marguerite casey foundation

April 15, 2013

The Honorable Lynn Jenkins
Chair, Income and Tax Distribution Working Group
Committee on Ways and Means
U.S. House of Representatives
1027 Longworth House Office Building
Washington, DC 20515

The Honorable Joseph Crowley
Vice-Chair, Income and Tax Distribution Working Group
Committee on Ways and Means
U.S. House of Representatives
1436 Longworth House Office Building
Washington, DC 20515

Dear Congresswoman Jenkins and Congressman Crowley:

The Marguerite Casey Foundation ("MCF" or the "Foundation") is pleased to submit comments to the Ways and Means Tax Reform Working Group on Income and Tax Distribution.

The Marguerite Casey Foundation

MCF is an independent, private grantmaking foundation headquartered in Seattle, Washington. The Foundation is named after Marguerite Casey, who spent much of her adult life working to create opportunities for families and communities to succeed and thrive. Marguerite Casey's lifelong generosity made a tremendous difference for thousands of children and families across the United States.

In honor of her memory, MCF was established in 2001 to help low-income families strengthen their voice and mobilize their communities in order to achieve a more just and equitable society. To this end, the Foundation's grantmaking is primarily focused on supporting the core operating costs of organizations involved in education, advocacy, and activism.

The Foundation's Work on Tax Policy

Over the past year and a half, the Foundation has contributed to the national discussion about tax policy by developing a white paper about the tax treatment of poor families and holding forums to discuss the topic.

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"Skin in the Game" Paper

In 2011, Congress was beginning to lay the groundwork for tax reform. In doing so, however, it was focusing little attention on the impact that tax reform would have on poor families. Further, what attention *was* being paid was largely negative; in particular, there was growing support for the proposition that poor families were not paying sufficient taxes and therefore did not have "skin in the game."

To further inform the debate, in late 2011, MCF commissioned a white paper called "'Skin in the Game': The Federal Tax System, Tax Reform and Poor Families" (or simply "Skin in the Game"). The paper, which accompanies these comments, traces the history of the tax treatment of low-income Americans and analyzes the argument that poor people who pay no federal income tax have no personal stake in the success of government. The paper also discusses the need to consider the tax treatment of low-income families in the context of tax reform.

Panel Discussions

After the paper was released, MCF held two panel discussions last year on the federal tax treatment of poor families—one in Washington, D.C.[1] and the other in Albuquerque, New Mexico.[2] Each panel was moderated by a leader of an MCF grantee and featured a bipartisan group of the nation's leading tax policy experts, including:

- Bill Beach – former Director, Center for Data Analysis, Heritage Foundation
- Bill Gale – Arjay and Frances Miller Chair in Federal Economic Policy, Brookings Institution; and Co-Director, Urban-Brookings Tax Policy Center
- Alan Viard – Resident Scholar, American Enterprise Institute
- Chuck Marr – Director, Federal Tax Policy, Center on Budget and Policy Priorities
- Alex Brill – Research Fellow, American Enterprise Institute
- Michael Linden – Director, Tax and Budget Policy, Center for American Progress

The events were widely considered a success, and the panelists expanded on many of the topics discussed in the "Skin in the Game" paper. The panelists generally agreed low-income families contribute to the cost of government in ways other than through the federal income

[1] Kathy Mulady, Equal Voice, Yes, Poor Families Do Have "Skin in the Game," http://www.equalvoiceforfamilies.org/yes-poor-families-do-have-skin-in-the-game/ (Aug. 3, 2012) (discussing the Washington, DC panel discussion).

[2] Kathy Mulady, Equal Voice, Tax Credits Keep Millions of Working Families from Poverty, http://www.equalvoiceforfamilies.org/tax-credits-keep-millions-of-working-families-from-poverty/ (Dec. 19, 2012) (discussing the Albuquerque event and including a video and transcript); Winthrop Quigley, Albuquerque Journal, Income Tax Progressivity Open for Debate, http://www.abqjournal.com/main/2012/10/22/biz/income-tax-progressivity-open-for-debate.html (Oct. 22, 2012) (covering the Albuquerque event).

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tax—for example, through payroll taxes and state and local taxes. Overall, the discussions confirmed the paper's point that it is insufficient to merely say that poor people must pay taxes to have skin in the game; instead, the "skin in the game" argument needs to be related more broadly to public policy goals. Indeed, there seemed to be a consensus that the "Reagan approach" of exempting everyone below the poverty line from income taxes is appropriate.

The American Taxpayer Relief Act and Tax Reform

On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act ("ATRA"). ATRA made several important changes to the Tax Code that had a direct impact on poor families. To a large extent, these changes were positive and protected low-income Americans. Key provisions of ATRA affecting the poor are described below.

- ***Tax Rates.*** ATRA permanently extended the 2001/2003 tax rates for almost all taxpayers. This extension means that poor families will not face a higher marginal tax rate in 2013. Additionally, the permanent nature of the extension means that low-income Americans will likely not face the prospect of a higher marginal tax rate in the near future.
- ***EITC.*** Congress expanded the Earned Income Tax Credit (EITC) in 2009 by adding a "third tier" EITC for families with three or more children and by providing marriage penalty relief. ATRA extended both of these changes through 2017.
- ***Child Credit.*** ATRA (1) permanently increased the per-child credit amount from $500 to $1,000, unindexed for inflation, (2) permanently allowed a taxpayer to claim the CTC regardless of their tentative alternative minimum tax, and (3) made permanent the refundability of the CTC up to 15 percent of earned income in excess of $10,000.
- ***Payroll Taxes.*** On the negative side, ATRA did not extend the Social Security payroll tax cut that Congress initially passed in December 2010. This change raised payroll taxes by two percentage points at the beginning of this year. Although the expiration of the payroll tax cut was not designed to harm low-income Americans, the poor will feel the impact of this provision more than high-income individuals.

Conclusion

As the debate over comprehensive tax reform continues, MCF urges you to carefully consider the impact of tax reform on poor families, and MCF is pleased to submit the "Skin in the Game" paper to as a resource to help inform your discussions.

We thank you for your consideration.

Sincerely,

Luz Vega-Marquis

Luz A. Vega-Marquis
President & CEO
Marguerite Casey Foundation