

TO: Senators Wyden and Hatch  
FROM: Garrett Chamberlin  
DATE: March 12, 2015  
SUBJECT: Public Comments on Overhauling the Tax Code

#### FIND AN ALTERNATIVE TO THE EARNED INCOME CREDIT

Please allow me to briefly make a suggestion regarding a change to the tax code. When I saw a solicitation for suggestions, my immediate thought was to eliminate the Earned Income Credit. I know that this is a popular tax benefit that gives needed assistance to many low-income families. I believe, however, that the way that it is implemented is incredibly costly not very efficient.

The Earned Income Credit is the biggest source of tax fraud. When there is identity theft or tax preparer fraud, it is most likely intended to claim the EITC because of the amount that can be claimed. The EITC can award a taxpayer over \$6,000. It is estimated that \$13 to \$15 billion in fraudulent refunds were awarded last year for the EITC.

It is also a credit with complex eligibility rules. Often the low-income taxpayers who attempt to claim the credit don't fully understand these rules. Making a mistake can be costly to the taxpayer, and to the IRS which must expend resources to try and collect the debt. When a federal tax debt is owed by a low-income taxpayer, there is a chance that it will have to be written off as uncollectible.

Though the EITC is meant to help and encourage workers, giving a large one-time sum is not the best way to distribute such a credit. For one thing, it often encourages spending on big-ticket items that low-income workers can't normally afford. I have also seen it lead to evictions and utility shut-offs when a taxpayer depending on a big refund check either didn't get the amount they expected or had their refund delayed.

The EITC is administered by the IRS, an organization whose main function should be the collection of revenue. The IRS has not been able to prevent EITC fraud at acceptable levels, and it must devote a large number of resources to examining and collecting taxes for EITC issues. The Treasury Inspector General for Tax Administration recently said that 22 to 26 percent of EITC payments were issued improperly in Fiscal Year 2013.

The IRS is expected to still be effective with a shrinking budget. Removing the EITC from its duties would allow the IRS to shift resources and better deal with enforcement issues that will increase revenue.

The idea of rewarding workers at lower income levels is a good one, it's making it a once a year tax credit that is a bad choice. A better alternative would be to allow a benefit that would give these workers more income throughout the year. Allowing taxpayer to pre-qualify for an exemption from federal tax withholding and a reduction in payroll taxes might be one way of accomplishing this. Other ideas might work also if they spread the benefit out to aid those who qualify more regularly instead of

just once a year. It would be better yet if administration of such a benefit was handled by some agency other than the IRS.