

Financial Panel: Why UBI Should Make the Earned Income Tax Credit Obsolete

Rachel Presser, EA - June 18, 2017

...but not for the
reasons you'd
think!

Speaker Background



- B.S. Accounting, Lehman College
- M.S. Accounting, Hunter College (Taxation and Public Finance)
- Enrolled Agent, IRS-licensed
- IRS liaison on EA exam & competency standards 2011-2014
- 10 years of tax preparation and representation experience
- CFO, Himalaya Studios 2011-2017
- CEO, Sonic Toad Media 2016-present
- Fiscal policy reform activist, Democratic Socialists of America

What is the EITC?



Federal tax credit for low & moderate income families intended to offset federal payroll & income taxes

Quick EITC Facts (IRS.gov)

- Over 27 million working families received over \$67B in EITC for TY2016
- Average EITC amount nationwide is **\$2,455**
- Most households with qualifying children earning up to \$53,500/year TY2016 are eligible
 - Households with no qualifying children must earn less than \$14,500/year
- 26 states and D.C. have their own state-level EITC
 - NYC city-level EITC
 - Employs matching principle

Why should a universal
basic income replace
EITC?



1. IRS is the wrong agency to administer aid



- Tax administration is onerous
- Agency is understaffed
- Revenue Officers \neq social workers
- Because a tax return must be filed, **millions of individuals otherwise eligible for EITC cannot get it**

2. Places undue burden on tax professionals



- Lengthy questionnaires required by law if EITC recipients use a tax pro
- State policies & procedures may increase EITC compliance cost, passed onto already-burdened clients
- Tax pros face severe penalties, even disbarment, for EITC malfeasance

3. EITC props up unscrupulous tax preparers and the RAL industry



- RAL = refund anticipation loan
- Avg cost is \$25-60 per loan but RALs average 425% APR and bypass usury laws
- Unscrupulous preparers will take percentage of refund as payment, incentive to falsify EITC eligibility and larger refund

4. EITC rules intentionally confusing and punitive



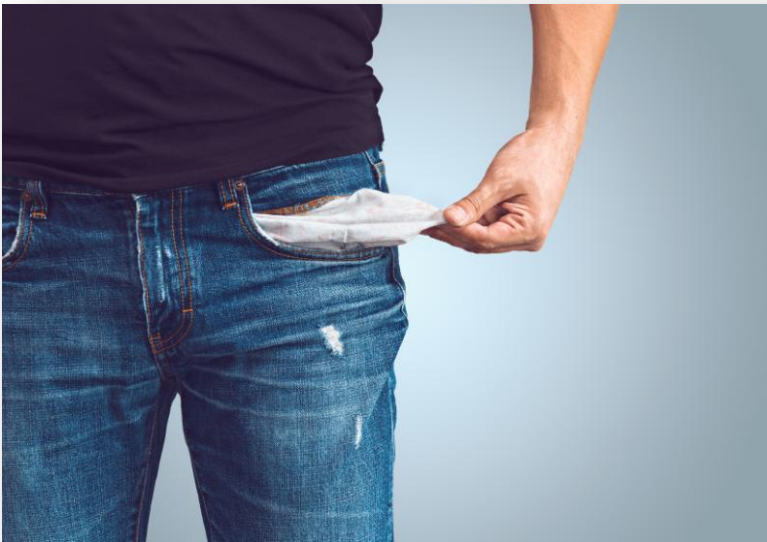
- An eligible child for EITC purposes does NOT use the same rules for children who can be claimed as dependents
- If a taxpayer is found to have falsely claimed EITC, may be barred from receiving EITC **FOR 10 YEARS**
 - No other tax benefit carries this type of penalty

5. Making people wait until tax time perpetuates poverty



- If you need cash now, how does waiting to file a tax return help?
- Having just a few extra dollars in income can make a drastic difference in credit amount or getting it at all
- Investment income must be less than \$3,400/year
 - This includes AirBNB/subletting your home

6. Not all working people in need are covered



- If you have no qualifying children, you must be at least 25 or under 65
- Seniors who have to keep working
- Childless adults
- Married filing separate/going through divorce
- Young adults not in school or supported by parents
- Caregivers- elderly parents not EITC dependent category
- **EITC disproportionately benefits people “on the books”**

What is the efficacy of EITC as-is?

- IRS statistics cite that 9.4 million people (5 million which are children) lifted out poverty because of EITC, and 22 million are less poor
- **But does it truly address poverty reduction?**



Why is UBI superior to
EITC for truly lifting
people out of poverty?



1. Administrative costs are miniscule



- EITC processing costs are relatively low but the IRS needs to focus its muscle on actual tax cheats
 - Tax pros have proposed making HHS pick up EITC to relieve the incompatibility burden but UBI would be superior in every way.

2. Simply put, it's more money



Assuming UBI is \$1,000/month once you turn 18 plus \$600/month to the parent per eligible child, it is simply more money.

Max credit is \$6,269 with 3 or more eligible children, \$5,572 with 2 children, \$3,373 for 1 child, \$506 with no children. (TY2016)

3. Tax professionals don't have to take on the role of social workers



4. UBI is received for ALL work



- Caregiving
- Volunteering
- Scholarship
- Working off the books
- Entrepreneurship and freelancing
 - You can currently receive EITC for self-employment but not if you racked up a loss

5. No one is left behind



- Childless adults can get the help they deserve
- UBI additions for dependent children more efficient to help parents in need
- Marital status never comes into question
- Caregivers with elderly dependents not left behind

That is the ultimate reason:

NO ONE IS LEFT BEHIND.

EITC should not be repealed until we have UBI,
but UBI does not perpetuate the cycle of poverty or
prop up shady tax preparers and the RAL industry.



UBI > EITC

Because everyone truly has a chance to get ahead no matter their age, marital status, income, or household composition.



Q&A & Thanks!

