Welfare That Dare Not Speak Its Name

Since the Department of Health, Education, and Welfare became the Department of Education and the Department of Health and Human Services in 1979, the term “welfare” has fallen into disuse. “Income security,” “entitlement,” or “public assistance programs” are now the usual terms for what used to be called “welfare programs.” Even the food-stamp program has been renamed the Supplemental Nutrition Assistance Program (SNAP).

But regardless of what they are called, it is without dispute that in addition to SNAP, federal programs such as Head Start, Temporary Assistance to Needy Families (TANF), Supplemental Security Income (SSI), Medicaid, the Low Income Home Energy Assistance Program (LIHEAP), the Children’s Health Insurance Program (CHIP), subsidized housing, and Women, Infants, and Children (WIC) are welfare programs.

There are in the United States about 80 means-tested welfare programs that limit benefits or payments on the basis of the beneficiary’s income or assets. But there are other welfare programs that are never viewed as such: refundable tax credits.

Tax deductions and exemptions serve to reduce one’s income subject to tax. In either case, taxpayers will pay less in taxes the greater the number, and the greater the amount, of exemptions and deductions they qualify for. For tax year 2017, all taxpayers can generally claim a personal exemption of $4,050 for themselves and their dependents and a standard deduction of $6,350 ($12,700 for married filing jointly). Many taxpayers can also claim deductions for things such as health savings account contributions, moving expenses, IRA contributions, and student loan interest. Taxpayers who choose to itemize can also claim deductions for things such as medical expenses, state and local taxes paid, home mortgage interest, and charitable contributions.

All applicable deductions and exemptions are subtracted from one’s total income before the amount of one’s taxable income is calculated. Tax deductions and exemptions are not subsidies or loopholes.

Tax credits, of which there are two types, work differently, although both types serve to reduce the amount of tax owed on one’s income. A regular tax credit is a dollar-for-dollar reduction of the amount of income tax owed. Like tax deductions and exemptions, one will pay less in taxes the greater the number, and the greater the amount, of tax credits that one qualifies for. Current tax credits include the credit for child and dependent care expenses, education credits, the Child Tax Credit, and the Earned Income Tax Credit. Tax credits may reduce the tax owed to zero, but if there is no taxable income to begin with, then no credit can be taken.

However, unlike regular tax credits, refundable tax credits are a form of welfare, even though they are rarely viewed as such. A refundable tax credit is treated as a payment to the government from the taxpayer, such as federal income tax withheld or estimated tax payments. If the tax credit “payment” is more than the tax owed after the regular tax credits are applied, then the taxpayer becomes a tax receiver. He receives a refund of the money he never actually paid in. The money is simply taken from real taxpayers and transferred to him. Refundable tax credits are the ultimate form of welfare because they are payments made in cash, just as the Temporary Assistance to Needy Families (TANF) or Supplemental Security Income (SSI) programs, instead of payments made to a third party, as with Medicaid, or deposited on an Electronic Benefit Card (EBC), as in SNAP.

Under current tax law (tax year 2017), there are three refundable tax credits: the American Opportunity Tax Credit (AOTC), the Additional Child Tax Credit (ACTC), and the Earned Income Tax Credit (EITC).

The AOTC is 100 percent of the first $2,000 plus 25 percent of the next $2,000 in qualified tuition and related educational expenses the taxpayer pays for each eligible student in each of the first four years of the student's post-secondary education in a degree or certificate program. The maximum credit is therefore $2,500. No credit can be claimed if the taxpayer's modified adjusted gross income exceeds $90,000 ($180,000 for joint filers). There is a phase-out for taxpayers with modified adjusted gross incomes over $80,000 ($160,000 for joint filers). Forty percent (up to $1,000 per student) of the AOTC is refundable.

The ACTC is available to taxpayers with a qualifying child who receive less than the full amount of the $1,000 Child Tax Credit (CTC) because the tax owed is less than the allowable child tax credit. In that case, the amount of the ACTC, for taxpayers with one or two children, is the smaller of the remaining child tax credit or 15 percent of the taxpayer's taxable earned income over $3,000. For taxpayers with three or more children, the amount of the ACTC is the smaller of the unused portion or the larger of either 15 percent of the taxpayer's taxable earned income over $3,000 or the sum of Social Security and Medicare taxes paid minus the earned income credit.

The EITC is a fully refundable tax credit for low- to moderate-income working individuals and couples, particularly those with children. The actual amount of EITC benefit depends on a recipient's income and number of children. To be eligible, both earned income and adjusted gross income must each be less than:

$15,010 ($20,600 married filing jointly) with no qualifying children

$39,617 ($45,207 married filing jointly) with one qualifying child

$45,007 ($50,597 married filing jointly) with two qualifying children

$48,340 ($53,930 married filing jointly) with three or more qualifying children

The maximum EITC that one can receive is:

$510 with no qualifying children

$3,400 with one qualifying child

$5,616 with two qualifying children

$6,318 with three or more qualifying children

Now we can see the reason for the roadside signs offering a tax credit of up to $4,400 per child: a $1,000 ACTC and a $3,400 EITC.

To receive the maximum credit, one's income must be between:

$6,670 and $8,340 ($13,930 married filing jointly) with no qualifying children

$10,000 and $18,340 ($23,930 married filing jointly) with one qualifying child

- $14,040 and $18,340 ($23,930 married filing jointly) with two or more qualifying children

(In the GOP's tax-reform bill, which takes effect for tax year 2018, the AOTC is unchanged, EITC benefits are slightly increased, and the ACTC is merged into the regular CTC and greatly expanded.)

The EITC is not only the king of refundable tax credits, it is the largest federal cash-transfer program and the third-largest social-welfare program in the United States after Medicaid and food stamps. Almost 90 percent of its benefits are paid out in cash. According to the IRS: "Nationwide last year more than 27 million eligible individuals and families received almost $67 billion in EITC." And in addition to the federal EITC, 26 states and the District of Columbia also have an EITC program.

Although the EITC is a tax credit, for many of its recipients it functions as a lump-sum welfare payment because they don't pay any federal income tax in the first place.

And Americans who receive refundable tax credits get another added benefit as well: Any cash payment they receive is not counted as income when determining their eligibility for benefits or assistance, or how much they can receive, from any federal welfare program or any state or local program financed in whole or in part with federal funds.

Because refundable tax credits paid to non-taxpayers are funded by taxes collected from taxpayers, they are nothing but income-transfer programs and wealth-redistribution schemes masquerading as tax credits. This doesn't mean that refundable tax credits should be eliminated; it just means that they should no longer be refundable.