Budget—EITC

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GOP Considers Delaying Tax Credits

WASHINGTON (AP) -- House Republicans are considering delaying tax credits for millions of poor Americans as part of their hunt for savings to pay for must-pass spending bills.

``That's a live option,'' John Feehery, spokesman for House Speaker Dennis Hastert, R-Ill., said today.

Clinton administration officials immediately criticized the suggestion, with Treasury Secretary Lawrence Summers saying the idea is ``tantamount to a tax increase on working families.''

The delays would effect the earned-income tax credit, under which an estimated 20 million low-income, working Americans either receive payments from the federal government or have their taxes reduced.

Almost all of the credit's recipients receive their payment in a single, lump-sum check. The credit averages $1,890 per year for families with children, according to Treasury Department figures.

Under the GOP plan, those payments would be broken up into monthly or quarterly payments. The delays would save the government up to $8.7 billion next fiscal year, Feehery said, because some of the payments would be delayed into the following fiscal year.

``It doesn't hurt anybody,'' Feehery said. ``It's just spreading out the payments.''

But Summers said breaking the credit into several payments would hurt the poor because many of them use the lump sum to purchase used cars or other expensive items.

Fiscal 2000 begins Oct. 1. Republicans have sent only two of the 13 annual spending bills for next year to President Clinton for his signature. They are desperately searching for ways to pay for the bills without using Social Security surpluses, which both parties have promised not to touch.

The proposal to delay the earned-income credit was first reported in The Wall Street Journal.

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THE WHITE HOUSE

Domestic Policy Council

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COMMENTS: Treasury's talking points on Republican EITC proposal. Note the proposal would prevent advance payments in 2000, delaying both these monthly payments and the lump sum refunds over a 12 month period.

These have been coordinated w/ OMB, NEC + Larry Stein. Apparently Barry Toiv will also hit this as a cynical play pitting poor families against needed investments.

DEPARTMENT OF THE TREASURY
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Congressional Proposal to Delay EITC Refunds

- Today's Wall Street Journal reports that House Republicans are considering a plan to delay EITC payments next year.

  - Under the plan, the IRS would be required to pay EITC refunds quarterly or monthly over a twelve-month period. According to Congressional aides, taxpayers would also not be allowed to claim advance payments of the EITC through their employers for tax year 2000.

  - As a result, about a quarter of EITC refunds – roughly $7 billion – for tax year 1999 would be pushed into FY 2001.

- The proposal would impose a **tax increase on 20 million working families** who expect to receive the full amount of the credit when they file their tax return next winter and spring. No other group of taxpayers is being asked to delay receipt of their tax refund.

- **The IRS cannot implement the proposal.** At this late date, the IRS cannot change its computer programs for the next filing season in order to pay out EITC refunds separately or any tax refund in installments.

- Nearly 20 million low and moderate-income taxpayers will claim the EITC on 1999 tax returns. They will claim an average EITC of $1,610. If they have children, they will receive, on average, an EITC of $1,890. Most EITC claimants have income below $30,000. Nearly all EITC payments are made during the filing season.

  - Most claimants chose to receive the EITC at the end of the year in a lump-sum payment, rather than advance payments during the course of the year. They have made decisions about personal saving and consumption on the expectation of a large refund this spring.

  - Some may have planned to purchase a car or move to a better apartment when they receive their EITC refunds. Others have borrowed money in the expectation of receiving an EITC refund at the end of the year. Receiving the EITC in monthly payments will disrupt these plans, and in some cases, impose further costs on taxpayers who do not have other resources to fall back upon.

- By choosing to receive the EITC at the end of the year, low-income taxpayers have already made a significant interest-free loan to the government. Delaying the refund further is, in effect, demanding that low-income taxpayers extend the loan to the government.

  - Many low-income taxpayers, caught by surprise by the delay of their refund, may have to borrow money from private sources. There is already a sizable refund-anticipation loan market, which often charges high interest rates to low-income taxpayers who seek to receive their EITC refund in advance. Delaying refunds will push more low-income taxpayers into the refund anticipation loan market.

A Tax Increase on Working Families

The proposal to spread out payments of refunds of the EITC to working families over 12 months is tantamount to a tax increase.

- Families that would have saved their refunds will lose the interest that they would otherwise have earned.
- Families that would have used the money to pay off debt will be able to retire less debt because they will incur more interest expense.
- Families that would have used the money to purchase a consumer durable such as a car will have to take out larger loans to do it.

Examples:

1. A couple with two children earning $10,000 is planning to use their $3,816 EITC to purchase a used car to get to work. Because the payments will be delayed over 12 months, they will have to get a loan at 10 percent interest. As a result, they will only be able to afford a car costing $3,617. Spreading out the EITC is tantamount to a tax of almost $200 to this family.

2. A single parent with one child and income of $20,000 expects to use their $1,103 refund to pay off her credit card debt. If she receives the EITC in installments, she will have to pay interest at 18 percent. As a result of the interest costs, she will end the year with $208 of unpaid debt. That $208 is effectively an additional tax.

- The IRS cannot cut a separate refund check for EITC claimants.

  - Right now, the IRS is completing its testing of computer programs for the next filing season. These programs are not set up to pay out the portion of refunds attributable to the EITC separately or to make installment payments of any refund amount. At this late date, there is not sufficient time to develop and adequately test new programs.

  - These programming changes would come on top of IRS efforts to meet the Y2K challenge.

Office of Tax Policy
September 14, 1999

GOP Budgeteers Try to Delay Tax Credits to Poor

By David Rogers
Staff Reporter of The Wall Street Journal

WASHINGTON – House Republicans are considering a plan to delay billions of dollars in tax-credit payments to poor families to help offset spending elsewhere for education and social services next year.

Earned-income tax credits, which cost about $30 billion annually, are typically distributed in lump-sum payments between January and May as individuals file tax returns. The proposal would make the payments on a monthly or quarterly basis over 12 months and push a portion of the costs past Oct. 1 next year and into fiscal 2001.

While no decision has been made, the plan is taken seriously by Speaker Dennis Hastert's office, and Joint Taxation Committee estimates show a short-term savings of $7 billion. "Not a single person will lose a penny on this," said one leadership aide. "The savings would go to pay for spending for the same targeted population."

Nonetheless, most EITC payments go to households with children, and incomes under $20,000. That the proposal has moved this far underscores the level of frustration in the GOP as it tries to minimize its failure to live within prescribed spending limits.

With the new fiscal year beginning in two weeks, Congress is on track not only to break these caps, but also to again borrow from Social Security funds to finance government operations. Anxious to save face, the leadership is falling back on accounting gimmicks to disguise the problem by shifting tens of billions of dollars out of fiscal 2000.

The EITC proposal fits into this strategy and is one example of delayed spending. The opposite is the case concerning agriculture, on which the GOP wants to spend as much as possible in the next two weeks before the current fiscal year expires Sept. 30.

The Senate already has approved about $7.4 billion in emergency aid to farmers hurt by a second year of low commodity prices. Normally, this money wouldn't be distributed before Oct. 1, even if endorsed by the House in negotiations this week. But one option under discussion is the formation of a special entity to receive the funds, which would justify their being counted as an expenditure on the budget books this fiscal year.

The proposals now risk distorting the appropriations process to a degree never seen before. President Clinton opened the door by requesting billions in advanced funding for his budget priorities past 2000. Senate Republicans now are seizing the chance to use the same approach to shift as much as $20 billion in costs into 2001 and extricate themselves from the current spending crunch.

Meanwhile, on a 55-40 Senate roll-call vote, Western and Gulf Coast oil interests fell five votes short of the 60 needed to limit debate on their provision to block Interior Department rules governing royalties paid on petroleum taken from federal lands. Industry backers say the changes are unduly costly, but Democratic Sen. Barbara Boxer of California has vowed to delay action on the entire Interior budget unless the provision is dropped.

Budget – EITC

APEC Leaders Back Talks, But U.S. Gets Few Victories

By a Wall Street Journal *Staff Reporter*

AUCKLAND, New Zealand – U.S. and Asian leaders voiced strong support for the next round of global trade talks in Seattle, but their deliberations here show how difficult it will be to reach a widely accepted deal.

Among the priorities promoted by the leaders of the Asia Pacific Economic Cooperation forum, which is a collection of 20 Pacific Rim nations and Hong Kong, are tariff cuts, agricultural liberalization and service-industry expansion.

But the leaders failed to mention any need to improve labor and environmental standards—the two issues that have galvanized U.S. and European opposition to freer trade.

The APEC leaders also didn't back a U.S. plan to keep trade talks moving rapidly by encouraging partial agreements that could be signed quickly.

The U.S. did score one clear victory: APEC leaders backed a plan, first announced by Vice President Al Gore early this year, to abolish farm-export subsidies.

However, the European Union, which heavily subsidizes farmers, is bound to oppose the proposal.

Meanwhile, the U.S. and Vietnam failed to sign a widely anticipated bilateral-trade deal, which businesspeople fear could delay the pact for another year. Analysts said the delay could deal a severe blow to foreign-investor confidence.

Vietnam's Trade Ministry said the government "needs more time to consider" the details of the deal.

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Starr, Aide Win Appeals Court Victory On Illegally Leaking Grand-Jury Facts

By GLENN R. SIMPSON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The office of independent counsel Kenneth Starr and a former Starr aide are off the hook, at least for now, for allegedly leaking grand-jury material to the news media.

The U.S. Court of Appeals for the District of Columbia ended the contempt-of-court proceeding, reversing a lower-court finding that Mr. Starr's office appeared to have illegally disclosed the material. The case involves a 1998 report that Mr. Starr was weighing an indictment of President Clinton. Overruling the district court, a three-judge appeals court panel found that the information isn't protected by grand-jury secrecy rules.

The ruling showed the dire legal circumstances into which Mr. Starr's office had fallen earlier this year. Until yesterday, the case against Mr. Starr's office and his former spokesman, Charles Bakaly, had proceeded largely behind closed doors.

According to the appeals court, Mr. Starr's office was forced to retract statements denying that any of its staff was the source of a 1998 story in the New York Times. The newspaper reported a debate within the office over whether to indict President Clinton for lying under oath about his relationship with Monica Lewinsky.

The independent counsel also was forced to withdraw a declaration by Mr. Bakaly, who was Mr. Starr's spokesman, denying involvement in the alleged leak. Mr. Starr's office then "took administrative action against Bakaly and referred the matter to the Department of Justice for a criminal investigation and decision," according to the appeals-court panel.

It isn't known what evidence contradicts the earlier denials by the independent counsel and Mr. Bakaly's declaration. Mr. Bakaly couldn't be reached to comment.

Mr. Starr claimed vindication, saying his office had never committed illegal leaks.

The appeals-court panel's decision might not be the last word on the matter. David Kendall, President Clinton's personal attorney, said in a statement that he would seek to have the decision reviewed by the full appeals court. In addition, other allegations of illegal leaking by Mr. Starr are still under investigation by both U.S. District Judge Norma Holloway Johnson and the Justice Department.

In July, Judge Johnson ordered the department to serve as prosecutor for contempt charges against Mr. Bakaly and the office of independent counsel, the opinion states, and both were named as criminal defendants. But she left open whether the case could be resolved with criminal or civil charges.

Mr. Starr's office, in addition to denying that the information constituted sensitive grand-jury material, made the claim that it enjoys sovereign immunity from contempt prosecution because it is a federal agency.

The appeals court declined to rule on that defense, agreeing with Mr. Starr that information about his prosecutorial strategy isn't necessarily protected by grand-jury secrecy.

Clinton to Lift Some Trade Sanctions Against North Korea as Talks Continue

By NEIL KING JR.
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Despite some skepticism on Capitol Hill, the Clinton administration plans to lift a range of trade sanctions against North Korea to reward Pyongyang for its promise to desist from any long-range missile tests while negotiations on a permanent test ban continue.

U.S. officials describe the North Korean promise, brokered in Berlin over the weekend, as a crucial step toward resolving a standoff that has ratcheted up tensions across Asia since North Korea tested its first multistage missile last year.

U.S. National Security Adviser Samuel Berger, traveling in New Zealand with the president, said North Korea had promised not to test any long-range missiles as long as talks continued on improving relations. As part of the arrangement, Mr. Berger said, the U.S. is considering a "number of measures" to ease economic sanctions against North Korea.

The State Department said it would recommend easing sanctions on the trade of "nonsensitive goods" such as passenger cars and would allow people living outside North Korea to send remittances to individuals there. The remittances could be the most meaningful development, one U.S. official said. "The rest is in many respects symbolic," the official added, as few companies are liable to take advantage of buying or selling to North Korea's impoverished economy.

Such moves were justified as a way to head off a missile test that would be "one of the most destabilizing developments for Asia and the United States," Mr. Berger said. Military and intelligence officials have warned for months that North Korea could launch another test missile at any time with a range capable of reaching targets in North America.

Yet critics, including some members of Congress, raised concerns that the U.S. may be appeasing North Korea and rewarding it for making threats.

Rep. Benjamin Gilman (R., N.Y.), chairman of the House International Relations Committee, said he was worried that the North Koreans may be making promises in order to get hold of Japanese war-reparation funds, which others estimate could top $1 billion. The Japanese have offered to pay North Korea damages from World War II similar to reparations made to other Asian countries, but only if Pyongyang agrees to halt its missile program and open relations with the outside world.

"If true, this agreement opens the way for another round of North Korean extortion," Mr. Gilman said in a statement.

Japanese Prime Minister Keizo Obuchi said Sunday that he didn't see the agreement "as a sign that the North has abandoned a launch completely."

In Washington, State Department spokesman James Rubin said the pact was based on an oral promise from North Korean negotiators; "not a formal document." Nonetheless, he said the two sides would now try to "suspend and then make permanent the freeze on the testing of missiles." U.S. officials say the current talks could herald the start of a warmer relationship with Pyongyang.

Former Defense Secretary William Perry, now a special U.S. envoy to North Korea, has worked for 10 months on what advisers call "a new vision" of U.S. relations toward Pyongyang. He is expected to present a report on his proposals to Congress this week.

Ashton Carter, an adviser to Mr. Perry, said North Korea's pledge is potentially a "very significant development." But when it comes to North Korea, he said, "one should never be too rosy in one's predictions."