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Tighten the Earned Income Tax Credit

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When you hear that something is refundable, you probably think that means that someone gets a refund on something he or she paid. But the IRS and even economists who study tax policy don't mean that at all. By "refundable," they mean that someone gets a payment even if he or she paid nothing in the first place.

That issue comes up when one examines the Earned Income Tax Credit (EITC.) As Cato Institute economist Chris Edwards **points out**, of the $71 billion of the EITC given to 27 million people in 2021, $69 billion, or almost all, was "refundable." That is, it was given to people who paid no income tax. The EITC is almost wholly a welfare-spending program, not a tax-cutting program.

These are the opening two paragraphs of David R. Henderson, "**Tighten the Earned Income Tax Credit**," November 30, 2022, my short TaxBytes column for the Institute for Policy Innovation.

Another excerpt:

Moreover, the program is rife with fraud. Interestingly, Hilary Hoynes, an economics professor at the University of California, Berkeley, wrote an **article** in 2014 calling for an expansion of the EITC without ever mentioning fraud. Around that same time, Professor Hoynes gave a talk at the Naval Postgraduate School, where I was an economics professor. In her talk, she defended the EITC and didn't mention fraud then either. However, in Q&A, she readily admitted that many recipients of EITC funds got them fraudulently. What would you expect from a program that one can benefit from simply by filing a false tax return and receiving a check from the U.S. Treasury? Not all of the mistakes are fraudulent. But the Government Accountability Office **estimated** that the error and fraud rate between 2016 and 2020 averaged 24 percent.