Progressive Democrats' tax plan: $1.4 trillion tax credit for the working class

September 14, 2017

As Congress starts to debate President Donald Trump's plan to overhaul the tax code and cut corporate rates, a Bay Area Democrat is putting forward a radically different tax proposal.

Rep. Ro Khanna, D-Santa Clara, will introduce a bill Wednesday that would give low-income and working-class taxpayers a big tax credit — at a massive price tag.

The plan would drastically expand the Earned Income Tax Credit, which helps people at the bottom end of the salary range. Low-income taxpayers without dependent children would see their credit rise from a maximum of $510 to $3,000, and families would see their maximum rise from $6,318 to $12,131, depending on their income and number of children. Economists say the increased credit would help compensate for the fact that working class salaries have stagnated in recent decades even as the U.S. economy has continued to grow.

While the proposal isn't likely to gain traction in the Republican-dominated Congress, Khanna hopes it will become a Democratic rallying cry.

"I think it's going to be our party's answer to Donald Trump on taxes," Khanna said in an interview. "While he's proposing tax cuts for the investor class, we're proposing support for the working and middle class."

Khanna is introducing the bill alongside Sen. Sherrod Brown, D-Ohio, a progressive who is seen as a potential 2020 presidential candidate.

While the Brown-Khanna proposal doesn't have an exact expense attached to it, two experts who've worked on the policy say it will cost around $1.4 trillion over 10 years. Khanna said a separate financial transaction tax and taxes on the highest-earning incomes could pay for it.

But that eye-popping price tag is a non-starter, argued Chris Edwards, an economist with the conservative Cato Institute. "Holy smokes," he said, when he heard the cost. "That is astounding."

Tax reform is the biggest issue on Congress' to-do list over the next few months. Trump's proposal would reduce corporate tax rates, simplify tax brackets, and end most credits and loopholes. "We want our companies to hire and grow in America," Trump said in a speech in North Dakota last week. "That is how we will all succeed and grow together."

Experts say the Trump plan would give the largest benefits to corporations and individuals with high incomes. The Brown-Khanna plan, on the other hand, would increase credits for families making up to about $75,000 and individuals without children making up to about $37,500.

Expanding the Earned Income Tax Credit would do more to help working-class Trump voters than tax cuts for the wealthy, argued Chuck Marr, an economist at the liberal Center on Budget and Policy Priorities. "If you were to take seriously the people he was talking about in the campaign — rust belt workers, truck drivers, cooks in restaurants, people who clean offices — this is what you would do," Marr said.

The credit was first introduced in 1975 as a way to incentivize low-income people to get work and stay off of welfare. It has been expanded over the years, and most economists, both liberal and conservative, see the credit as a successful policy to boost low wages.

In recent years, former President Barack Obama and House Speaker Paul Ryan, R-Wisconsin, both supported a proposal to beef up the credit further for childless workers, although at a much lower level than Brown and Khanna's plan.

But don't expect Congressional Republicans to jump for this plan. "As is typical for Washington politicians like Ro Khanna, the devil is in the details," said Jack Pandol, a spokesman for the National Republican Congressional Committee, citing the large cost. "Khanna ought to take a hard look in the mirror and ask himself where his priorities are in Congress."

Meanwhile, Khanna said his proposal is already getting support from prominent Democrats. He said he's heard from potential Democratic presidential candidates interested in backing the bill, including senators Kirsten Gillibrand, D-New York, and Cory Booker, D-New Jersey. Rep. John Delaney, D-Maryland, who is the first declared 2020 presidential candidate from the party, will be a co-sponsor.

The Brown-Khanna plan would boost wages for full-time and part-time workers alike, which Khanna said made sense for an economy of more Uber drivers and other workers with uncertain

incomes. It would also let taxpayers request a credit in the middle of the year instead of waiting to receive their refund check, in order to help them pay for large, unexpected expenses.

The plan could fit in with the Democratic party's larger economic message, which has focused on increasing wages. "The question is how are you going to do that. Democrats need to have an answer, and this is an answer," Khanna said. "People say, 'don't just be against Donald Trump, tell us what're you for.' This is what we can be for."

Even a few extra hundred dollars in the tax credit would go a long way for low-income people in the Bay Area, said Marie Bernard, the executive director of Sunnyvale Community Services, a financial aid organization that helps residents of Santa Clara County. Some of Bernard's clients count the days until their EITC check arrives in April, and find their tax credit to be the difference between paying rent and being evicted.

"There are so few resources for smaller families and single people," she said. "This will go straight to keeping them housed and fed."