



## **Podcast Transcript for “The Tax War on Poverty”**

**Featuring Susannah Camic Tahk**

**Hosted by Dave Chancellor**

**March 2016 (based on January 13, 2016 interview)**

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**[Chancellor]** Hello, you’re listening to a podcast from the Institute for Research on Poverty at the University of Wisconsin-Madison. I’m Dave Chancellor.

In this, our March 2016 podcast, we’ll be talking with Susannah Camic Tahk about what she calls the Tax War on Poverty. Camic Tahk is an Associate Professor at the University of Wisconsin Law School and an IRP affiliate.

When I sat down with Professor Camic Tahk for this interview, I first asked her what she means by ‘the Tax War on Poverty’.

**[Camic Tahk]** A lot of antipoverty programs at the federal level in today’s day and age take the form of provisions in the tax code and that’s the phenomenon that I am studying with my project. We can think of these tax code provisions as falling into two rough categories. Some are what I call, for want of a better term “demand side” programs and they provide direct cash subsidies to low income folks often, through the middle class, so often low to middle income folks, often direct income support, that would be the earned income tax credit or the child tax credit. It might be for something specific like education or health care. So those provide money, get money into the hands of folks who might be experiencing poverty. The other type of program takes the form of what I call the supply side programs. They create incentives for third parties to provide services for, or resources for folks experiencing poverty. One of the best known of those programs is the low-income housing credit, providing a subsidy to developers who build low-income housing. One that we don’t think of as much, but certainly falls into that category is the set of benefits for tax exempt organizations, private charities that provide services for individuals experiencing poverty so it’s a whole range of programs falling into those two categories.

**[Chancellor]** Camic Tahk explains that the number and generosity of tax-code based antipoverty programs has grown significantly over the years. This is in contrast to what has happened to direct spending programs.

**[Camic Tahk]** The first major program here is the one people know the most about, the Earned Income Tax Credit that came in as a temporary provision in the early 70s, has had a consistent history of expansion since then up until this December when expansions to the EITC were made permanent as part of the budget bill that passed both houses of Congress. So, in that period we've seen a lot more of these tax credits popping up. You see some in the 80s, you see a big glut in the 90s and we're continuing to see them proposed today. For example, Hillary Clinton's presidential campaign has proposed a number of tax programs that would have some effect on low income folks. It's a creature of the past however long it's been since the 70s, and it's a phenomenon that's continuing to become bigger and bigger all the time while at the same time, we see reductions in direct spending programs so for example, direct welfare, TANF, food stamps. Those types of things, we don't see new programs along those lines. We don't see as many of them, and the dollar figures involved in those programs are shrinking relative to the growth in the tax programs in dollar terms.

**[Chancellor]** Professor Camic Tahk says that part of the reason for this shift away from direct spending programs and toward tax based programs can be attributed to what she refers to as the "public opinion advantages" that come with tax based programs.

**[Camic Tahk]** People have expressed in polls that they prefer programs that are structured as tax provisions to programs that are structured as direct spending programs. Political scientists, and other researchers including myself, have done experiments in which we describe to respondents two programs and one group of individuals will get a description of a direct spending program, a direct subsidy, \$500 for adopting a child, buying food and then, another group of respondents will get a description of a tax program, same size, that's aimed at the same goal. And over and over again, across different areas, we've found that people prefer the tax programs. There are a bunch of hypotheses for why that might be true, we don't really know. There's nothing in the literature right now that tells us, so one of my current projects and I'm coauthoring this with my husband in the political science department, we have a survey running right now where we try to get to the bottom of this preference. Why does something become dramatically more popular when you call it a tax credit or a tax deduction? Why might that be?

**[Chancellor]** Camic Tahk says that in addition to these tax-based programs just being more popular, they also see much more bipartisan support.

**[Camic Tahk]** So, For example, when you look at the budget bill that passed just before Christmas, you see this big permanent EITC and Child tax credit expansion passing two

Republican-controlled houses of Congress. It's a plan that President Obama's administration has promoted and advocated for, but it's passing the Republican-led houses of Congress. This is a set of expansions that the head of the Center on Budget and Policy Priorities -- so pro-welfare, pro-poverty spending organization -- says it's one of the greatest antipoverty accomplishments, this budget bill, in the last ten years, putting aside maybe Obamacare. And that's something that you see, again, Republicans and Democrats working together on it.

Another example is a lot of folks talk about the Grover Norquist anti-tax activism and how that's pushed the Republican Party to the right. As part of that, a number of members of Congress have signed a pledge where they say they will not cut any tax credit or deduction or exclusion so what that means is that all these members of Congress have pledged that they will not do anything to hurt the Earned Income Tax Credit or the New Markets Tax Credit or any of these things. There's a lot of bipartisan support and again, researchers try to speculate -- then do more than speculate -- trying to figure out why these programs might be so popular.

**[Chancellor]** There are also some more process-oriented reasons that may contribute to the establishment and growth of tax-based programs, including, for example, the Congressional committee structure and provisions for automatic program growth depending on demand. In addition, Camic Tahk says that it's often cheaper and easier to roll out a new program through the tax code than it is to set up a new direct spending program. However, establishing antipoverty programs through the tax code has some downsides, one of which is that they are not as likely to reach Americans in deep poverty.

**[Camic Tahk]** Most of these programs on the demand side have a work requirement or have a minimum level of income you have to get to get them. If you don't have a job or don't have any income, you're not going to be able to get one of these programs. Or, for example, the design of the Low income housing credit which allows developers to collect some percent of their residents income as rent, they want to find higher income poor folks to rent to and the credit is set up to allow that or to encourage that. Same thing, New Markets Tax Credit -- it's going to give you an incentive to build a store in a poor community. If you don't have any money, and you're not buying a lot from that store, it's just not going to help you much. The major exception is the exemption for charities dealing with poverty, but we know that the charities dealing with poverty are just a small subset of the charities that are getting the tax exemption and getting the deductible contributions. So, I've debated in a number of different settings and I don't have an answer, whether it would be possible to imagine tax programs that could serve the deeply poor. But right now we don't have those.

**[Chancellor]** Camic Tahk says that another disadvantage to administering antipoverty programs through the tax code is that there's not much of a support infrastructure when people need help resolving an issue with a benefit or payment.

**[Camic Tahk]** So for example, we know right now, if you receive the Earned Income Tax Credit, you're more likely to get audited. You get audited, most often, in the form of a correspondence audit. The IRS freezes your refund, sends you a letter saying you have a problem with your EITC, respond to this letter telling us what the issues and respond to our allegations that you've claimed it wrong. Well, the majority of those letters, we know, just go unanswered. People get these letters, they don't know what to do, they don't know how to fix the problem, and they don't know where to go. Whereas with traditional welfare, food stamps, first of all, there might be an agency where you can go. And the second, legal aid offices, poverty lawyers, have government benefits wings that are set up to help you out. Not that that's always sufficient. It certainly isn't but that infrastructure is there more than it is with the tax programs. And Congress is working on that through grants to develop low-income taxpayer assistance clinics but these are relatively new. Still getting their feet on the ground, whereas legal aid office have been helping folks dispute their welfare benefits for a long time.

**[Chancellor]** The lack of a strong support infrastructure within the IRS when it comes to antipoverty programs isn't particularly surprising to Camic Tahk, who says that the IRS readily agrees that it doesn't have the capacity to administer so many of these kinds of programs.

**[Camic Tahk]** The IRS itself has complained that it doesn't have experience administering these programs, it's being given too many programs to administer, and not enough money to administer them. The Taxpayer Advocate is like an IRS ombudsman figure and every year she comes out in her report, almost every year, and says the EITC is just too big of a program for us, we can't catch all the fraud, we don't know what to do, people have questions. We can't answer them, we're not set up to deal with this. Now we don't know how the IRS's experience administering these programs is different from how the other agencies do. I mean, they probably report problems of their own but we definitely know that the IRS is getting a lot -- Congress is putting a lot on its plate these days.

**[Chancellor]** One of the key takeaways from Camic Tahk's work in this area is that it is clear we have entered into a new era in the delivery of social benefits, one that's focused on the delivery of anti-poverty programs through the tax code and away from direct spending programs, even if the infrastructure to support and evaluate such a shift hasn't yet been fully developed.

**[Camic Tahk]** These programs are different than the direct spending programs that came before them. They have different politics, they're administered differently, and they raise different sets of problems. We have to start thinking about what the consequences of those differences are. One thing I talk about a bit in the paper is that these programs don't come with any kind of formal evaluation mechanism so we don't really know how well these programs are doing, if people are having good or bad experiences in administering them, what's it like for a lawyer at a

low-income taxpayer assistance clinic that's representing poor taxpayers with regard to these benefits. What problems are they facing? We just are at the very beginning of exploring how these programs are different and the particular issues that they raise. I've been starting to do that and I'm looking forward to continuing to do that in the years to come as I work on this project.

**[Chancellor]** Many thanks to Susannah Camic Tahk for this interview. For more on this work, check out her 2014 article on the Tax War on Poverty in the Arizona Law Review.

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