# FRANKLIN ROOSEVELT AND THE FORGOTTEN HISTORY OF THE EARNED INCOME TAX CREDIT

*Bryan T. Camp*

## INTRODUCTION

THE EARLY DAYS of the federal income tax are now beyond living memory. As is typical when this happens, much of what used to be common knowledge is now lost to time, unless recovered by those with a particular interest in snooping through the dumpsters of history.

I am one of those snoops. For years I have made my Federal Income Tax students review the tax returns of several famous people.[1] One such return is Franklin Roosevelt's 1934 return. On line 27 Roosevelt claimed an "Earned income credit" of $1,400. Curious as to why that was, I did some snooping. The answer not only recovers a bit of lost history about the never-ending battle between labor and capital, but also shows interesting connections between that lost history and tax policy embodied in the current Earned Income Tax Credit.

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*Bryan Camp is the George H. Mahon Professor of Law at Texas Tech University School of Law.* 

[1] Aside from voyeuristic fun, these returns usefully illustrate a wide variety of tax policies. One can find them on Tax Analysts' Tax History Project website: www.taxhistory.org.

Readers of this journal may remember the creation of the Earned Income Tax Credit (EITC) in 1975 as a subsidy to the poor. No one now alive remembers that it existed long before that, as a subsidy for the rich.[2] But look at Roosevelt's 1934 return. 1934 was eight years before the fiscal needs of WWII drove Congress to expand the income tax from a class tax to a mass tax. In 1934, the income tax still hit only the wealthy and the upper income brackets. And Roosevelt was certainly wealthy. His 1934 return reported a total income amount of $75,355, which translates to about $1,375,876 in 2017 dollars. Sure, that may be chump change to the $48.5 million President Trump reported on his 2005 return, but it is still more than most of those who receive today's EITC will earn in their lifetimes. And because his income came mostly from his labor, it was considered "earned." That is what entitled him to an "Earned income credit" of $1,400 on line 27, equal to about $25,500 in 2017 dollars.

## BACKGROUND

To understand why Roosevelt received an EITC, one needs to understand a bit about how Congress favors capital over labor by taxing certain income from capital at much lower rates than income from labor.[3] The favored income is called capital gain income and comes from the sale or exchange of capital assets – generally defined as property.[4] While property also produces income from its use – think rents, dividends, interest, royalties – only the gains from the sale or exchange of property have historically received the lower tax rate.[5] A long-standing and still useful analogy is that of trees and fruit. The tree is the kind of property that is labeled a capital asset; its fruit is the use income. If sale of the tree produces

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[2] With the possible exception of Mort Caplin, who turned 101 this year.

[3] Since probably about half of the statutes found in the Internal Revenue Code deal in some way with capital gains and losses, readers will understand that this short paragraph really hits on only the very highest spots of the distinction.

[4] The definition of "capital assets" is found in § 1221 of the Internal Revenue Code. 26 U.S.C. § 1221.

[5] There is one last requirement – that the property have been held for a certain length of time before being sold or exchanged. Use income is often called "investment" income, although that term is a bit broad as it can encompass returns on investment from sale as well as from use.

income, that gain is the kind Congress taxes much more lightly. In contrast, sale of the fruit, or use income, has historically been taxed the same as labor income (although in recent years Congress has given taxpayers a rate break on dividends).

The policy is wonderfully illustrated by a pair of tax returns that I also ask my class to review: those of Mitt Romney and Hillary Clinton in 2011. I ask my students to figure out the tax burden on each taxpayer. Here's the short of it:

| | Total Income | Taxable Income | Tax | % Total | % Taxable |
|---|---|---|---|---|---|
| Romney | $13,709,608 | $9,007,709 | $1,912,529 | 14% | 21% |
| Clinton | $14,899,139 | $11,628,845 | $4,336,068 | 29% | 37% |

Although they had similar total incomes, Romney and Clinton paid hugely different amounts of taxes. Romney's income came mostly from sales or exchanges of capital assets. Clinton's mostly came from her labor. That difference in source made the difference in tax. Whatever one thinks about Clinton's speaking fees, they still resulted from her labor and so were taxed at significantly higher rates than Romney's capital gain income, even though dollars derived from labor have the same purchasing power as dollars derived from capital.

This lower tax rate for capital gain income violates what tax theorists call the principle of horizontal equity, which posits that similar incomes ought to be taxed similarly.[6] One useful way to view this rate differential is that the government, in effect, pays back any uncollected tax to the lucky taxpayer. As popularized by Stanley Surry, the rate break is in fact a tax expenditure.[7] Each year the Joint Committee on Taxation explains all

[6] *See, e.g.,* David Elkins, *Horizontal Equity as a Principle of Tax Theory*, 24 Yale L. & Policy Rev. 45 (2006) (examining justification for horizontal equity and suggesting an inherent tension between it and the idea of vertical equity). Karl Marx may be rolling in his grave but this article takes a normatively agnostic stance to the capital gains preference; it's enough to understand the subsidy whether one agrees or disagrees with the underlying policy.

[7] For a fine review and critique of the tax expenditure concept, see Victor Thuronyi, *Tax Expenditures: A Reassessment*, 1988 Duke L.J. 1155 (1988).

the tax expenditures made by Congress and estimates their cost. The capital gains subsidy is one of the largest.[8] In 2016, for example, it cost the government about $106 billion to subsidize the mostly wealthy taxpayers who received income from capital sales or exchanges. In comparison, the modern EITC, a subsidy to poor taxpayers, cost $63 billion in 2016.[9]

This lower tax rate for capital gain income did not exist between 1913 and 1921.[10] Many believed that the sale of capital assets could not produce "income" within the meaning of the 16th Amendment. Only "fruit" could be income; sale of the "tree" was just a transformation of wealth the seller already had, not an increase in wealth. The Supreme Court knocked that idea down in 1919 and then stomped it flat in March 1921.[11] The Court held that Congress had both the power and the intent to tax appreciation when it was realized through a sale or exchange of capital.

Congress responded in §206 of the Revenue Act of 1921.[12] It did not exempt income from the sale or exchange of capital assets. It instead decided to tax that income at a lower rate, imposing a top marginal rate of 12.5% on such income whereas ordinary labor income and use income were taxed at a top marginal rate of 65%.[13] Similar rate preferences have existed ever since (except for the five years between 1986 and 1991 when capital gains, investment income, and labor income were again taxed at the same rate).

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[8] Staff of Joint Comm. on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020*, Table 1, 33 (Jan. 30, 2017), JCX-3-17.

[9] *Id*. It is true one does not have to be wealthy to benefit from the capital gains subsidy. Still, it should surprise no one that the subsidy mostly benefits the very wealthy: in 2016 over 75% of the capital gains benefit went to taxpayers who reported over $1 million in income. *Briefing Book*, Tax Policy Center, Figure 1, www.taxpolicycenter.org/briefing-book/what-effect-lower-tax-rate-capital-gains.

[10] A nice review of the history of the capital gains preference is found in Ajay K. Mehrotra & Julia C. Ott, *The Curious Beginnings of the Capital Gains Tax Preference*, 84 Fordham L. Rev. 2517 (2016).

[11] *See Eisner v. Macomber*, 252 U.S. 189 (1919); *Merchants' Loan & Trust Co. v. Smietanka*, 255 U.S. 509 (1921) (gain from a one-time sale of stock in 1917 was income to the extent that the amount received for the stock was greater than the taxpayer's basis in the stock).

[12] 42 Stat. 227.

[13] 42 Stat. 227, 233-37.

## THE SHORT LIFE AND UNREMARKED DEATH OF ROOSEVELT'S EITC

So here's how matters stood after 1921: Income from capital gains was now taxed at a low rate while both labor income and use income from property were taxed at the same high rate.

This discrimination bothered many professionals – such as doctors, accountants and lawyers – whose high income came from their services. As recounted some years later by Paul W. Pinkerton, a CPA representing the Chicago Chamber of Commerce, there was "a popular demand, insisting that the reward of labor should be taxed less than the rewards of capital."[14] The professionals had to earn their money and they believed they were being treated unfairly relative to rich folks living on investments.

One part of the unfairness came from the distinction between capital gain and labor income: "certain forms of income from capital, such as capital net gains, are subjected to reduced rates of tax, and if no allowance is made in the case of earned income, inequity results."[15] The main unfairness argument, however, rested on the distinction between labor income and use income (e.g. investment income). "The fairness of taxing more lightly the income received as personal compensation for services rendered than income from investments has long been recognized, and seems to be generally admitted without regard to political divisions," said the House Ways and Means Committee in its Report on the 1924 Revenue Act.[16]

Not only had academics long written about the distinction between income from labor and use income from property, but various other taxing

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[14] Testimony of Paul W. Pinkerton, CPA in Hearings before the Comm. on Ways and Means, October 31 to November 10, 1927, at 143, *reprinted in* 8 U.S. REVENUE ACTS 1909-1950: THE LAWS, LEGISLATIVE HISTORIES & ADMINISTRATIVE DOCUMENTS (Bernard Reams, Jr. ed. 1979). Professor Reams provided an invaluable service for tax historians by indexing this Series, commonly called the Fox Series in honor of Carlton Fox, an attorney in the Department Justice who over the course of his career pulled together all the relevant documents into a very large compendium. Professor Reams is the one who created the excellent index that makes the series accessible. All my citations to Reports, Hearings, Regulations and other such materials can be found reprinted there.

[15] Reports to the Joint Comm. on Taxation, Division of Investigation, Vol. 1, Part 5, *Revised Report on Earned Income* (Mar. 21, 1928).

[16] H. Rep. No. 68-179, at 5 (Feb. 11, 1924).

jurisdictions had operationalized that distinction in their income tax laws.[17] Writing in the April 1925 issue of *National Tax Magazine*, K. K. Kennan gave the contemporary example of Great Britain, and the historical examples of Virginia and North Carolina in the 1840s, each of which had taxed incomes from personal services at a lower rate than incomes from investments.[18]

By 1924, the House Ways and Means Committee thought this second unfairness argument was consistent with good tax policy and explicitly tied the argument to concerns about old age and retirement security, explaining that labor income was precarious in a way that investment income was not:

> The soundness of such a distinction is shown by testing it under the principle of ability to pay, which is the principle underlying the entire system of progressive income taxation in effect in this country. The taxpayer who received salaries, wages, and other earned income must each year save and set aside a portion of his income in order to protect him in case of sickness and in his old age, and in order to provide for his family upon his death. On the other hand, the person whose income is derived from investments already has his capital and is relieved of the necessity of saving to establish it. He may spend each year his entire income and at the same time have sufficient capital to protect him in his old age and to provide for his family upon his death. In most cases the person whose income is derived from investments is able to pay a greater tax than the one whose income is the result of personal effort.[19]

To mitigate this unfairness, and to help earners "set aside a portion of his income . . . to protect him in old age," the House Ways and Means Committee proposed "a reduction of 25 per cent in the tax on earned income not in excess of $20,000."[20] That $20,000 figure ended up being

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[17] For a review of some of the academic literature, see Mehrotra & Ott, *supra* note 10, at 2527-28.

[18] K.K. Kennan, *Earned and Unearned Income Distinctions in Various Countries*, 3 Nat'l Income Tax Mag. 139 (1925) ("the State of Virginia adopted an income tax law which imposed a tax of one per cent upon incomes in excess of $400, received for personal services, and two and one-half per cent upon interest, in excess of $100, received from investments").

[19] H. Rep. No. 68-179, at 5 (Feb. 11, 1924).

[20] *Id*. The earned income provisions were eventually codified as § 25 of the Internal Revenue Code of 1939 and covered by Regulations 103.

$10,000 in the statute as enacted.[21] The benefit was not huge. As one commentator snarked the next year, "Since all of an individual's net income up to $5,000 will be treated as earned net income, but not over $10,000 will be considered as earned net income in any case, the principle of a lower tax upon such income has hardly been adequately recognized."[22]

Achieving this modest benefit required grappling with "one of the most complicated provisions in the income tax law."[23] The problems were both conceptual and practical. Conceptually, many taxpayers had difficulty identifying "earned" income. One problem was how to treat the fees and income attributable to the labor of those employed by the taxpayer. Remember, the taxpayers who were seeking the benefit of this provision were generally professionals such as lawyers or doctors. Was income generated by their employees "earned" by them for purposes of the earned income credit? What about income that was generated by partnerships? Trusts? Personal service corporations?

Another conceptual problem was distinguishing income earned from expenditure of capital from incomed earned from expenditure of labor. How was a hotel owner's income to be apportioned between the capital invested in the physical rooms and amenities and the personal labor provided? How was a farmer's income to be apportioned between the work done by the farmer and the work done by the tractor? Were sales of crops picked by migrant labor returns of labor or capital?

The *Internal Revenue News* summarized these conceptual problems in August 1927: "Many individuals have experienced difficulty in determining the proper amount of earned income to be reported, especially those whose income consists principally of professional fees where the services of others are involved, or in cases where it is necessary to determine whether capital is a material income-producing factor in a trade or business."[24]

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[21] 43 Stat. 253, 264.

[22] Roswell F. Magill, *Notes on the Revenue Act of 1924*, 24 Colum. L. Rev. 835, 861 (1924). While Professor Magill was not credited as author in the Columbia Law Review, the piece was republished in the *National Income Tax Magazine*'s January, February and March 1925 issues where he was credited. *See, e.g.,* 3 Nat'l Income Tax Mag. 60, note * (Feb. 1925).

[23] Testimony of Paul W. Pinkerton, CPA, in Hearings before the H. Comm. on Ways and Means, 143, October 31 to November 10, 1927.

[24] Internal Revenue News, Vol. 1, No. 2, at 7. The *Internal Revenue News* was a monthly magazine written by Bureau of Internal Revenue (BIR) employees and circulated through

The practical problems were computational. The credit was a reduction in tax on "net earned income." So the taxpayer had to first calculate "net earned income" and then apply the tax rates to that amount and then calculate the credit. Once the earned income tax credit was thus calculated, the taxpayer then had to re-calculate "total net income," apply the tax rates and only then, from the tax so calculated, subtract the earned income credit. Complicating matters further was the difference between "normal" tax and the "surtax" that Congress imposed on higher incomes to create a progressive rate structure. The EITC applied only to the normal tax.

In November 1927, the staff of the newly created Joint Committee on Taxation reported that "the computation of this tax credit is exceedingly troublesome to the taxpayer and to the Bureau of Internal Revenue."[25] They said that "at least 20 percent of all individual returns . . . are in error on account of mistakes in computing the earned-income credit." The staff recommended simplifying the credit by making it a deduction from income, thus eliminating about nine computations.[26]

The Joint Committee rejected the recommendation. In a fascinating article published in early 1928, the Chairman of the Joint Committee, William R. Green, acknowledged that "no provision has been more severely criticized and none, I might say, more unreasonably attacked than the earned income provision of the law of 1924."[27] But the complexity, Green argued, was a necessary byproduct of fairness: "The complications of our present law arise, in large part, because we . . . have endeavored in framing the tax on earned income to adjust the application of the law to the condition of the taxpayer with reference to his ability to pay and, as far as possible, to prevent its working unjustly and unfairly between different individuals."[28] And, Green explained, the ability-to-pay policy underlying

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the BIR as well as subscribed to by tax practitioners.

[25] Reports to the Joint Comm. on Taxation, Division of Investigation, Vol. 1, Part 5, *Revised Report on Earned Income* (Mar. 21, 1928).

[26] *Id*. The difference, of course, is that a true tax credit reduces taxes dollar for dollar but a deduction (or "credit against net income") only reduces taxes by the amount that deducted dollar would have been taxed. So a taxpayer in the 25% bracket would save a dollar in tax for a dollar credit, but only $0.25 for a deducted dollar.

[27] William R. Green, *Simplification and the Federal Tax on Earned Income*, 18 Am. Econ. Rev. 95 (1928).

[28] *Id*.

the tax break for earned income "induced the Committee to retain this provision," despite its complexities.

By 1932, however, the frustration with the EITC finally convinced Congress to adopt the recommended simplification. Starting with the Revenue Act of 1932, the credit was demoted to a deduction.[29] When Roosevelt filed his 1934 return, the first $3,000 of income was deemed to be earned income regardless of its actual source and the amount of the deduction was 10% of net earned income up to a maximum of $14,000 net earned income.[30] That is why Roosevelt claimed $1,400 on line 27: It was the most he could claim.

And what tax break did Roosevelt get? Well, the EITC applied only to reduce the income subject to the normal tax (4% in 1934). It did not reduce the income subject to the surtax. So, thanks to the EITC, Roosevelt saved $56 in taxes in 1934. While that's equal to over $1,000 of tax in 2017 dollars, it was still a very, very modest tax savings when compared to his total tax bill of $16,139.[31]

The seeds of the EITC's destruction were planted the same year that Roosevelt submitted his 1934 tax return. On August 14, 1935, he signed into law the Social Security Act of 1935.[32]

The Social Security Act created two conditions that weakened the earned income credit's raison d'etre. First, while the social security tax was a regressive tax, it linked to a progressive policy like the one driving the EITC: to help protect the wage earner in old age. The Social Security Act was designed to prevent the poverty that often hit retirees when their saved capital ran out, by taxing labor income from current workers to ensure that current retirees did not fall into poverty. As Frank Bane, the first Director of the Social Security Administration, explained in 1938, it was more of an insurance program than a retirement system:

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[29] *See* H.R. Rep. No. 73-704, at 23 (1921) (the 1932 Revenue Act "changed the form of the relief from a credit against the tax to a credit against net income").

[30] *See, e.g.,* § 25 of the Revenue Act of 1934, 48 Stat. 680, 692.

[31] Even in its last year of operation, 1943, the credit "could never result in a savings of more than $84." Erwin N. Griswold, *The Doctor's Federal Taxes*, 31 Cal. L. Rev. 237, 246 (1943).

[32] 49 Stat. 620. The tax rate was a flat 2% on all wages up to $3,000, with 1% paid by the employer and 1% paid by the employee.

> The idea of joining forces for mutual protection has been a habit of ours throughout our history. Mutual cooperation has long been accepted as good business; and, practical men that they are, American businessmen have been its apostles. The pooling of risks through insurance is considered the epitome of economic respectability by those who can afford it. Social insurance simply extends this kind of protection to those who need it most and have been least able to obtain it.[33]

The second way the Social Security Act undermined the EITC was its procedural innovation of a "pay-as-you-go" system of wage withholding to collect the new tax.[34] While Congress had in the past tinkered with some limited withholding, this was the first comprehensive attempt. As recounted by Anuj Desai in an article well worth reading, it was a massive undertaking; the new tax was now imposed on a huge swath of the public.[35] And so when Congress considered expanding the withholding system to the income tax, in 1943, it heard testimony that withholding would be much easier to compute without the earned income credit.[36]

While both the substantive and administrative innovations of the Social Security Act undermined the earned income credit, it was WWII that probably killed it. The revenue demands of WWII created significant pressure on Congress to raise taxes. Congress did so by lowering exemptions, increasing rates, and expanding the reach of the income tax from about 7.6 million taxpayers in 1940 to over 50 million by 1944.[37] The expansion

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[33] Frank Bane, *A New American Reality*, 1 Soc. Security Bull. 8 (Aug. 1938).

[34] Social Security Act, § 802(a), 49 Stat. 620, 636.

[35] Anuj C. Desai, *What A History of Tax Withholding Tells Us About the Relationship Between Statutes And Constitutional Law*, 108 Nw. L. Rev. 859 (2014) (suggesting how the Current Payment Act of 1943 qualifies as a "superstatute" because of its transformative effect on the administration of tax that remains an entrenched and unreviewed feature of tax administration to this day).

[36] Testimony of Clement J. Clarke, Hearings before the H. Comm. on Ways and Means on a Proposal to Place Income Tax of Individuals on a Pay-As-You-Go Basis, February 2, 1943.

[37] Testimony of Randolph Paul before the H. Comm. on Ways and Means on a Proposal to Place Income Tax of Individuals on a Pay-As-You-Go Basis, at 26 (Feb. 2, 1943); Roy G. Blakey & Gladys C. Blakey, *Federal Revenue Legislation, 1943-1944*, 38 Am. Pol. Sci. Rev. 325, 327 (1944). *See also* Carolyn C. Jones, *Class Tax to Mass Tax: The Role of Propaganda in the Expansion of the Income Tax During World War II*, 37 Buff. L. Rev. 685, 694 (1988-1989).

of the income tax deep into the middle- and low-income taxpayer population created pressure for simplification. Simplification took various forms, from creating a short form 1040 in 1941,[38] to creating the standard deduction in 1944.[39]

The EITC – and its attendant complications – succumbed to both the need for revenue and the need for simplification. In 1942, the Treasury Department recommended abolishing the EITC, citing its modest effect on revenue and great complexity.[40] In the hearings that year, however, several groups strenuously opposed its elimination.[41] Congress demurred. By the next year, however, Congress heard more voices denouncing the credit.[42] Congress eliminated the EITC in the Revenue Act of 1943.[43] While I found no explanation in Committee Reports, none was needed since the problems with the earned income credit were common knowledge, well within the scope of then living memory.

## CODA: CONNECTIONS TO CURRENT EITC

In its 1943 testimony before the House Ways and Means Committee urging retention of the EITC, the National Lawyers' Guild also asked Congress to recognize the connection between the regressive social security tax and income taxes. It proposed letting low income taxpayers deduct their social security taxes from income.[44] Some 30 years later, Congress

[38] Revenue Act of 1941, 55 Stat. 687.

[39] Individual Income Tax Act of 1944, 58 Stat. 231, 236.

[40] Testimony of Randolph Paul, Hearings before the H. Comm. on Ways and Means on Revenue Revision of 1942, at 81 (Mar. 3, 1942) ("The value of the present credit . . . is out of all proportion to the complexities which the credit produces.").

[41] *See id.*, Testimony of: National Retail Dry Goods Association, at 515 ("We are utterly opposed to its elimination."); American Association of Advertising Agencies, at 1883 (advocated expanding the scope of credit to include advertising agencies as personal service corporations); and National Lawyers Guild, at 2299 ("We see no justification for the Treasury's elimination of the . . . earned income credit.").

[42] *See, e.g.,* Testimony of M. L. Seidman, Hearings Before the H. Comm. on Ways and Means on the Revenue Revisions of 1943, at 208 (Oct. 5, 1943).

[43] Sec. 107 of the Revenue Act of 1943, 58 Stat. 21, 31.

[44] Supplemental Statement of the National Committee on Taxation of the National Lawyers Guild, Hearings before the H. Comm. on Ways and Means on Revenue Revisions of 1943, at 219 (Oct. 4, 1943).

listened, creating the current EITC in the Tax Reduction Act of 1975 to give a refundable *income* tax credit for lower-income workers in order to offset the Social Security *payroll* tax. The 1975 Senate Finance Committee report explicitly linked the refundable feature to the need to offset Social Security taxes.[45]

The credit became permanent in 1978 and a major expansion of the EITC in 1985 took the program beyond a simple payroll tax offset program. The current EITC is now chiefly viewed as an anti-poverty alternative to welfare, the idea being that its tax-netting mechanism is more efficient than having one hand of the government paying out benefits while the other hand collects taxes. Thus the EITC helps the poor own cars and pay for gas.

This view of the current EITC is true enough, but is somewhat misleading because it ignores the significant impact of other federal, state, and local taxes on the poor. It has long been recognized that low-income taxpayers "bear a heavily disproportionate share of the Federal, State, and local tax burden."[46] That was true in 1942 when a study "recently completed by the Treasury Department experts show[ed] that persons who [did] not earn enough to be subject to the income tax [were] already paying heavily in 'hidden' indirect taxes" amounting to some 17% of income.[47] Considering all other federal taxes, the EITC reduced that burden to about 4% for the lowest quintile incomes for 2013.[48] Adding in state taxes raises the burden to about 11% for the lowest 20% of incomes.[49] So while it is certainly true

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[45] S. Rep. No. 94-36, at 83 (1975) ("your committee agrees with the House that it is appropriate to use the income tax system to offset the impact of the social security taxes on low-income persons in 1975 by adopting a refundable income tax credit against earned income."). For a history of the current EITC's enactment, see Dennis J. Ventry, Jr., *The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credit, 1969-99*, 53 Nat'l Tax J. 983 (2000). Ann Alstott has also produced a thoughtful article: *The Earned Income Tax Credit and the Limitations of Tax-Based Welfare Reform*, 108 Harv. L. Rev. 533 (1995).

[46] Testimony of Martin Popper for the National Lawyers Guild, before the H. Comm. on Ways and Means on Revenue Revision of 1942, at 2290 (Apr. 8, 1942).

[47] *Id.*

[48] *Briefing Book*, Tax Policy Center, Figure 2 ("Average Federal Tax Rates for Lowest Income Quintile 1979-2013"), www.taxpolicycenter.org/briefing-book/how-does-federal-tax-system-affect-low-income-households.

[49] *Who Pays?*, Institute on Taxation and Economic Policy, Appendix A, itep.org/wp-content/uploads/WP5AppendixA.pdf.

that the current EITC's refund feature keeps many from poverty, it is equally true that the current EITC enables state and local taxing units to collect sales and property taxes from those who would otherwise be unable to pay.

The forgotten history of the 1934 EITC thus connects to the current EITC in this way: Both subsidies rest on a normative concept of progressivity, grounded in the concept of ability to pay tax. Back then, the EITC subsidy recognized that taxpayers earning income from labor had less ability to pay tax on that income because of the source of that income. The government subsidized these laborers to help them accumulate capital for their old age. Now, the EITC subsidy recognizes that taxpayers whose incomes are below a certain amount have less ability to pay a variety of other, regressive, federal, state, and local tax burdens. The federal government subsidizes them, which not only allows them to own cars and pay for gas, but also enables them to better pay the associated taxes.