



**Testimony for  
Democratic Policy and Communications Committee  
Washington, DC  
November 1, 2017**

Honorable Members of the Democratic Policy and Communications Committee.,

Thank you for the opportunity to testify against recent proposals affecting tax credits for working families. As the Director of a Low-Income Taxpayer Clinic since 2002, I have seen first-hand the impact that refundable credits have on the financial and well-being of my clients. The large majority of my clients qualify for either the Earned Income or the Child Tax Credit, or both. And a large portion of these clients are families that migrated from Central and South America. I speak today on their behalf, and on behalf of countless taxpayers for whom these credits have been a financial life-line, and who will be harmed if recent proposals are adopted.

**The Tax System Promotes the Integration of Immigrant Families Into Mainstream America**

A recent study that summarizes findings from in depth interviews of 115 families confirm my own experience working with workers who file returns and claim tax credits.<sup>1</sup> Unlike other safety net programs, tax credits support and reward families that work. The study found that because income must be earned to claim the credits, these payments take on a different social meaning: one that promotes upward mobility and allows recipients to engage in consumption that empowers because it is earned, not gifted. In my over 15 years of experience, the very act of filing a tax return confers the pride that is derived from fulfilling a civic duty and, therefore, of social inclusion. For all marginalized families including those comprised of newcomers, engaging in a shared civic duty has positive consequences that go beyond the additional reward for work. It allows these taxpayers to feel integrated into the social fabric of the country.

The first example of this type of integration comes from my own family experience. My immigrant family of 2 parents and 5 children arrived in New York in 1982. To make ends meet, we shared an apartment in Queens with another family, and both my parents worked, while we attended school. My job was to translate for my parents most interactions with employers, store clerks, and even at school meetings. But when it came time to file tax returns, the experience was very different. My father, who always had a good knack for numbers, could follow the calculations by the preparer, could differentiate between gross income and taxable income, and

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<sup>1</sup> Sykes et al., *Dignity and Dreams: What the Earned Income Tax Credit (EITC) Means to Low-Income Families*. American Sociological Review, 2015

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could then know if he would get a refund. Although this preceded the 1990s boost to refundable credits, even then, because of the exemptions he could claim, my father knew there would be a little extra money available to help support his family. In fact, one year, we used that money to move to our own apartment. The other meaningful gift in this process was my father's pride as he walked out of the tax preparer's place knowing he did not have to depend on me to explain everything, and that he could control and put his refund to such important use. As for me, I observed and appreciated a valuable lesson: *the U.S. government* ensured that my parents paid a fair share and received a tax refund that resulted in a new home for my family. The work I do today for low-wage and migrant families is deeply shaped by my own experiences with my families' immigration and participation in the tax system.

The integration into the U.S. mainstream begins with a worker finding a job to support his or her family and is re-affirmed in the act of filing a tax return. The American value embedded in our laws is that paying taxes constitutes "good moral character." The taxes are paid throughout the year in the form of payroll withholding, but the proof of those payments is the tax return. As a society, we choose to promote that value and support hard work by issuing tax credits.

As was the case with my family, a positive tax filing experience affects the taxpayers *and their children*. For example, my client Nora, who had courageously left her abusive spouse, and was raising 2 children on her own, told me that she desperately needed her tax refund to pay her son's enrollment fee for his school's soccer program. As the new kid at the school, her 14-year-old son had the opportunity to show his soccer skills to fit in and feel part of the team. His mother could proudly provide for son this important opportunity and avoid the indignity of begging for a discount, or late payments, to enroll her son in the program. This client saw her tax refund as the means to integrate her son fully in his school community. When we last met, Nora told me she sees her filing and paying taxes as her way to "express gratitude for the opportunity to live in peace in this country."

### **The EITC fosters the American Dream**

Earnings up to \$127,000 are subject to Social Security and Medicare taxes,<sup>2</sup> collectively known as FICA. In the case of employees, the employer is required to contribute half of the worker's FICA; the other half is paid by the worker. But in the case of self-employed workers, FICA must be paid *in full* by the worker. For these workers, the earned income tax credit (EITC) provides relief and encourages tax compliance.<sup>3</sup> One of my clients is a young married man who learned to landscape the hard way. His employer of several years exploited him, paying him cash, at a discount from minimum wage, and often not on time. This illegal conduct is not unusual for far too many low income workers including newcomers. However, my client took the initiative with his newly learned skills and along with his wife, used their tax refund to buy a lawnmower, a

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<sup>2</sup> <https://www.paycor.com/resource-center/2017-social-security-taxable-wage-base-announced>

<sup>3</sup> For a full report on how the EITC is designed to eliminate poverty go to <https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>

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trailer, and other tools. They printed business cards, drove around neighborhoods soliciting work, and through hard work and effort now have a family-sustaining business of their own.

Being self-employed means managing one's own earnings, and this client, who has 3 children, knows that the EITC will help pay his self-employment tax and may even leave him a little extra money for the family. The tax credit plays a roles in keeping self-employed clients from exploitation in the underground economy. My clients value the opportunity to own their business, and the tax credits have fueled that entrepreneurial spirit.

### **Without Tax Credits, Hard Working Families Cannot Move Out of Poverty**

Despite the American promise that “if you work, you should not be poor,”<sup>4</sup> the reality is that wages have remained stagnant for the last 20 years, even during the last few years as the economy improved. A family of 4 earning \$24,000 pays over half that income in rent. Without a refundable tax credit, the family would be hard-pressed to catch up on other bills like utilities, car payments. For one of my clients, getting a tax refund meant being able to open a bank account for the first time. This saved him 10% in check cashing fees every week (or one hour of work in Massachusetts). A client who falls behind with her car payments will lose her car, possibly the means to go to work if she is employed as a home health provider, as many of my clients are, and this same client will get a tax bill for the canceled debt if the sale of the car did not satisfy the loan.<sup>5</sup>

One of my first tax clinic clients, Veronica, was able to use her 3 years of refunds<sup>6</sup> to put a down payment on her two-family home. This client was the victim of labor trafficking, and she is forever grateful to this country for rewarding her hard work as an hourly employee at Wendy's, where she put in as much overtime as she could to support herself and her daughter.

### **Eliminating Poverty Through the Tax Code Reduces Stigma**

Being poor in our country is very expensive.<sup>7</sup> I have assisted many clients who with their children have escaped abusive marriages, have secured jobs, some transitioning from welfare payments to part-time jobs and earned wages. The common experience when someone applies for food stamps or cash assistance can be humiliating. Not only is the applicant required to provide proof of lack of income, but often the proof is second-guessed or insufficient, leading to

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<sup>4</sup> From President Clinton's address during his welfare reform in 1993.

<sup>5</sup> Canceled debt is taxable income under our tax system. IRC § 61.

<sup>6</sup> She was able to do claim past years of EITC before the law disallowed such payments in 2015, with the passing of the Protection Against Tax Hikes, PATH §204.

<sup>7</sup> *The High Cost of Being Poor in the U.S.*, report issued by the Coalition on Human Needs, 9/20/2016.

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several trips to face the same intrusive set of questions with long waits at understaffed offices. In contrast, filing a tax return puts the taxpayer in the driver's seat, controlling when to file and with whom. The system permits the worker to self-certify, subject to the same chances of being audited as anyone else, but not going through an initial audit as he sits to prepare the return. Even with the higher rate of EITC audits, unlike our welfare system, the preparation experience does not stigmatize the taxpayer. This is because, during the process, the taxpayer sees himself as one more taxpayer, someone who has worked and earned his pay, and is now reconciling accounts; not an applicant seeking assistance.

**EITC Claimants Already Must Wait Additional Time To Receive Their Tax Refunds. Additional Delays Will Cause Serious Hardship**

Starting in filing season 2017, the IRS purposefully delayed the processing of returns claiming refundable tax credits in order to review those returns against data submitted by third-parties to the Service.<sup>8</sup> Those of us in the business of educating taxpayers had the unfortunate task of telling our clients that, while their neighbor's return would be processed within a week, theirs would have to wait until after February 15, for additional verification. This is not the type of news that a family wants to hear when they have already budgeted their funds for their immediate needs.

Beyond the inconvenience, the consequence of a tax refund delay can be catastrophic. One of my clients was counting on his refund to pay for a DNA test for his 12-year-old son in El Salvador so he could bring him to this country as part of a special immigration program. The child's life was in danger, but without proof of parental relationship (the proof costing \$1,000) immigration would not approve his petition. With assistance from the IRS Taxpayer Advocate, the refund was expedited.

Most recently, the delay in a refund requested in April 2017, meant that my client could not travel from Boston to Puerto Rico to see his elderly father. The trip became more urgent in September as my client's father lost his roof and all his belongings to the hurricanes.

One aggravating factor when dealing with a refund delay is the severe reduction in customer service at the IRS. Recent budget cuts have translated into longer waits on the phone, the closing of walk-in assistance offices, and new appointment scheduling requirements. It is of little comfort for my clients to learn that delays caused by less resources at IRS will merely result in a small interest payment. Avoiding unwarranted delays is in the interest of all taxpayers and the IRS that will then not have to expend resources fielding thousands of calls from desperate taxpayers. Moreover, if taxpayers perceive two systems, one working for the wealthy who have influence, and another for the rest of us, the very integrity of the system will be harmed.

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<sup>8</sup> PATH § 201.

**EMBARGOED UNTIL 3:00PM, WEDNESDAY, NOVEMBER 1**

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On behalf of my clients, I strongly urge you to prevent any additional prevent changes to the Code that result in the increase of taxable income, or that may cause delays in the processing of tax credits for low-wage workers. Instead, as the Tax Code is under review, I suggest the following proposals to support hard-working taxpayers:

1. Increase and strengthen the EITC for families and ALSO for childless workers. Under our current system, low-wage, single taxpayers are being taxed into poverty.
2. Increase the Child Care and Dependent Tax Credit: This currently modest credit does not effectively offset the high cost of child care.
3. Expand the EITC so that survivors of domestic violence who cannot file joint returns and do not fit the “head of household” status are able to claim the credit.
4. Oppose any measure that will increase taxable income for low-wage working families.
5. When discussing tax reform, the American values we believe (eg. no one who works hard should be poor) should drive the policy.

Respectfully submitted,

Luz A. Arévalo, Esq.  
larevalo@gbls.org