

Earned Income Credit is a Giveaway

Several members respond to last issue's ViewPoint

After reading Ms. Schiaffo's "ViewPoint" article in the last issue of the *TAXPRO Journal*, our whole office was in an uproar. We agree with her that no soldier should be making so little money that he would qualify for the EIC. We have hardworking clients who deserve this help.

We were offended by the statement that the rest of us benefit from cheap labor. I don't have a maid waiting on my family at home. I can afford to have cleaning help every other weekend, but I wouldn't consider her "cheap" help.

We also don't agree with the statement that the social security and medicare taxes that EIC recipients pay are being used to fund other people's benefits. The EIC is a partial refund of social security tax paid; eventually EIC recipients will be collecting these benefits, even though they actually paid little or no taxes. That seems like "free" money in our view.

Regarding Ms. Schiaffo's comments under the heading "Putting it in Perspective," why should we feel like we are taking taxable money out of the common kitty because we are able to take advantage of our capital losses, childcare, and education credits? As far as the education credits, those of us in the middle-class income bracket receive no assistance with our children's college tuition. We then are limited to the credits we can take, *if* we even qualify for any. The childcare credit is limited for the middle class. Most of our low-income clients get their childcare paid for by the state. Others rely on their mothers or grandmothers to provide this care.

Some EIC recipients might use the credit for medical bills, childcare, education expenses, and daily bills. Most of them, though, receive free child care, benefit from medical assistance, and receive grants for their education.

Most of our EIC clients also request a Refund Anticipation Loan. Few of our clients who actually pay

taxes are willing to pay extra to get a quick refund. Here are just a few scenarios that we've come across. A man was upset that his refund was not coming back in time to buy the big screen TV he wanted for the Super Bowl. A waitress who earned \$2,000 on her W-2 wanted to claim \$12,000 in tips. A housecleaner wanted to know how much she should claim to receive the maximum credit. A wife, signing for her \$6,000 refund (she made \$1,300 in social security and Medicare taxes), complained that she didn't understand why her husband had to work on his birthday.

Shortly before reading Ms. Schiaffo's column, we received a phone call from a woman who wanted to know how much she could earn to qualify for the maximum EIC. She wanted to quit work for the rest of the year if she was close to the limit.

Again, we do have hardworking parents who can use this extra money to help with car payments or to provide necessities for their family. We would have to say, though, that the majority of EIC clients take advantage of the system to avoid work. The EIC, in combination with other welfare programs, is no longer an incentive to work; it's an incentive *not* to work.

—by Shelley M. Simms, EA

While I do believe that the tax code can be used to encourage and facilitate such positive things as savings and investment, economic growth, and charitable contributions, I do not believe that the code should be used to "redistribute" income or as a form of welfare. I do not believe in refundable tax credits.

Let's call a spade a spade. The Earned Income Credit, especially its refundable feature, is a welfare program. I do believe I read somewhere that in terms of dollars it is the biggest federal welfare program in existence today. It is, for the most part, just another form of Aid to Families with Dependent Children.



I am not against tax relief for the working poor. I would support a form of earned income credit, or some other method, that could be used to zero out the income tax liability of low-income workers. I am also not against the concept of providing aid to families with dependent children, or other types of welfare programs for the working poor. I just believe the two concepts should not be combined in the tax code.

The EIC does not provide the safeguards and checks and balances required in other federal and state welfare programs and necessary for responsible fiscal management. As a result, it is perhaps the most abused provision of the tax code. Studies have suggested that close to 30 percent of all EIC claims are erroneous.

I am sure we have all had EIC clients who we learned after-the-fact, or strongly suspected, had sufficient unreported income to make them ineligible for the credit. Hasn't each one of us, at one time or another, had as a client the single parent with a part-time W-2 that also had an unreported, and unknown to us, side-line cash business cleaning houses and apartments? Or the Schedule C client who reported just enough income to max-out their Earned Income Credit?

As tax professionals, we have enough to worry about just getting all the necessary information from our clients without the added burden of having to determine if a person qualifies for federal welfare.

The federal government should do whatever it can to encourage the poor to work, to reward them for doing so, and to provide financial assistance to the working poor, but it should not use the tax code to do so. ♦

—by Robert D. Flach