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[Promotion of the Earned Income Tax Credit]

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 4, 1995

MEMORANDUM FOR MARK GEARAN

FROM: Ben Nye
Jonathan Kaplan

SUBJECT: Promotion of the Earned Income Tax Credit

I. Introduction

In response to our conversation last week, we have developed several ideas related to the Earned Income Tax Credit (EITC) and how it fits into the Administration's long term communications strategy. We have outlined below a background sketch of the EITC expansion, the key Administration themes that the EITC helps to advance, and a number of opportunities for outreach.

At its heart, the EITC is a tax cut for millions of working Americans. It provides incentives for individuals to get off of welfare and get back to work. The credit fits nicely with the Administration's current legislative agenda. Far from being new to the debates over tax cuts and welfare reform, this President designed and paid for the expansion of the credit in his first budget. Since then, it has helped nearly 20 million Americans, including almost a quarter of all non-elderly families. To emphasize these points, you may want to invite an EITC beneficiary who left the welfare roles and returned to work (because of the credit's expansion) to the President's State of the Union speech.

II. Administration Expansion of the EITC

The expansion of the EITC, contained in the Omnibus Budget Reconciliation Act of 1993 (OBRA 93), sought to increase the number of those eligible for the EITC as well as the size of the credit.

- **Who receives the EITC?** The expansion cut taxes for the 14 million working families already receiving the EITC (23.1 percent of all non-elderly American families). It also added 4.7 million childless workers to the program. By 1997, when the EITC expansion is fully phased-in, the number of EITC recipients will have increased from 14 million to 20 million.

- **How big is the expanded credit?** In 1997, the maximum credit amount will increase from $2,000 to almost $3,400. This increase helps to bolster the stagnating real incomes of those at lower income levels.

- **How do eligible workers receive the credit?** People eligible for the EITC may receive the credit in either of two ways, in a lump sum or on a current basis (in their paycheck) through advance payment. In the past, fewer than 1 percent of claimants received the credit on a current basis.

- **Why do so few use advance payment?** A GAO study found that the low level of advance EITC participation was due to the fact that recipients are generally unaware of the option.

- **Which method of payment is preferable**? For low-income workers, the advance EITC payment can ease the burden of meeting day-to-day expenses. Providing the credit on a bi-weekly or monthly basis may also be of particular importance for those making the transition from welfare to work. One programmatic goal has been to encourage more EITC recipients to take advantage of the advance EITC.

- **Are there problems associated with the EITC?** A principal concern with the EITC program is the potential for fraudulent and erroneous claims. As a result, a second programmatic goal is reducing EITC fraud. According to some accounts, annual loss due to programmatic fraud ranges from $1 to $5 billion. To a significant extent, this problem is attributable to the IRS not having adequate information to verify eligibility for the credit when the credit is claimed.

- **How can the Administration address these concerns?** As for fraud, the IRS believes that shifting more EITC payments to the advance EITC, where an employer/employee relationship exists and an employer is involved in determining the amount of the credit, will help reduce fraudulent claims. Toward this end, the President last year informed millions of working Americans about the EITC expansion and the advance EITC in a three-part outreach strategy that included a cabinet press briefing, a CEO outreach campaign, and additional media. The Administration's EITC campaign was fairly successful. Based on employer returns for the first two quarters of 1994, the estimated number of filers of the advance EITC rose by 270 percent last year, from 31,311 participants in 1993 to 84,688 in 1994--a modest but significant increase. Now is the time to launch this outreach campaign once again.

III. Themes

The EITC expansion provides a unique communications opportunity for the Administration. The Administration could promote the EITC success as a part of its four-year legislative agenda, consistent with the current middle class tax cut and welfare reform proposals.

A. *Linking EITC Expansion to Welfare Reform*

With the welfare reform summit scheduled for mid-February, it is an opportune time to emphasize the fact that with the passage of EITC expansion in 1993, the

Administration succeeded in pushing through a critical component of any welfare reform package. An expanded EITC also ensures that workers--who remain in the workforce by virtue of their boosted incomes--receive the on-the-job training that they would not otherwise receive on welfare. EITC expansion is consistent both with the Administration's goal of moving welfare recipients back into the workforce and with the theme of "making work pay." It also demonstrates that welfare reform was an early priority for the Administration.

B. *Linking EITC Expansion to the Middle Class Bill of Rights*

The EITC expansion clearly shows that the Administration has been advocating tax cuts since President Clinton took office. Administration officials should not discuss the middle class tax cut issue without raising the fact that we have already cut taxes for 20 million American workers through the EITC expansion. Furthermore, because the EITC is now available for those with incomes up to $27,000, this is a tax cut that benefits not only the working poor, but also the lower middle class.

IV. Outreach Strategy

While Treasury and the IRS will continue to push their outreach efforts, there are a number of opportunities for other agencies and departments in the Administration to take the lead. We have taken the liberty of providing a few ideas for you.

A. *President Clinton*

1. State of the Union

With attention focused on tax cut proposals and welfare reform, the President should highlight in his State of the Union speech the Administration successes in cutting taxes and getting people off of welfare through EITC expansion in OBRA 93. *The President could recognize a worker, seated in the gallery, who recently left welfare by using the Clinton EITC tax cut to supplement his/her otherwise low income.* By pointing to tax cuts and welfare reform that the Administration has already enacted, the President can stress that these have indeed been themes of his Administration since day one.

2. EITC-Specific Events

The President could further highlight his EITC successes by conducting a Saturday radio address on the issue or by videotaping a public service announcement informing eligible workers of the advance payment option. He could also visit a voluntary income tax assistance (VITA) site or a low-income neighborhood to focus attention on the benefits of the advance EITC. In addition, some have advocated changing the name of the Earned Income Tax Credit to a less bureaucratic-sounding title, such as the Working Americans Credit. If the Administration determined that a name change is desirable, then a major event could be scheduled to christen the program.

B. *Cabinet Affairs and Business Liaison Outreach*

In an effort to promote a consistent message, Cabinet officials could mention EITC in their speeches as a critical early component of the Administration's tax cut and welfare reform proposals. These officials could also visit EITC-specific sites, such as a VITA center or a business, and encourage eligible taxpayers to take advantage of this Clinton tax cut.

EITC is a particularly good issue for the Administration to stress with labor unions, particularly those linked to industries adversely affected by NAFTA and GATT. Secretary Reich and others could conduct events with major unions geared towards increasing awareness of EITC eligibility. It is also worth noting that the EITC expansion amounts to a substantial increase in the minimum wage, raising it from the current level of $4.25 per hour to approximately $6.00 per hour.

The Administration had a great deal of success last year reaching out to big business on this issue. CEOs of major corporations such as Auggie Busch (Anheuser-Busch), Josh Weston (ADP), David Glass (Wal-Mart), and Don Fisher (The GAP) helped to spread the word about the advance EITC option throughout private industry. It was fairly successful, contributing significantly to the 270 percent increase in advance EITC enrollees. The Administration could expand the CEOs' participation this year by establishing a President's Steering Committee to promote EITC. Secretary Brown, Leon Panetta, Laura Tyson, and Robert Rubin could also play critical roles in this outreach. Further, on the small business side, Phil Lader and the SBA could reach out to small business, bringing into the fold members of the NFIB and the SBLC.

C. *Intergovernmental Affairs and Political Affairs Outreach*

It may also prove effective to encourage state and local government officials to promote the advance EITC program in their communities and with their own lower income workers. These offices could also work with the DNC in an effort to publicize the advance EITC. Treasury has compiled state-by-state and district-by-district figures on how many taxpayers are eligible for the expanded EITC which also might be helpful.

If you find any of these ideas useful, we would like to discuss them with you at your convenience. We will call you to follow up.

cc: Frank Newman
Josh Steiner
Sylvia Mathews