contrast, a **credit** provides the same benefit to all who qualify, as long as they owe federal income taxes that exceed the credit. Refundable credits provide the full value of the credit, even if its value exceeds the amount of federal income tax a household owes.

The primary way to make tax incentives more helpful to people with low incomes is to change them into fully refundable credits, so that the benefit for a given amount of spending is the same across income levels.[40] However, the structure of the credit also matters. Specifically, because wealthier people can afford to spend more on housing or education, they will benefit more, especially for credits that only offset a small share of total spending. For example, the Lifetime Learning Credit is worth up to $2,000 a year, but a taxpayer must spend $10,000 to claim that full amount.

Below are two examples of existing tax credits and how policymakers could improve them to better support people with lower incomes:

- The **Child and Dependent Care Tax Credit (CDCTC)** is a tax credit meant to support working families in paying for child care expenses and other forms of dependent care. As a percentage of child care costs, the credit is higher for families with lower incomes. But because the CDCTC is not a refundable credit, it has essentially no value to lower-income families. In 2018, the lowest quintile of taxpayers -- those with incomes under about $25,000 -- got 0.1 percent of the benefit, and the top quintile -- with incomes over about $153,000 -- got nearly 70 percent.[41] Making the CDCTC fully refundable would ensure that it can benefit families making the lowest incomes. The Economic Mobility Act of 2019 and the Child Care for Economic Recovery Act both would make the CDCTC fully refundable. (As discussed below, the CDCTC would also be more effective if parents could receive an advance payment of this subsidy.)

- The **American Opportunity Tax Credit (AOTC)**, which is supposed to promote college attendance, provides little benefit to individuals who attend less expensive schools and/or go to school part time. In addition to being made fully refundable, the AOTC should apply to the full cost of college—not only tuition and fees—and should not be limited to four years of attendance.[42]

c. Tax credits should not leave out those who have been systemically disadvantaged.

The tax code also has exclusionary provisions that limit the effectiveness of the benefits it delivers. Policymakers should remove these exclusions so that credits can most effectively reduce poverty for all, including those who have historically been left out from government programs.

- **Ensure immigrant families and children can access EITC supports:** One major exclusion is the denial of EITC benefits to 2.4 million immigrant households where a parent does not have a work-authorized Social Security number.[43] When policymakers deny this critical financial support, it harms millions of children in such families, most of whom are U.S. citizens. Lawmakers also left these families out of the CARES Act stimulus payments, even in the instance when one parent has a Social Security number but the other does not. Similarly, as a result of the 2017 tax bill, an estimated 1 million children without Social Security numbers are denied the CTC.[44] These exclusions must be fixed. They should also be addressed in any proposal to use expanded tax credits as the basis for a child allowance or guaranteed income.

- **Advance equity in tax credits for people in Puerto Rico and other U.S. territories.** U.S. citizens who reside in Puerto Rico are only eligible for a CTC if they have three or more children. Residents of Puerto Rico and the other U.S. territories are not eligible for the federal EITC. While Puerto Rico now has its own EITC, it phases in at a much lower rate than the federal EITC, and the maximum annual credit is much smaller—just $1,500 for a single parent with two children, compared to $5,828 for the federal EITC.[45]

- **Expand EITC access to workers of any age and those without children.** Workers without dependent children can only receive the EITC if they are between ages 25 and 65. This leaves out a significant population of workers who are disproportionately paid low wages[46] and struggle to make ends meet. Also, the maximum age limit is inconsistent with the Social Security program, which does not allow workers to receive full retirement benefits if they start collecting before they are 67 years old.[47] Due to this discrepancy, workers risk losing their EITC credit due to their age before being eligible to receive their full Social Security benefits.

- **Support economic stability for people with past convictions by lifting racist restrictions**. Other limitations affect fewer people, but also have significant equity concerns. For example, individuals with previous convictions for drug-related felonies are ineligible for the AOTC. This is more stringent than the comparable provision in financial aid law, which only applies to drug offences that occurred while students were receiving aid, and only for a limited time.[48] Due to the disproportionate enforcement of drug laws in communities of color, this restriction has a disparate impact on Black and Latinx students.[49]

d. Policymakers should compare the benefits and distributive effects of tax credits or deductions to similar investments in public programs.

Before making a major investment in expanding tax credits, policymakers should consider whether the tax system is the best place for such investments, or if direct spending on programs would be a better choice.

Considering tradeoffs and political realities

In many cases, it is simpler and more efficient to directly fund programs with similar goals, such as Pell grants for higher education or child care subsidies, rather than using the tax system. These programs are already targeted to families with low and moderate incomes. Therefore, adding money to them will almost always have a greater anti-poverty impact than a similar investment in tax incentives.[1] In addition, benefit

[1] At the same time, it is important to acknowledge that the larger benefit for middle class and upper income households often drives political and public support for tax incentives, and can sometimes make it possible to make investments that would not be politically viable if they were more closely targeted.

programs can almost always respond more quickly than tax incentives to a sudden change in a family's situation.

This does not mean that tax incentives should be removed from the anti-poverty toolkit. First, it is often politically easier to provide sustained support through the tax code than through direct spending. This is, in part, due to arbitrary Congressional rules that treat changes in tax policy more favorably than increases in spending. However, policymakers and advocates should take advantage of whatever opportunities they have to assist families with low incomes.

Second, delivering support through the tax system does have some real advantages as a strategy to reduce poverty. Compared to traditional benefit programs, the EITC and CTC do not require in-person visits or interviews, significantly reducing the administrative burden for people seeking to claim the credits. They also have fewer opportunities for agencies to limit access. As a result, these credits reach a much higher share of eligible participants.[50] In addition, they are not subject to state discretion regarding how much benefit to provide and how much administrative burden to impose on people, because they have consistent rules and are nationally available (with some exceptions for residents of Puerto Rico). Therefore, they have an especially large impact on reducing poverty in states that make it harder to access other benefits.[51]

The EITC and CTC also significantly advance racial equity, as compared to other public programs that support people's basic needs.

For example, all else being equal, strong evidence suggests that Temporary Assistance for Needy Families (TANF) cash assistance serves fewer families in poverty; provides smaller monthly benefits; and has more restrictive policies in states with larger Black populations.[52]

Policymakers should weigh the benefits of providing support through the tax code against the disadvantages. As discussed throughout these principles, there are solutions to address many of the ways in which tax benefits are inequitable. Depending on the budget and political realities, as well as the specific goals of a program, policymakers should consider the tradeoffs of using tax credits versus using public benefits as the vehicle for providing financial support.

3. Policymakers should center equity in decisions regarding how taxes are administered.

Much discussion of tax policy begins and ends with the analysis of the revenue and distributional effects of tax rates and credits. But the technical benefit parameters are only a portion of how individuals and families interact with the tax system. How and when they receive their refund, whether they are required to file a return, and what help they can receive in filing it, and whether they risk harsh penalties for errors in filling all matter significantly to taxpayers. Policymakers and administrators must center equity in these decisions as well.

a. Tax policy should establish payment mechanisms that meet the needs of people with low incomes.

Allow people to choose periodic payments

The EITC and CTC are currently paid out as lump-sum refunds when families file their taxes. For a family with multiple children, these refunds may exceed $7,000 and can be nearly half of a family's total annual income. At the same time, many people that receive these credits borrow to meet their urgent needs, often at high interest rates.

Tax filers should have more options to best fit their financial needs. Decisionmakers could better serve families with low incomes by giving them the option to receive periodic payments, instead of a lump-sum refund, so they can pay recurring bills. Although the administrative challenges of providing quarterly or monthly payments are not trivial,[53] policymakers must overcome them for tax credits to be effective in helping families meet their ongoing basic needs such as rent, food, and/or child care.

Studies on providing advance funds to families earning low wages has shown it can be an effective approach to improve their wellbeing and economic stability. For example, in a pilot test in Chicago, families with low incomes were sent half of their expected EITC payment as advance quarterly installments. **Researchers found evidence that the advance payments reduced food insecurity, unpaid bills, and the need to borrow money from family and friends.**[54]

Provide advance payments rather than requiring people to spend their own money first.

Some tax credits are designed to offset specific expenses, such as child care, educational costs, or housing payments. However, these credits require people to pay the full costs of such expenses upfront, just to be reimbursed later. This makes these credits less useful to families with low incomes, who do not have the financial resources to pay the full cost upfront and can only access credit at high interest rates. Without an advance payment option, families with low incomes are unlikely to benefit from the child care credit, even if it is made fully refundable, as has been included in several recent proposals.

Policymakers must include mechanisms that allow for advance payment if tax credits are to be effective for families with low incomes. This is not a new idea; for example, this is the case with the health insurance premium tax credits provided under the Affordable Care Act.[55] However, families with sudden changes in circumstances, such as a job loss or gain, marriage, death, or separation, should not be left liable for repaying credits received in good faith.[56]

Policymakers must remove barriers to payments for people with low incomes, including people of color

Simply the process of receiving a tax refund may be challenging for some people. The Economic Impact Payments, or stimulus payments, provided under the CARES Act highlights the challenges that some of the lowest income households face in receiving payments. By late May 2020, while nearly 70 percent of nonelderly adults overall reported that they had received the stimulus payments, less than six in ten adults with incomes below poverty had received them. People of color were also less likely than white adults to report receiving the payments.[57] Different structural hurdles caused many communities to confront particular problems receiving their payments. Those who faced particular problems include people who are not required to file tax returns; who had the costs of tax preparation deducted from their refunds; who are unbanked; who have no internet access; and who do not have a reliable mailing address.

Many of these barriers can be disproportionately burdensome for Black communities. Black individuals often face more challenges to opening a bank account due to factors such as:

- banks charging higher fees to open accounts in predominantly Black neighborhoods,
- racial bias among the bank tellers, and
- the existence of "bank deserts."[58]

People who had not already filed taxes for 2018 or 2019 and had not provided a bank account for direct deposits were required to use an IRS website to request payment and indicate where it should be sent. But Black and Hispanic adults are also less likely to have home broadband internet access.[59]

Payment mechanisms should be tested with the communities that are likely to be the hardest to reach. For example, some stimulus payments were placed on pre-paid debit cards that were mailed to households. This was well intentioned and aimed at avoiding the challenge of having to deposit checks. But the cards that were mailed to provide people with their Economic Impact Payments were not clearly identified as coming from the U.S. Treasury, so many people thought they were junk mail and threw them away.

Tying the stimulus payments to completing IRS tax filing forms also heightened the risk that nearly 12 million eligible people would not receive their payments, since they are not required to file tax returns.[60] The IRS did allow automatic payments to people enrolled in programs like Social Security and Supplemental Security Income (SSI); however, if they had dependent children, they still needed to fill out the forms online, with extremely short deadlines.

It is critical that federal, state, and local governments conduct comprehensive outreach campaigns when distributing payments through the tax system. Policymakers at every level must also provide adequate time and various options for non-filers to respond.

b. Tax policy should reduce the cost and administrative burdens of filing

Another way policymakers can use the tax system to advance racial equity and economic security for people with low incomes is by transforming the tax filing process.

The Internal Revenue Service (IRS) should initiate the tax filing process

For many taxpayers, the IRS already has all the information needed to accurately calculate the tax they owe.[61] Policymakers should give the agency the authority to send taxpayers the information they have and the calculated tax, only requiring people to take action if they have additional details that would affect the results. This solution would dramatically reduce the paperwork burden on taxpayers and would get refunds to many people who currently fail to file. Taxpayers should be able to respond by mail, phone, or online (including via a mobile-friendly site).

Placing the onus on the IRS to provide people with calculated tax estimates would save millions of dollars currently paid to commercial tax preparation services. More than half of EITC filers used paid tax preparation services, and pay fees equal to 13-22 percent of the credit they receive.[62] The commercial tax preparation industry charges additional fees for filers with the lowest incomes, such as refund transfer fees.[63] Therefore, this new approach to tax filing could also ensure that filers get their full refunds.

In the context of our current tax system, policymakers can take steps to reduce the cost and administrative burden of filing. CLASP recommends the following changes:

- Using information it already has, the IRS should conduct proactive outreach to people who appear to be eligible for refundable tax credits, but who have not applied for them.
- Policymakers should strengthen and expand the Volunteer Income Tax Assistance (VITA) program, which provides free services to help people with low incomes file their tax return. To overcome language barriers that diverse communities may face, VITA sites should provide tax preparation services in multiple languages.
- The IRS should have the authority to ensure commercial tax preparers meet minimum competency standards that help avert errors and improve credit accessibility.[64]

- The IRS should either provide free, online tax filing directly for individuals with low incomes, or regulate the providers of such services to be sure that they do not divert taxpayers to higher-cost alternatives.[65]
- The IRS should expand customer service staff. Doing so would help place the administrative burden of tax filing on the IRS, rather than individuals who file taxes.

c. Audits and verification requirements should not fall disproportionately on people with low incomes

In recent years, the IRS has been disproportionately auditing taxpayers who receive the EITC, accounting for more than a third of all audits.[66] Audits can reflect and reinforce racial inequities in our tax system.

Research affirms racial and economic bias in tax audits

Reporting by ProPublica concluded that the counties with the highest audit rates are disproportionately Black, rural, and in the South.[67] This is deeply unjust and incurs stress, time, and financial costs on the taxpayers selected for an audit. Moreover, the vast majority of errors found in the tax returns of individuals with low incomes reflect confusion over how to properly interpret and apply tax rules—not intentional misconduct.[68]

In part, this reflects an increasing mismatch between the expectations embedded in the tax code and the realities of today's society. For example, the tax code presumes that children will live in one household with just their parents for the whole year. In reality, children may live with extended family or move between households, making it less obvious as to which adult should claim the EITC. When it comes to working people, the tax code presumes that all workers will hold jobs that provide W-2 forms. But today, an increasing share of workers with low earnings are part of the gig economy and are treated as independent contractors.[69] This mismatch disproportionately put at risk of audit people of color who are more likely to live in multi-generational households[70] and more likely to work in the gig economy.[71]

Policymakers can undo bias that overlooks the wealthy while targeting people with low incomes and people of color

At the same time, in recent years, the IRS has audited large corporations and the highest-income filers far less than in the past. The choice to disproportionately audit people with low incomes who receive the EITC, compared to the highest-income filers, has furthered inequities between these two groups.[72] The IRS should reallocate resources to focus on higher-income taxpayers, where enforcement would likely more than pay for itself.[73] The agency should also refocus on investigating deliberate efforts to avoid taxes, rather than on people who may have been confused by the rules. Audits should not impose severe and lasting penalties on people for making mistakes.

Lawmakers should reject proposals that delay payments,[74] increase costs, or restrict access (e.g., through increased paperwork or filing requirements) even when they are framed as measures to reduce error rates. For example, in recent years, members of Congress have suggested requiring people who could benefit from the EITC to pre-certify their eligibility in order to receive refunds.

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.

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