



★ WASHINGTON WATCH ★

An update on federal action from

The Center for Public Policy Priorities

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Senate Welfare Bill Passes 87 - 12

On September 19th, by a vote of 87-12, the US Senate passed the Dole welfare reform bill. All Republicans voted for the legislation (except Senator Hatfield who was absent and did not vote, and Senator Faircloth who voted against the bill, presumably because his "family cap" amendment did not pass). Democrats who voted against the legislation were: Akaka (HI), Bradley (NJ), Kennedy (MA), Kerrey (NE), Lautenberg (RI), Leahy (VT), Moseley-Braun (IL), Moynihan (NY), Sarbanes (MD), Simon (IL), and Wellstone (MN).

None of the amendments that were accepted in the final days of debate is enough to make the Dole bill anything less than a devastating blow to America's children and families. The Dole bill eliminates the federal guarantee of cash assistance, permits states to

block grant food stamps, permits states to reduce state spending, provides insufficient child care funds to meet the Dole bill work requirements (even with the Dodd/Kennedy funds), cuts children off of SSI, and denies most forms of assistance to legal immigrants. The next step is for the Senate and House to hold a "conference" in which they will reconcile the differences between their two welfare bills.

We are currently working on a side-by-side analysis of the House and Senate bills and we will send it out as soon as a conference committee is named.

Nevertheless, both of these bills are unacceptable and it is not too early to contact President Clinton and urge him to veto the final bill.

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Taxes Hiked on Working Poor as EITC Threatened

While public attention has focused on Congressional plans for a \$500 child tax credit and other tax reductions, a less-noticed proposal would actually increase taxes on the working poor. The increase would be a consequence of cuts in the Earned Income Tax Credit (EITC), a refundable tax credit created to help working poor Americans with children and to provide an incentive for parents to work rather than rely on welfare programs. The EITC offsets some or all of the income and payroll taxes that low-income working families pay and can supplement a worker's low wages. The proposed reduction in the EITC would increase the amount of taxes owed by millions of families, even if the \$500 child tax credit were also enacted.

Who Receives the EITC

Workers receive EITC payments by filling out a one-page form that accompanies the 1040 tax form. Their refund can be received either in a lump sum or spread out over a year.

Who is Eligible:	Income must be less than	Maximum 1995 credit
Families with 2 or more children	\$25,296	\$2,528
Families with one child	\$23,755	\$2,038
Families with no children	\$9,000	\$306

Texas Benefits from EITC

The EITC brings six times more federal money to needy Texans than AFDC and nearly as much as the food stamp program. More than 1.7 million Texas families benefit from the EITC, which returned \$2.1 billion in federal taxes to Texas in tax year 1994. The average refund was \$1,258 per family — an important boost to the ability of working families to provide for the basic needs for their children. One-fifth of all Texas taxpayers receive the EITC each year — the fifth highest participation rate in the nation. Many middle-class families become eligible for the credit when the loss of a job or a serious illness temporarily reduces their incomes for a year or two.

Congressional Action Pending

The Congress is planning to reverse two decades of bipartisan support for the EITC. The House Ways and Means Committee voted on September 19 to cut \$23.3 billion from EITC over seven years. The Senate Finance

Committee Friday approved cuts that would be twice as deep — \$41.5 billion. The Senate plan would cut EITC by nearly one-third by 2005. The cuts would be made by:

- Eliminating the credit for workers at the top of the income-eligibility range;

- Canceling a scheduled increase for families with two or more children;
- Ending it for undocumented workers and childless workers;
- Reducing it for recipients of Social Security, nontaxable pensions and annuities, children support and tax-exempt interest.

Effect on Families

To see how these changes would increase taxes on working poor families, consider a family of four that earns \$20,000 this year and pays \$200 a month for child care. If the family's income simply keeps pace with inflation during the next seven years, under current law it would owe no net tax after the EITC is subtracted. But if the Senate EITC cuts become law, the family will have a net income and payroll tax bill, even if the child tax credit is also passed. Instead of owing no taxes, the family would owe \$180 next year, \$480 by 2000 and \$670 by 2002, for a total tax bill of \$2,870 over seven years.

The increases would be even sharper for families that receive Social Security payments, such as families in which one parent is disabled or the family is raising an orphan who receives Social Security survivor's benefits. The impact would also be larger on families that receive child support, which are primarily families headed by divorced mothers working for modest pay.

The Wall St. Journal on Thursday printed this chart showing the combined effect that provisions in the Contract with America and the House Ways and Means Committee bill would have on two very different families of four:

Net Change in Taxes	Current Law	Proposal	Current Law	Proposal
Adjusted gross income	\$15,000	\$15,000	\$200,000	\$200,000
Payroll tax	2,295	2,295	12,017	12,017
Income tax before credits	0	0	38,333	36,199
\$500 child tax credit	0	0	0	1,000
EITC	2,842	2,776	0	0
Change:	+\$66		-\$3,134	

Source: Treasury Dept.'s Office of Tax Analysis

You Can Still Make a Difference on EITC

President Clinton has taken a firm stand in support of the EITC. He last week offered an interview to the New York Times for the sole purpose of attacking Congressional plans for the EITC and to threaten a veto

of any cut in the credit. (In contrast, he praised the Senate version of welfare reform.) Columns defending the EITC have appeared in the *Washington Post*, *New York Times*, *Wall St. Journal*, and *Newsweek*. This is an issue on which your letters and phone calls can make a difference.

Senators and representatives should be urged to preserve the EITC, including the scheduled expansions. The President should be urged to veto any reductions in the EITC. The EITC has received bipartisan support in the past because it attacks poverty by supporting the transition from welfare to work, imposes no costs on employers and does not require a large bureaucracy to administer.

Talking Points

- *The EITC helps encourage work.* It makes working a better choice than welfare. It helps parents pay for child care and medical care so they can keep working.
- *Working families should not have to raise their children in poverty.* The EITC helps address a trend that has caused a substantial increase in child poverty in recent years — the erosion of wages for low-paid work.
- *Cutting the EITC raises taxes on hard-working people who can least afford it.* These changes would raise taxes on many low- and moderate-income working people at the same time that Congress is likely to grant upper-income Americans and large corporations sizable tax cuts.
- *Changes in EITC would undermine the goals of welfare reform.* Counting child support payments as income would discourage non-custodial parents from making

payments. Changing the rate at which benefits were phased out would be a disincentive to work.

- *The proposed changes have little to do with alleged fraud in EITC payments.* A crackdown by the Internal Revenue

Service has already dropped the fraud rate sharply. Only a small percentage of the proposed cuts are aimed at curbing fraud; roughly 95 percent of the changes are real cutbacks affecting working poor families.

Senate and House Committee Bills Would Abolish Medicaid

Since the last Washington Watch, the House Commerce and Senate Finance committees have adopted bills that would repeal the Medicaid program and replace it with a block grant - "Medigrant". The bills do the following:

- End all federal guarantees (entitlement) of health coverage for poor families, children, elderly and disabled. Includes elimination of guaranteed coverage of nursing home care (Medicaid pays for 75% of Texans in nursing

homes), and of coverage for poor children (Medicaid covers nearly 2 million Texas children today).

- **Allow states to down-size or eliminate their "Medigrant" programs.** If a state runs a Medigrant program, it must divide up spending among elderly, disabled, and families along roughly the same percentages as in their Medicaid programs today, but states could make the program as small as they liked. States would continue to have to match whatever federal funds they accepted.
- **Eliminate Medicaid guaranteed benefits.** The only required benefit would be childhood immunizations; states would define their own benefits.
- **Eliminate all current quality protections.** Standards for services to children, Medicaid managed care, nursing homes, would all be repealed.
- **Each State would come up with its own standards for who is eligible and what is covered.** Programs would not be required to be equally available in all parts of a state. Different groups (e.g., kids and elderly) could be given different benefits, and managed care could be mandated.
- **Federal Medicaid funds for Texas would be reduced by \$6.6 Billion (House proposal) to \$11.8 Billion (Senate Proposal) from 1996-2002.**

TEXAS SENATORS AND CONGRESSMEN ARE COMING HOME FOR THE WEEK OF OCTOBER 2-6. CALL, WRITE OR VISIT-- TELL THEM YOU OPPOSE ELIMINATING GUARANTEED CARE FOR THE POOREST TEXANS AND MASSIVE REDUCTIONS IN FUNDING.

WRITE, CALL, FAX or EMAIL PRESIDENT CLINTON AND TELL HIM TO VETO THESE BILLS IF THEY REACH HIS DESK.

Medicare Update

Both the House and Senate continue to promote plans to reduce Medicare spending by \$270 Billion over 7 years (1996-2002). As we go to press, the non-partisan Congressional Budget Office has not been able to verify the House Medicare savings numbers, but Senate numbers have been released. According to the CBO, the Senate Medicare plan would save:

- \$71.0 Billion by increasing premiums and deductibles for Medicare enrollees
- \$42.6 Billion by reducing current levels of payments to HMOs
- \$7.1 Billion from optional conversion of more Medicare enrollees to HMOs
- \$152 billion by capping increases in payments to doctors, hospitals, and other health care providers
- The plan would COST \$2.3 billion MORE due to the use of Medical Savings Accounts.

Legal Services Survives Key Senate Vote

The Legal Services Corporation survived an attempt to eradicate it today, but will face new restrictions on its activities. The Senate voted 60-39 in favor of an amendment by Sen. Pete Domenici, R-N.M., to provide \$340 million to the Legal Services Corporation in fiscal 1996, which begins Sunday. While that funding is down \$60 million from 1995 levels, it would restore life to a program that faced virtual elimination under the Commerce-Justice-State Department spending bill.

Sen. Phil Gramm, R-Texas, chairman of the subcommittee that wrote the bill, sought to kill the agency and, instead, allot \$210 million in block grants to the states to provide legal services for the poor.

Opponents charge that legal services attorneys use taxpayer money to promote liberal causes and help people file suits against the government. Gramm called it "a renegade program which has abuses that probably

equal or exceed that of any other similar government program funded in the modern era by our government." But Domenici replied, "I don't know what's wrong with the United States of America saying to the needy people of this country that the judicial system is not only for the rich. What's wrong with that? Why should a Republican be ashamed to say that?"

Domenici's amendment moves to end some of the abuses alleged by Gramm and others by barring Legal Services lawyers from political lobbying and cases involving illegal aliens, abortion, class actions, redistricting or challenges to welfare reform. The House, in its version of the spending bill, voted for similar restrictions while setting the budget in 1996 at \$278 billion. A conference of negotiators from the House and Senate will work out the final compromise.

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