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## **MONEY IN EMPTY POCKETS**

### **President Elect Obama's Tax Reform Proposals for Low Income Families**

Our economic meltdown seeps farther into our population. Retirement savings are eroding. Homeowners with adjustable rate mortgages struggle as their home values decline. Consumers postpone big purchases. But what happens to those with the least to lose, whose incomes allow no margin for error?

To date, the federal government has step in with trillions to shore up those corporations and entities **too big to fail**. Some steps are now being taken to extend unemployment benefits and to ease some of the consumer and business credit crunch. Various programs are being implemented to try to address the some of those at risk for foreclosure.

What about families already living in poverty? In this short paper, I will highlight **President-elect Obama's campaign proposals** for fiscal relief to low income families. Clearly our country's economics have shifted in the weeks since these campaign proposals were developed and promised. Some of the discussion may be delayed as other tax policy reform is delayed. Yet some proposals should be considered in the context of economic stimulus. Even Ben Bernanke, The Chairman of the Federal Reserve said, during the discussion of President Bush's Economic Stimulus plan in January 2008, that it was important that a plan "put cash into the hands of poor people and the middle class, who are most likely to spend it right away."

Some people's eyes glaze over with the words "tax policy". Keep in mind that the tax refund check is the largest check many low income individuals see in a year. For individuals living in poverty, a key policy concept is the "**refundable**" **tax credit**. Many low income individuals make too little to pay income taxes, although they still pay payroll taxes, sales taxes, excise taxes, government fees and even their landlord's property taxes through their rent. A couple with two children, for example, who makes less than \$24,000 per year would probably owe no federal income tax. A mother with two children who makes less than \$18,000 per year would probably owe no income tax. For these low income families a credit against income taxes owed is worthless, unless it is **refundable** above the amount owed.

President Elect Obama has proposed extending some current tax credits to make them refundable. There is no reason to exclude those most in need from getting credit for their expenses like other families:

1. Hope Credit – a tax credit against tuition costs for the first two years of **higher education**. In addition to making it refundable, the maximum would be raised to \$4000. To be renamed American Opportunity Tax Credit.



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2. **Child and Dependent Care Credit**- a tax credit for part of the expenses incurred for caring for children and other dependents so one can work. In addition to making it refundable, he also proposed raising rates available to some families .
3. **Saver's Credit** – A 50% match worth up to \$500 for individuals; \$1000 for couples in **retirement contributions.**
4. **Universal Mortgage Credit** – A 10% credit of **mortgage interest** for those who do not itemize on their tax returns

President Elect Obama has also proposed a small expansion in the federal **Earned Income Tax Credit**, the largest current refundable tax credit. He would include more low wage earners without children. Currently, only those individuals earning less than \$12,500 can claim a small EITC. Non-custodial parents who are paying child support would get a larger amount than other workers without children. He also proposed allowing a larger EITC for those with more than 2 children. Currently, a family with 3 or more children gets the same EITC as a family with 2 children. He would reduce the “marriage penalty” for EITC filers, allowing slightly higher income threshold for married couples.

President Elect Obama has also promoted a “**Make Work Pay**” tax credit of up to \$500 per worker. While low income families would be eligible because of its refundability, the credit would extend up to those making \$75,000 per year (or \$150,000 for couples) making the proposal by far the costliest of those benefitting low income families, since it would also cover the middle class.

As a quick reminder...when Congress approve the “economic stimulus package” last summer, most working adults receiving \$600. But low income families – those earning too little to pay federal income tax-- received only \$300 per working adult.

An army of lobbyists have descended on Washington, D.C. to ask “where’s my bailout?” on behalf of their clients. Billions flow out of the U.S. treasury to help companies too big to fail. It is time to ask what role the government has to help families currently in poverty succeed. Can they hope to see any of the promises fulfilled?

For a detailed, independent analysis of President Elect Obama’s Tax Plan, including budget projections from the Congressional Budget Office, see *An Updated Analysis of the 2008 Presidential Candidates Tax Plans*. Updated September 12, 2008 at [www.taxpolicycenter.org](http://www.taxpolicycenter.org) .

