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Latino Tax Priorities

Introduction

As members of Congress consider future revisions to the tax code, it is critical to understand that the tax code was created to promote economic mobility and to build assets for low- and moderate-income Americans. This fundamental goal was abandoned by the Tax Cuts and Jobs Act (TCJA), which provided a massive tax cut for the richest Americans and the largest corporations while pushing working families to fend for themselves.[1]

As a result, Latinos overwhelmingly believe they were left out or left behind by the TCJA and that the current tax code does not work for them. In polling conducted in 2018, eight out of 10 Latino voters stated that the majority of tax cuts from the TCJA will go to the wealthy.[2]

There are several opportunities to amend the tax code to better support Hispanic communities. This document explores these opportunities and discusses ways to improve the Earned Income Tax Credit (EITC); Child Tax Credit (CTC); Child and Dependent Care Tax Credit (CDCTC); and Federal Saver's Tax Credit (Saver's Credit).

Earned Income Tax Credit

The EITC is a federal tax credit for low-and moderate-income working families that has long proven to be one of the nation's most successful anti-poverty programs. The tax credit encourages work and provides essential refunds that decrease tax liabilities for low-income taxpayers. In 2017, an estimated 25 million tax filers received approximately $63.9 billion worth of tax credits through the EITC, and the latest Census data shows that 31% of EITC beneficiaries were Latino.[3]

Unfortunately, the EITC does not provide a benefit to every low-income worker. Because of the EITC's income and age restrictions, approximately 7.5 million workers—including 1.7 million Latinos—are excluded from claiming the EITC.[4] For those who do qualify, the amount of credit received often does not offset their tax liabilities, effectively taxing them into poverty.

Policymakers should consider expanding the EITC by:

- Raising the income eligibility threshold to include more lower-income taxpayers who are not raising children.
- Lowering the EITC eligibility age from 25 to 21.
- Raising the maximum EITC credit for workers who are not raising children.
- Increasing the phase-in rate for the credit.

Child Tax Credit

The CTC helps working families offset the cost of raising children by providing a tax credit of up to $2,000 per eligible child. This tax credit includes a refundable portion, which allows families who do not have a federal tax liability to receive up to $1,400 per child if the family does not have a tax liability. In tax year 2016, 22 million tax filers received about $26.7 billion worth of tax credits through the CTC.[5]

However, the CTC does not benefit families who are in most need of the credit. Changes to the CTC enacted as part of the TCJA requires taxpayers to use a Social Security Number to file for the credit and blocks families with an Individual Tax Identification Number (ITIN) to access the benefit. According to the Center for Budget and Policy Priorities, these changes exclude approximately 10 million children, including 3.7 million Latino children, from receiving benefits under the CTC.[6]

Policymakers should consider reforms to the CTC, including:

- Reversing the harmful restrictions enacted by the TCJA and allow taxpayers with an ITIN to file for the credit.
- Make the CTC fully refundable so children in lower-income households, including those with little or no income, can fully benefit from the credit.
- Expand the credit for households with children under the age of six.

Child and Dependent Care Tax Credit

The Child and Dependent Care Tax Credit (CDCTC) is a non-refundable federal tax credit that helps families offset child or dependent care expenses they incur to work, look for work, or go to school. Families can claim up to $3,000 of out-of-pocket expenses for one child or dependent and up to $6,000 for two or more children or dependents. In tax year 2016, 6.5 million tax filers claimed the CDCTC for $3.6 billion in tax credits, with an average credit of $562.[7]

Because the CDCTC is not refundable, low- and moderate-income families receive limited benefits from the credit because their tax liability exceeds the amount of their refund. In addition, because the expense limits for the credit have not be been updated since 2001, the limits are significantly lower than the average annual cost of child or dependent care that a family may incur. Further, because the credit is not indexed to inflation, the amount of relief that the credit provides has decreased over time.

Policymakers should consider reforms to the CDCTC, including:

- Making the credit refundable.
- Increasing the percentage of expenses allowed under the credit and expanding credit expense limits to better reflect the soaring costs of raising a family.
- Indexing the credit for inflation to ensure that the value of the credit does not decrease over time.

Federal Saver's Tax Credit

The Retirement Savings Contribution credit, commonly referred to as the Federal Saver's Credit (Saver's Credit) is a non-refundable tax credit that rewards low- and moderate-income taxpayers for saving for retirement. Under the program, these taxpayers can earn up to $1,000 if they are a single filer and up to $2,000 if they are married/joint filers. In tax year 2016, 8.6 million taxpayers claimed the Saver's Credit for $1.5 billion in credits, with an average credit of $180.[8]

Because the Saver's Credit is not refundable, many savers are unable to take advantage of the Saver's Credit. Additionally, the credit is difficult to file for, as it requires a taxpayer to review three years of their previous tax returns in order to claim the credit.

Policymakers should consider reforms to the Saver's Credit, including:

- Making the credit refundable.
- Making it easier to claim the credit by eliminating the three-year lookback.
- Raising the income eligibility thresholds.

Endnotes

1 UnidosUS. "Tax Cuts and Jobs Act: United States." March 2018. Accessed June 3, 2019. http://publications.unidosus.org/bitstream/handle/123456789/1843/tcja_national.pdf?sequence=1&isAllowed=y.

2 Hart Research Associates and Global Strategy Group. "Re: Latinos and the 2018 Tax Debate." April 18, 2018. Accessed July 18, 2019. https://americansfortaxfairness.org/wp-content/uploads/2018-Tax-Message-Survey-Memo-C3.pdf.

3 UnidosUS calculations using U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement March 2018 data.

4 Calculations performed by the Center on Budget and Policy Priorities.

5 IRS Statistics of Income. "Individual Income Tax Returns: Line Item Estimates 2016." Accessed June 12, 2019. https://www.irs.gov/pub/irs-soi/16inlinecount.pdf.

6 UnidosUS, Federal Programs ibid.

7 IRS Statistics of Income, ibid.

8 IRS Statistics of Income, ibid.