



AN EQUITY FRAMEWORK FOR EVALUATING REFUNDABLE TAX CREDITS & PROPOSALS TO REFORM THEM



As discussed in “A Tax Code for the Rest of Us: A Framework and Recommendations for Advancing Gender and Racial Equity Through Tax Credits,” tax policies do not operate in a vacuum, but instead should be viewed alongside direct spending programs that seek to further the same policy goals. The policy framework below is intended to guide the design of tax policies to effectively and equitably leverage the tax code to advance specific policy goals, in light of both the policy and political context. When the context shifts, tax policies can adjust accordingly. While this framework is not exhaustive, it is intended to help policymakers propose and enact effective and equitable refundable tax credits.

| OVERARCHING QUESTIONS | GUIDING QUESTIONS | NEXT STEPS/GUIDANCE |
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| QUESTION 1. What is the policy goal? | A. Is there any reason to not equitably reach low- and moderate-income people, women, people of color, LGBTQ people, people with disabilities, immigrant families, or other historically disadvantaged groups as a part of this policy goal? | The answer should always be “no”. |
| | B. Is there an existing tax subsidy intended to further this policy goal that excludes low- and moderate-income people, women, people of color, or other historically disadvantaged groups? | If the answer is no, determine if there is a spending side program that could be strengthened as part of the strategy to achieve the policy goal (see question 1C). If the answer is yes, based on the revenue effects and potential for the tax subsidy to reach low- and moderate-income families, lawmakers should evaluate if it is better to (1) eliminate the existing tax expenditure altogether (since it does not help those who need it most and the revenue could be put to better use); or (2) to significantly reform it in a way that increases equity creation of a refundable credit. |
| | C. Is there a direct spending program that also seeks to achieve this policy goal? | If there is no tax or spending program, proceed to Question 2 to see how, if at all, a new tax credit proposal could equitably advance the policy goal. If there is a direct spending program, see discussion in Question 2 below. |

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| <p>QUESTION 2. How would this proposed tax credit complement any direct spending programs that further this policy goal & target low- & moderate-income families?</p> | <p>A. If a complementary direct spending program exists that also seeks to achieve this policy goal, is it funded to automatically reach all who are eligible, or otherwise fully funded?</p> | <p>If there is not a direct spending program that is already successfully reaching low-income families and fully funded, a tax credit can be helpful in filling in gaps or reaching more families.</p> |
| | <p>B. If so, does the proposed tax credit subsidize expenses or behaviors not covered by the spending-side program?</p> | <p>If there is a fully-funded spending program, return to Question 1 and consider the efficacy of a new tax credit. Alternatively, ensure the design of the credit is complementary to existing spending programs, for example, by subsidizing expenses and behaviors not covered by the programs.</p> |
| | <p>C. Is the activity being subsidized best provided through the private market or as a public good?</p> | <p>If the answer is the private market, a refundable tax credit can be a helpful tool to bolster families' income to purchase the good/service on the private market. If the answer is that the activity is either best provided by the government or best provided by the private market but with a significant role for the government in setting standards and guidelines, a tax credit should only serve an ancillary function.</p> |
| <p>QUESTION 3. Does the structure of the tax credit proposal meet the needs and/or preferences of low- & moderate-income families?</p> | <p>A. Is the proposed tax subsidy in the form of a fully refundable tax credit?</p> | <p>If not, return to Question 1A. Lawmakers should revisit the proposal to ensure full refundability.</p> |
| | <p>B. Does the proposed tax credit address specific barriers faced by low- and moderate-income people (including in claiming existing tax subsidies)?</p> | <p>In designing equitable refundable credits, lawmakers should consider not only income barriers (by making the credit fully refundable), but also barriers to claiming the credit, such as documentation requirements.</p> |
| | <p>C. Is the proposed tax credit simple, easy to claim and administer, and unlikely to give rise to additional enforcement efforts?</p> | <p>If the answer is no, it is important to revisit the design of the credit.</p> |
| | <p>D. Given the timing of the activity, would the option of ongoing, real-time payments or in-kind benefits assist low- and moderate-income families, as well as a lump-sum refund?</p> | <p>If the latter, a tax credit can be a stronger tool to reach the policy goal. If the former, consider if it is possible to create a well-functioning and attractive periodic payment option for the proposed tax credit. If not, does a lump-sum refund serve an important, though ancillary function?</p> |

The full report, "[A Tax Code for the Rest of Us: A Framework and Recommendations for Advancing Gender and Racial Equity Through Tax Credits](https://nwlc.org/resources/gender-and-the-tax-code/)," two related reports, and an executive summary are available at <https://nwlc.org/resources/gender-and-the-tax-code/>.