

Tax credit for those who pay taxes

The new tax bill exempts another three million-plus low-income workers from any federal tax liability whatsoever, so you'd think the nation's class warriors would be pleased. But instead we are all now being treated to their outrage because the law doesn't go further and "cut" income taxes for those who don't pay them.

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outrage because the law doesn't go further and "cut" income taxes for those who don't pay them.

This is the essence of the uproar over the shape of the child-care tax credit. The tax bill the President signed last week increases the per child federal income tax credit to \$1,000, up from the partially refundable \$600 credit passed in the 2001 tax bill. But Republican conferees decided that the increase will not be paid out to those too poor to have any tax liability to begin with.

Most Americans probably don't realize that it is possible to cut taxes beyond zero. But then they don't live in Washington, where politicians regularly demand that tax credits be made "refundable," which means that the government writes a check to people whose income after deductions is too low to owe any taxes. In more honest precincts, this might even be called "welfare."

But among tax cut opponents it is a political spinning opportunity. "Simply unconscionable," says Presidential hopeful John Kerry. The Democratic National Committee declares that the "Bush tax scheme leaves millions of children out in the cold . . . one out every six children under the age of 17, families and children pushed aside to make room for the massive tax cuts to the wealthy."

Senator Olympia Snowe, the media's favorite Republican now that John McCain isn't actively running for President, says she is "dismayed." "I don't know why they would cut that out of the bill," adds Senator Blanche Lincoln (D., Ark.). Those last two remarks take chutzpah, because if either woman had been willing to vote for the tax bill, a refundability provision would have been in it.

Senator Lincoln introduced the idea in the Senate Finance Committee, but then announced she wasn't going to vote for the bill anyway. Ms. Snowe was also one of those, along with Senator George Voinovich (R., Ohio), who insisted that the bill's total "cost" -- in tax cuts and new spending -- not exceed \$350 billion. Something had to give in House-Senate conference to meet that dollar limit, and out went refundability. The bill passed by

a single Senate vote, with Vice President Dick Cheney breaking the tie.

As it happens, the tax bill does a great deal for low-income families even without the refundable child credit addition. It expands the 10% income tax bracket, meaning that workers can earn more before leaping into the 15% and 25% brackets. This is a far better way to provide a tax cut than is a refundable credit, because it lowers the high marginal-tax rate wall that these workers face as their credits phase out at higher income levels.

There's also \$10 billion in the bill earmarked for Medicaid, the state-federal health insurance program for the poor. And any family that actually has any remaining tax liability benefits from the extra \$400 in child tax credit.

More broadly, the critics want everyone to forget how steeply progressive the tax code already is. IRS data released late last year show that the top 1% of earners paid 37.4% of all federal income taxes in 2000. The top 5% paid 56.5% of federal taxes, and the top half of all earners paid 96.1%. In other words, even before President Bush started slashing taxes on the poor by increasing the child tax credit in 2001, the bottom 50% of filers had next to no federal income tax liability.

But don't low-income workers have to cough up the payroll tax? They certainly do, but don't forget that the federal Earned Income Tax Credit was designed to offset payroll taxes and is also "refundable." In 2000, the EITC totaled \$31.8 billion for 19.2 million Americans, for an average credit of \$1,658. Some 86% of that went to workers who had little or no income tax liability.

Republicans who just voted for the tax cut could be less defensive and try to explain all of this. But instead too many of them are heading for the tall grass, with Senate Finance Chairman Chuck Grassley already promising to cave as early as this week on the child tax credit. This is the kind of political box Republicans walk into when they endorse tax credits that favor one group over another. Democrats are better at playing favorites.

We raised some hackles last year when we noted this growing trend that more and more Americans paid little or no tax. "Lucky duckies," we called this non-taxpaying class at the time. Notwithstanding liberal spinners, after this tax bill they're even luckier.

Treasury Dept. prepares to mail child tax credit checks

The process for issuing checks for the advance payment of the child tax credit takes 6-8 weeks. The IRS begins by running a program to search more than 130 million 2002 tax returns filed earlier this year to identify taxpayers eligible for the advance payment.

A calculation is performed for those eligible for the credit to determine the amount of the check and the data is transmitted to Financial Management Service (FMS), the agency in Treasury which issues all federal government checks - like Social Security, government employee and Military pay checks. A testing process is also performed to minimize errors.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 provides for the issuance of checks to approximately 25 million eligible taxpayers. As a result, checks are scheduled to be issued beginning July 25, 2003 in the following manner:

Last 2 Digits of SSN/Date mailed	
00-33	7/25/03
34-66	8/1/03
67-99	8/8/03