US tax agency targets poor

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The Internal Revenue Service's taxpayer advocate recently revealed that the agency froze tax refunds owed to hundreds of thousands of poor Americans, labeling them fraudulent. Refunds were withheld by the IRS without notifying taxpayers that their claims were under review, thereby eliminating any opportunity to respond to the agency.

The taxpayers, whose average gross income was $13,300, were seeking the Earned Income Tax Credit (EITC). The credit potentially returns all the income and Social Security taxes withheld from paychecks. The average delayed refund was $3,519, which signifies that under the rules for obtaining the credit, the vast majority of those flagged as 'tax cheats' were single parents or married couples with children. The withheld amount represents a quarter of the annual income of the families.

"This is the biggest check of the year for these families. It creates a significant hardship when 25 percent of your income is held," Julie Kruse, director for advocacy for the Center for Economic Progress in Chicago, told the *Los Angeles Times*. Initially enacted in 1975, the EITC was expanded during the Reagan administration in the late 1980s following the elimination of a vast array of social programs. After Medicaid, the EITC is the second largest program benefiting the poor.

Even in cases where the IRS paid out returns, recipients were forced to wait nearly a year due to the Bush administration's crackdown on those applying for the EITC.

"The people most in need of tax fairness have been targeted for no other reason than that they are low income. There is absolutely no basis for withholding these refunds and to do so constitutes an extraordinary violation of fundamental taxpayer rights and fairness," David Marzahl, executive director for the Center for Economic Progress, told CNSNews.com.

For five years, the Criminal Division within the IRS flagged tax returns filed by 1.6 million people as fraudulent. In the last year alone some 200,000 returns were branded as fake. Conversely, during the same period taxes were significantly reduced on households making over $200,000.

The taxpayer advocate, Nina E. Olson, who heads an agency created within the IRS to handle taxpayer complaints, spoke before a Congressional hearing on January 10. She said that nearly two-thirds of the taxpayers whose refunds were delayed, a delay that averaged eight months, were entitled to receive their full refund. Another 14 percent were due a partial refund. It was also questionable as to whether the balance of the returns were fraudulent. She complained that future tax returns from those whose refunds have been flagged are frozen for years to come.

IRS officials present at the hearing arrogantly defended the practice, stating that more "innocent taxpayers" would have complained if they were legitimately owed the refund. Besides having never been told their refunds were frozen, many of those affected work several jobs and are immigrant workers, with most not aware of the taxpayer advocate law.

Due to the complicated and cumbersome nature of tax filing, millions of American workers eligible for the credit never claim it. Unlike wealthier layers of society, they cannot afford to pay accountants or independent agencies to assist them with tax preparation, nor do they have the resources to fight unjust practices carried out by the IRS.

In her report to Congress, Olson also criticized the IRS for reducing the number of returns the agency prepared for taxpayers who seek assistance, reducing the percentage of calls IRS telephone assistants answer and substantially reducing taxpayer education for small businesses.

The taxpayer advocate's office began its review after receiving 28,500 complaints last year, nearly double the prior year's total, from taxpayers whose refunds had been frozen. Ms. Olson revealed that the IRS earmarked a great deal more resources to pursuing questionable refunds filed by the poor, which she points out could not have involved more than $9 billion, than to the estimated $100 billion problem related to unreported incomes from small businesses that deal only in cash, many of which do not file tax returns.

"Clearly, the amounts at issue and the lengthy delays cause significant hardship for many of the taxpayers," Olson said in her report. Diana Leyden, who teaches law at the University of Connecticut and directs a tax clinic that helps low-income filers, said, "We've had cases that drag on for two or three years."

In what amounts to criminalizing the poor, the IRS has devoted an abundance of resources in targeting low-income families while letting wealthier taxpayers off the hook. In recent years, the IRS has sharply reduced the number of audits it conducts on individuals making over $100,000 a year. Between the years 2000 and 2004—the last time data was provided—1.15 percent of individuals making over $100,000 were audited compared with 1.36 percent of those making $25,000 or less.

Since the January 10 hearing, which received widespread coverage in the media and was criticized on a number of web sites that expose the unfair nature of the government's tax policy, the IRS has said it will begin notifying taxpayers whose refunds were being frozen.

At the same time, IRS Commissioner Mark W. Everson refused to disclose any details about how such a notice would be delivered and whether it would include previously frozen returns. Clearly, the IRS response to the exposure indicates that the practice of scrutinizing the returns for individuals who file for the EITC will continue.

Further, since 2004 the IRS has refused to hand over data to the Transactional Records Access Clearinghouse (TRAC) about how it enforces the nation's tax laws. Susan B. Long, a professor of Management Information and Decision Sciences at Syracuse University and co-director of TRAC, recently filed a lawsuit demanding the IRS comply with a longstanding court order to provide the requested information. TRAC is a research organization that provides the public with detailed information about the operation of hundreds of federal agencies, including the IRS (http://trac.syr.edu).

That the IRS favors wealthy taxpayers while penalizing the poor is demonstrated by reports based on government statistics available on the TRAC web site.

For example, the April 2000 IRS report cited data showing that under the Clinton administration tax collectors audited the poor at a higher rate than the rich. In addition, the 2004 report found that business and corporate audits were substantially down. In 2005, agency data showed that while the largest corporations controlled 90 percent of all corporate assets and 87 percent of all corporate income in fiscal year 2004, only one out of three corporations had been audited.

Elaborating on the reasons for the lawsuit, Long said, "It should come as no surprise that none of these findings were announced by either the IRS or the administration in power at the time of their publication. Furthermore, all of these and many other similar findings were based on the kinds of data that the IRS has been unlawfully withholding from TRAC and the American people since 2004."