Tax and Budget Issues

Intergenerational Intersection

A stable economy and responsible fiscal policies are critical to the health and wellbeing of all generations. Adequate tax revenues are essential to support the programs that address the needs of our nation's people of all ages. Investing today in supportive programs for children helps prepare them for productive employment and will ensure the nation's future prosperity, and providing adequate services for older adults will encourage their continued participation in civic life and their availability as role models and mentors to the young. Children and older adults must be priorities in the revenue and spending decisions of policymakers and elected officials.

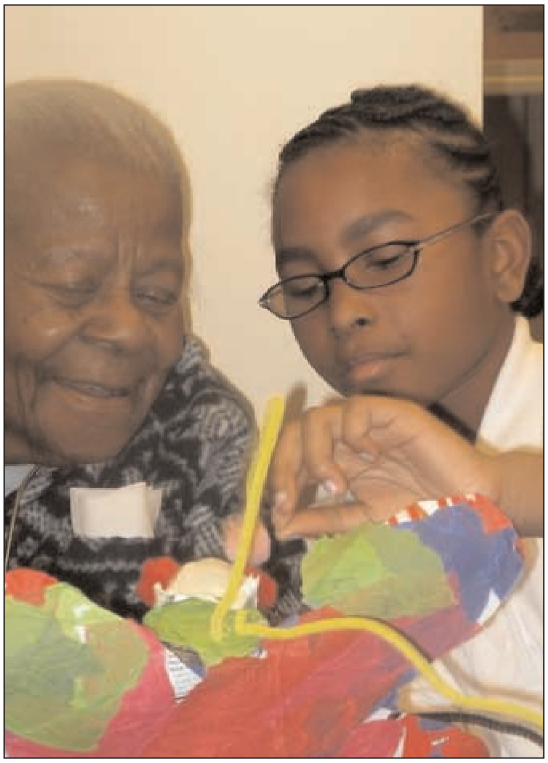
Position Statement

Generations United (GU) recognizes that a stable economy is essential for all generations to thrive. The tax code should promote balanced economic growth and generate revenues based on people's ability to pay taxes; and entitlement programs, including tax entitlements, should be kept in alignment with the revenue base and demographic projections.

Tax policy should ensure there are resources to fund necessary programs for people of all ages, with special attention to low- and moderate-income individuals and families, including those providing care to relatives. During economic downturns, program and eligibility cuts that have especially serious long-term consequences for vulnerable populations must be avoided. Structural budget deficits should be addressed when the economy is robust, insofar as they create interest costs that hinder our ability to finance the retirement of the boomer generation, the special needs of the young and the poor, and the health and long-term care needs of the oldest population. As budget deficits are properly regarded as a debt owed to the next generation, GU supports fiscal discipline.

In addition, Generations United supports:

- *Tax and budget policies that provide sufficient revenues to fund health security for all Americans, promote retirement savings along with strong and sustainable Medicare and Social Security programs for all generations, and address the needs of poor children.*
- *Ensuring that income, dividend, and estate tax cuts benefiting high-income Americans are not made permanent because they undermine our nation's ability to meet the needs of children, youth, and older people.*
- *Ensuring that any budget process change does not contain arbitrary caps on entitlements and/or domestic discretionary programs that would cause the disqualification of citizens otherwise eligible to receive needed benefits.*
- *Making the Child Tax Credit fully refundable and available to all families, including grandparents and other relatives raising children, regardless of whether they owe income taxes.*
- *Tax credits for family caregivers to help them offset the major economic sacrifices involved in caring for disabled relatives.*
- *Expanding and simplifying the Earned Income Tax Credit (EITC).*



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Background

The Economic Environment

In June of 2001, Congress enacted tax cuts costing approximately $1.6 trillion over 10 years. These tax cuts disproportionately benefit people in the highest income brackets, with more than 37 percent of the cuts going to the wealthiest one percent of the population making more than $1 million a year. Not only do these tax cuts jeopardize current and future funding for essential programs for Americans of all ages - including Medicaid, housing assistance, nutrition programs, family caregiving programs, and other social supports – but inequitable tax cuts threaten to tear the country's social fabric. As the wealthy become more so and the poor fall even further behind, the kind of shared experiences and circumstances that bind this society together are disappearing.

Even when there were budget surpluses, the country had significant challenges that continue to the present. Millions of people lack health insurance. Most of the uninsured live in households in which at least one person works full-time or more, year-round. Emergency shelters are filled and turning people away, and millions of households face economic hardships. Yet funding to meet immediate and basic needs is further curtailed while the vastly greater fiscal burdens of an aging population related to Social Security, Medicare, and Medicaid are not being addressed. Further, the nation's long-running involvement in conflicts in Iraq and Afghanistan has not been budgeted for and represents a substantial fiscal burden on future generations.

Implications for States

After several difficult years of implementing cuts in essential programs such as Medicaid and education, most states' fiscal health had begun to improve until the current economic downturn, which began in 2007. Falling incomes and reduced spending were limiting state income and sales tax revenue, and the housing crisis was devastating property tax revenues. By mid-2008, the majority of states were facing significant revenue deterioration, which continues unabated. Unfunded or under-funded federal mandates place further economic pressures on states, which cannot - by state law or constitution - run deficits.

As "lagging indicators," state budgets represent the final outcomes of the larger, more general economic situation. When the overall economy starts to recover, economic conditions confronting states will likely continue to deteriorate for some period of time, with increased unemployment even as unemployment insurance trust funds disappear. Many states will be unable to cut enough services or increase enough revenues to achieve stability. To confront these enormous and mounting problems, the

"Because we owe so much to the past, we have the obligation to try to pass on a world to the next generation which is a little better than the one we inherited so that those who come after, standing on our shoulders, can see a little further and do a little better in turn."

Robert Ball, Former Social Security Commissioner

Photo credit: ANgela S

American Recovery and Reinvestment Act of 2009 (ARRA) directs a sizable share of funding to states, both for their general budgets and for Medicaid, which are already under significant strain. The ARRA temporarily increases the Federal Medical Assistance Percentage (FMAP) to relieve strains on Medicaid and the State Children's Health Insurance Program (SCHIP). ARRA creates a State Fiscal Stabilization Fund to help states and local governments maintain funding for education and basic services such as law enforcement and public safety, as well as programs and services for the elderly, people with disabilities, and child care services.

A fairly new wrinkle in state fiscal policy is the widespread attempt to pass state ballot initiatives called the Taxpayer Bill of Rights (TABOR) or Stop Over Spending (SOS). These initiatives would limit state (and sometimes local) government revenues and expenditures to an inflexible formula of inflation as measured by the Consumer Price Index (CPI), or CPI plus population growth. This formula does not allow for the fact that the costs of services states pay for - particularly in areas of health care and education - are rising faster than the CPI; and the populations primarily served by state government - older people and people with disabilities - are growing faster than the population as a whole. In addition, the TABOR formula would not accommodate costs associated with natural disasters or emergencies except by way of a cumbersome process that would allow a catastrophic situation to become much worse before being addressed. If TABOR initiatives are passed in a critical mass of states, a push for TABOR at the federal level could become a possibility.

The Child Tax Credit

Current tax law provides a partially refundable Child Tax Credit (CTC) for most families who owe taxes to help them with the costs of raising a child. The credit is up to $1,000 per child per year and is scheduled to expire in 2010. The ARRA temporarily lowers the eligibility level in 2009 and 2010 so that a parent earning at least $3,000 can qualify for the credit. This provision helps millions more children for the first time and will prevent one million children from descending into poverty during this current recession.[52]

Because the child tax credit is not fully refundable, families whose incomes are so low that no income taxes are owed do not benefit from the credit. Although these families may pay no income taxes, they pay significant payroll, sales, and other taxes.

Caregiver Tax Credit

Family caregivers often must take time off from work, or even leave the workforce entirely, in order to meet their caregiving responsibilities. This care comes at great expense to the caregiver while in the aggregate, it saves the government billions of dollars that would otherwise have to be spent on alternatives to uncompensated caregiving. A refundable Caregiver Tax Credit would provide needed support to anyone who provides care, whether to disabled parents, a spouse, or a child. More information about family caregiving can be found in the section of this agenda entitled "Grandparents and Other Relatives Raising Children and Other Family Caregiving."

Earned Income Tax Credit (EITC)

Studies have shown that among working families, the EITC lifts substantially more children out of poverty than any other government program, reducing child poverty by nearly one-quarter and providing substantial positive effects in encouraging single parents to enter the workforce. "Qualifying children" for EITC eligibility include grandchildren, nieces, nephews and other children if they have lived with and were cared for by the taxpayer for a minimum of six months to a year, depending on the relationship to the child. Despite substantial evidence of the effectiveness of the EITC as a means of addressing poverty, fears about EITC fraud have prevented it from being more broadly applied.

Families with three or more related children are more likely to be low-income than other sized families.[53] Yet currently the only distinction made in the EITC is between families with one child and families with two or more children. In response to the recession, the ARRA expands the EITC over two years for families with three or more children. Permanently expanding the EITC to establish a multi-tier payment structure would make the program more responsive to the needs of larger families; and allowing it to apply to low-income singles and couples who cannot afford to retire would benefit some of the neediest older adults working at or near the minimum wage. For further information, contact Generations United to obtain the EITC fact sheet.