

## Tax and Budget Issues

### POSITION STATEMENT

Generations United recognizes that a growing 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, need to 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, paying special attention to low- and-moderate-income individuals and families, including those providing care to relatives. During economic downturns, care should be taken to avoid program and eligibility cuts that have especially serious long-term consequences for vulnerable populations. 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, that promote retirement savings along with strong and sustainable Medicare and Social Security programs for all generations, and that address the needs of poor children**
- **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**
- **Ensuring that income, dividend, and estate tax cuts benefiting high-income Americans are not made permanent; these cuts 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 discretionary programs that would cause the disqualification of citizens otherwise eligible to receive needed benefits.**

### Intergenerational Intersection

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

## Background

### TAX STRUCTURE

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. At the time of enactment, large budget surpluses were being projected, but a recession, tax cuts, and war-related spending have very quickly led to large and growing long-term budget deficits.

Even in a budget surplus environment, the country was already facing large unmet demands that continue to the present. Some 46.6 million Americans are uninsured, more than eight million of them children under age 18. 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 food hardships. Yet funding to meet these immediate and basic needs is being further curtailed, while the vastly greater fiscal burdens of an aging population related to Social Security, Medicare, and Medicaid are not being addressed.

Not only do tax cuts jeopardize current and future funding for necessary programs for Americans of all ages—such as Medicaid, housing assistance, nutrition programs, family caregiving programs and other social supports—but inequitable tax cuts are threatening the social fabric. As the wealthy become more so, while the poorest lag ever further behind, the kind of shared experiences and circumstances that can bind society together are disappearing. Meanwhile, the Congressional Budget Office predicts rising debt levels over the

next decade, from \$4.851 trillion in 2006 to \$6.696 trillion by 2016.<sup>12</sup>

Tax cuts also have the potential to cause serious damage to state budgets. After several years of difficulty and cuts in essential programs such as Medicaid and education, in the past year most states' fiscal health has improved substantially. The notable exceptions are Louisiana and Mississippi because of Hurricanes Katrina and Rita, and industrial states such as Michigan and Ohio that have never recovered from the recession of 2001-2002. Yet states will always be affected by federal actions, whether via the trickle-down impacts of income, capital gains and dividend tax cuts; or because of unfunded federal mandates such as those concerning national security, anti-terrorism, voting improvements, and the No Child Left Behind Act.

A fairly new wrinkle in state fiscal policy is the widespread attempt of anti-government conservatives 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, or CPI) plus population growth. This formula does not allow for the fact that the things states pay for—particularly health care and education—are rising in cost 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, TABOR formula would not accommodate the possible need to deal with natural disasters or emergencies, except by way of a cumbersome and time-consuming process that would allow a catastrophic

*"If more politicians were thinking of the next generation instead of the next election, it would be better for the United States and the world."*

*Senator  
Claude Pepper*

situation to become much worse before being addressed. TABOR's backers have made no secret of their longer-term agenda, which is to spread TABOR to a critical mass of states and then push for a TABOR at the federal level. This would be catastrophic to the programs on which vulnerable seniors, children, and families rely.

While TABOR is currently a state-based initiative, it has potential federal implications and consequences. TABOR's supporters are on record as planning to get TABOR passed in a critical number of states, then using those laws as a basis for pursuing a Taxpayer Bill of Rights at the national level.

### **BUDGET PROCESS**

As budget pressures rise and consensus builds around the need to cut spending, proposals to change the Congressional budget process could mount. For example, in 2006, several potentially harmful proposals were introduced, including provisions to give the President line-item veto authority; to establish sunset commissions; and to cap domestic spending programs and impose automatic entitlement cuts without any equal or offsetting restrictions on tax cuts. Under the guise of creating greater fiscal responsibility, these proposals would shift authority and power away from the Congress to the President and appointed decision-makers; would jeopardize spending for the social service and support programs critical to the well-being of children, youth and older adults; and would protect tax cuts while allowing federal programs to be shrunk or eliminated without Congressional review or oversight. Taken together or separately, these proposals are a serious threat to the basic democratic process and to long-established and demonstrably valuable programs that support people of all ages in need.

### **THE CHILD TAX CREDIT**

Current tax law provides a partially refundable child credit for most families that owe taxes. The credit is \$1,000 per child per year and is scheduled to expire in 2010. However, families whose income is so low that no income taxes are owed do not benefit from the credit. This includes more than 16 million children in poor households, including households headed by grandparents and other relatives caring informally for children. Although these families may pay no income taxes, they pay significant payroll, sales, and other non-income 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)**

Since 1993, the number of poor young children in working families has increased by more than 20 percent. 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 work force. "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 its being more broadly applied. Census data show that the EITC lifts substantially more children out of poverty than any other government program or category of programs.

The poverty rate of children in families with three or more related children in the US is more than twice the poverty rate of children in families with two children. Yet currently, the only distinction made in the EITC is between families with one child and families with two or more children.

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 seniors working at or near the minimum wage. *For further information, contact Generations United to obtain the EITC fact sheet.*