



Tax Credit Administration

Stephen Finan

May, 2009

Goal

- Talk about real practicalities of tax credit administration
- Experience of the Health Coverage Tax Credit (HCTC)
- Tax credit administrative issues to consider in the context of large scale subsidies

Health Coverage Tax Credit (HCTC)

- Enacted in 2002 as part of the Trade Act
- A 65% credit for “qualified” health plans
 - End of year credit
 - Advanceable credit
- Two eligible groups:
 - Trade Adjustment Assistance recipients (workers displaced due to international trade)
 - Pension Benefit Guaranty recipients

The Tax System Generally

- File in April for the previous calendar year.
 - Basic 1040 information is accessible in August. Information on Schedules comes later.
- There is no system of “current” income.
 - Lower income people appear more likely to have sudden changes in income, both plus and minus
- “Income” is based on the tax code and how people file; it may not “fit” the needs of a subsidy system.
 - For example, there is no way to do an asset test, per se
- Millions of lower income people do not file taxes but may have to file in order to get a refundable tax credit

HCTC and the IRS Administrative Systems

- IRS does not have real time systems.
 - Data are 8-20 months old.
- Advance credit
 - IRS had to develop an entirely new system using off-the-shelf software—i.e., no administrative efficiency.
 - The cost was very high.
- End of year credit is very cheap
- Data sharing and privacy rules
 - IRS, other federal agencies, and states have different and often incompatible rules (IRS very unwilling to share with non-tax agencies)
- The IRS cost of administering tax credit is a totally ‘new’ cost—i.e., it does not offset any expense otherwise incurred now.
- IRS (and the tax code) does not currently allow for regional variation in tax credits—i.e., one size must fit all.

Tax Credit: Lessons Learned

- Tax credits are not timely: IRS income data are “old”
 - Likely to have lots of ‘errors’—people who no longer qualify because of income increase, and conversely, people left out because last year’s income was too high but now have lower income
- An advance credit will necessarily entail the development of a new admin system whether in IRS or another entity, and therefore, “new” costs
- The tax code is not very flexible—little or no room for regional or other (e.g., age) variation in a tax credit.
- Multi-agency coordination (IRS with fed and/or state) is very complicated and difficult to manage



Thank You!