Bush’s new tax rules target the working poor

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As the Bush administration and Congress debate proposals to slash taxes for the rich by hundreds of billions of dollars, the Internal Revenue Service (IRS) has unveiled plans to crack down on the working poor who file claims for an existing tax credit. By imposing onerous documentation requirements on taxpayers claiming the federal Earned Income Tax Credit (EITC), the new IRS policy will demand the most exhaustive proof of eligibility ever required from any of class of taxpayers.

The EITC, enacted in 1975, provides an offset for Social Security taxes and a credit on earnings for families with an earned income of less than $34,692. After Medicaid, it is the second largest program that provides assistance to low-income people at a time of high unemployment and declining wages.

Once the proposed measures begin—originally planned for July 1, but now delayed—standards of proof will be so high that many people who are entitled to the tax credit will be disqualified. The average tax credit was $1,976 in 2001 for households with children, which was less than the average food stamp benefit of $2,904 for households with children.

Claiming the program is riddled with errors and fraud, President Bush has asked Congress for $100 million and 650 new employees to identify potentially erroneous claims before any money is paid out. The subsidized school lunch program is another “high fraud” area targeted by the Bush administration.

The IRS will begin by asking the first 45,000 taxpayers who fit into the agency’s “high-error category” to submit proof of their eligibility within six months. By 2004 the new rules will affect 2 million people, eventually reaching 4 million “high error” claimants—one fifth of the 19 million people who now claim the tax credit.

The high-error category involves all claimants except married taxpayers filing joint returns and single mothers. Fathers with sole custody of children, grandparents, aunts, uncles, foster parents and others will have to provide documents that will be difficult or impossible to get within the six-month deadline. For example, to prove their relationship to children, claimants will have to produce marriage certificates that in some states are not even available. Ohio does not issue marriage certificates, only “marriage abstracts,” which are not certified documents. The State of New York will not issue certificates to people who were married in New York City and the latter does not issue certificates to anyone but the married couple, or someone with a written authorization from them. Also, there are no IRS guidelines for the children of couples in common-law marriages.

The State of California warns on its web site that, due to budgetary constraints, it may take up to two or three years to issue copies of marriage certificates.

“There is this double standard,” said Robert Greenstein, executive director of the Center on Budget and Policy Priorities. “The losses are larger in other areas of the tax code, but somehow a different standard gets applied to this.” The program is designed in such a way “that significant numbers of honest, eligible people will not be able to supply information required,” said Greenstein. The Center’s web site reveals that over 12 million people, including 7 million children, live in households where wages average $14,600 for a family of three and $18,800 for a family of four.

Commentaries expressing outrage at the IRS measures appeared on the letters’ page of the *New York Times.* A voluntary tax preparer noted that he interacts with hundreds of low-income taxpayers who are eligible for the earned-income tax credit. Having “met their children and heard their stories,” it is “outrageous that this segment of the population is being unfairly singled out for humiliating investigations.” He pointedly asked: “Are the working poor targets because, in their daily struggle to survive, they are too busy to put up a fight, or is it because they cannot afford to defend themselves?”

Daniel L. Greenberg, president and attorney in chief for the Legal Aid Society, also sent in a statement: “>From the vantage point of an organization that includes a tax clinic as part of our focus on the needs of the poor, there is no end to irony in the decision of the Internal Revenue Service to demand exhaustive documentation to eligibility from those filing for the earned-income tax credit. This program, by definition, is open only to the working poor. Included among these lowest-paid workers in the country are those whom the Clinton and Bush administrations sought to move from welfare to work. At a time when the only Congressional debate seems to be on how many hundreds of billions of dollars wealthy individuals will receive in tax breaks, we would all benefit from leaving the paltry program of tax incentives for the poor alone.”

By way of justifying its program, the IRS claims that in 1999 the Treasury lost $8.5 billion to $9.5 billion in fraudulent payouts of earned-income tax credits. By comparison, a March study by Harvard economist Mihir A. Desai, determined that corporations evaded paying $54 billion in 1998 by tax sheltering some $155 billion in profits. Professor Desai reported that his analysis of shareholder and taxable profits from 1998 to 2000 showed that, beginning in 1996, there is a widening gap due to tax shelters between taxable profits and those reported to shareholders.

With an abundance of legal tax shelters, the IRS records show that only 1 out every 120 taxpayers with annual incomes of more than $100,000 were audited last year, versus 1 out of 64 who claimed the earned-income credit. *The Communities by Choice* web site—an advocacy group dedicated to social ecology—claims that the rates are actually 1 in 208 for the higher than $100,000 sector and 1 in 47 for earned-income tax claimants. For business partnerships, vehicles overwhelmingly utilized by the wealthy, the rate was 1 in 400.

According to last year’s assessment by Syracuse University, corporations paid 10.5 percent of all taxes collected by the IRS, down from 16.4 percent in 1973.

The big stick treatment being meted out to the working poor contrasts sharply to the kid glove handling of wealthy tax evaders. The IRS instituted a partial amnesty program for taxpayers who have been hiding money in offshore accounts and then using debit and credit cards issued by offshore banks to retain access to their funds. The “Offshore Voluntary Compliance Initiative,” which ended April 15, promised offenders that they would not face criminal charges or certain penalties if they came forward voluntarily. Outside estimates state that the government is losing some $70 billion a year in offshore tax evasion.

Also revealing is the recent restoration of tax-exempt status to two organizations tied to former House speaker Newt Gingrich. The IRS had revoked the status for both the Abraham Lincoln Opportunity Foundation (!) and the Howard H. Callaway Foundation after the organizations came under investigation during an ethics probe of Gingrich, in which he is charged with using charitable funds for political purposes. The agency now claims that the revocation of the groups’ tax status was unwarranted.

The IRS’s measures victimizing the working poor are an acceleration, along with Bush’s proposed massive tax breaks for the rich, of the shift of tax burdens from businesses onto the backs of middle and working class sections of the population.