NCLR
NATIONAL COUNCIL OF LA RAZA

Headquarters
Raul Yzaguirre Building
1126 16th Street, NW, Suite 600
Washington, DC 20036-4845

TEL 202.785.1670
FAX 202.776.1792
www.nclr.org

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TAX REFORM PRINCIPLES AND PRIORITIES
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Hispanics, a young, aspiring, and hardworking segment of the federal tax base, support an Internal Revenue Code that is fair and bolsters a bright future for all Americans. As Congress moves forward with reform proposals seeking to create a simpler tax code, it is important that this be achieved while maintaining sufficient revenue to support critical investments required for a strong economy for future generations. In addition, the tax system should continue to encourage desirable societal goals such as broad-based homeownership, retirement savings, supports for low and middle-income families, and responsible corporate behavior.

The priorities pursued by the National Council of La Raza (NCLR) are informed by key demographic facts about our nation's Latino population. Hispanic families are overwhelmingly concentrated in the bottom two income quintiles as compared to White households and are less likely to be in the higher income quintiles. Consequently, Latino families will benefit from tax provisions that help low- and middle-income families compared to tax provisions that mainly target high-income families. Given these trends, an over-arching goal of tax reform should be to maintain the progressivity of the tax code and do so in a manner that is not overly burdensome to working families.

Therefore, NCLR will follow the principles below when examining tax reform proposals in 2013 and beyond to ensure that they:

1. ***Raise sufficient revenue to build a strong economy and invest in our future.*** A strong economy remains a paramount concern for Latinos. With sufficient revenue our country can afford to invest in—not cut—critical areas like education, infrastructure, health care, and family-supporting tax credits that help our children thrive. These investments will build a strong economy and competitive workforce over the long term.

2. ***Are progressive and ensure that everyone, including the wealthy and corporations pay their fair share.*** As a result of enacted austerity measures, low- and middle-income families and children have already endured cuts to vital programs such as Head Start, education, workforce development, housing assistance and other critical areas. Understanding deficit reduction is an important component to any tax reform plan; the burden should be shared across the tax bracket.

3. ***Support working families and children, and reduce poverty.*** The tax code has long been an instrument to provide critical means-tested supports to working families and children. More can be done to stabilize tax rates for working families to ease their tax burden and expand existing refundable tax credits to better help low-income taxpayers rise above poverty.

4. ***Promote economic mobility and asset-building among low- and middle-income Americans.*** The tax code supports asset-building through mechanisms such as deductions for retirement savings or mortgage interest, but does so in a way that disproportionately benefits those who need these least. Asset-building features in the tax code should be reformed to ensure that low- and middle-income Americans have the same opportunity to save for their future, have access to affordable education, and can become homeowners.

With these principles in mind, NCLR has the following preliminary recommendations for the Senate Finance Committee as it moves forward with a tax overhaul. These recommendations are not comprehensive or exhaustive. While specific credits are discussed, it is important to keep in mind that other credits— such as the affordability of higher education—are not included but remain critically important to the Latino community. Similarly, there are potential changes to the Internal Revenue Code pertaining to charitable contributions, gifts, estates, and certain investment provisions that NCLR believes deserve close examination and consideration as well.

Tax Code Provisions that Should Continue

Refundable Tax Credits

Currently our nation spends $61 billion annually on the Earned Income Tax Credit (EITC) and an additional $57 billion on the Child Tax Credit (CTC). EITC and the refundable portion of the CTC boost the wages of lower-income working families. EITC maxes out when family income reaches approximately $20,000 and phases out at roughly $45,000. The refundable CTC provides a partial credit to families with income above $3,000 and full credit to those with income above $16,333, before phasing into a straight tax credit for middle-income families. These refundable tax credits increase the earnings of lower-income workers, reduce child poverty, make low-wage work more rewarding, and offset the effect of paying regressive payroll taxes. In addition, EITC and CTC help address wage stagnation at the low end of the income spectrum. Because of the high rate of labor force participation, lower average wages, and presence of children, Latino families are among the major beneficiaries of the credit. Approximately one-third of Latino families utilize the EITC.

Enacted in 1976, EITC is considered one of the most successful anti-poverty measures ever legislated. In addition, recent ground-breaking research shows that over the long-term, children of refundable tax credit recipients perform better in school, are more likely to attend college, and earn more as adults. Moreover, these credits mean that more money is circulating in communities, which spurs economic growth and job creation.

NCLR supports the Working Families Tax Relief Act (S. 836), which would make permanent the improvements to CTC and EITC that are currently due to expire in 2017. This bill would preserve access to these key credits for 13 million families and 26 million children nationwide. Other improvements would include further reducing the marriage penalties of these credits by adjusting phase-out levels. In addition, the CTC can be improved further by increasing the credit for very young children, making it fully refundable to benefit families with the lowest incomes and providing inflation adjustments to credit value.

Work Opportunity Tax Credit

The Work Opportunity Tax Credit (WOTC) incentivizes employers to target hiring of disadvantaged groups such as short- or long-term recipients of Temporary Assistance for Needy Families (TANF), age-eligible Supplemental Nutrition Assistance Program (SNAP) recipients, Supplement Security Income (SSI) recipients, or graduates of vocational rehabilitation services and other job training programs. NCLR recommends retaining a generous WOTC.

Tax Code Provisions that Need Improvement

Retirement Savings Deductions

Our country spent $137 billion in 2013, and will spend almost $2 trillion over the next ten years, supporting the retirement savings goals of workers through tax deductions for pension contributions. Eighty percent of the tax benefits from pension contributions accrue to the top one-fifth of earners. Indeed, half of all workers—and two-thirds of Hispanic workers—do not have access to employer-sponsored retirement plans and largely do not benefit from this tax deduction. As a result one-third of all workers and 44 percent of Latino workers do not accumulate personal savings and rely on Social Security for 100 percent of their retirement income.

The retirement savings tax deduction should be redesigned so that low- and moderate-income savers—including those who lack access to employer-sponsored plans—would also benefit. One way to do this, as Congressman Neal (D-MA) and Senator Harkin (D-IA) have recently proposed, is to expand the Saver's Tax Credit and make it a refundable credit so that low- and moderate-income workers can also benefit from this retirement savings tax incentive. This could be matched to savings in a universal and automatic IRA account or a 401K. Another option would be a Financial Security Credit, which would use a portion of tax time refunds to stimulate low- and moderate-income workers to save money into a designated account that could support saving for a variety of goals including retirement, education, homeownership, or other life contingencies.

Mortgage Interest Deduction

The Mortgage Interest Deduction (MID) is the costliest itemized deduction and one of the largest tax subsidies. It will cost taxpayers between $70 and $93 billion in 2013 and over the next five years it will reduce tax revenues between $379 and $640 billion. However, MID does not help achieve the goal of expanding homeownership. Most of the benefits of this subsidy accrue to upper-income households whose marginal decision is not whether or not to purchase a home, but rather how big a home to purchase. In 2012, according to the Joint Committee on Taxation, 77 percent of the MID benefits went to homeowners with incomes over $100,000, and 35 percent of the benefits went to homeowners with incomes over $200,000. Meanwhile, homeowners with incomes below $50,000 received 3 percent of the MID benefits. These households are on the margin between owning and renting, yet they get little to no benefit from this expensive subsidy. In 2012, only 46 percent of Hispanic households own their homes versus 68 percent of white households.

NCLR supports reforming MID to ensure that it serves its original purpose of expanding homeownership, especially for low- and middle-income households. One potential reform is changing the MID from a deduction to a credit, with a cap on the maximum amount of interest it covers. Another potential reform is limiting the deduction, while reducing the size of qualifying mortgages. Either of these reforms distributes the benefits of MID more equitably than the current subsidy while also increasing revenues to the Treasury.

Child and Dependent Care Tax Credit (CDCTC)

The Child and Dependent Care Tax Credit (CDCTC) is the only tax credit specifically designed to defray the cost of child care in families with dual earning parents. High-quality child care is crucial to family economic security, yet many working families struggle to afford safe, reliable child care that fosters child development and enables parents to meet their responsibilities on the job. More than 37% of Latino children under the age of four—about 1.8 million children—belong to low-income working families. Lack of access to affordable, high-quality child care is likely one factor contributing to the low labor force participation rate for Hispanic women (56.6% as compared to 66.4% for all Latinos). In 2013, child care costs amount to about 20% of the household budget for an average two-child, two-parent household. Annual fees for child care vary widely by state, ranging from an average $4,600 annually in Mississippi to $15,000 in Massachusetts. Average fees for child care exceed the cost of annual median rent payments in all 50 states and the District of Columbia and more than the average cost for one year of in-state tuition for public colleges in 36 states.

Despite the fact that half of families who claim the CDCTC earn below $50,000, the bulk of CDCTC benefits go to families with incomes between $100,000 and $200,000. NCLR supports making the CDCTC refundable to better target the credit to low-income earners in greatest need of assistance. In addition, the value of the credit should better reflect the true costs of child care by allowing a higher dollar expense limit for families with more than one child and indexing the value of the credit to inflation. Finally, the credit phase out level should be raised to $30,000 so as not to disincentivize higher earnings.