

Policy memorandum report examples

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Analysis of Changes in Earned Income Tax Credit and American Opportunity Tax Credit

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The U. S. economy has been slowly recovering from the the recession it faced in the recent past years. A number of factors, both economic and political, have caused this. With reference to this, several arguments have been raised in proposal to the best way of solving the economic downfalls. Policy makers have even had some members propose of immediate ways of solving the economic unrest. This among other raised the decision of the policy makers to reconsider either increasing the generosity of the Earned Income Tax Credit (EITC) for the childless or ending the American Opportunity Tax Credit as a way curbing the situation.

Earned Income Tax Credit (EITC) was formed as a practical scheme by the government to motivate the low and average income earners to work. Above being a tax, and for other reason, being revenue to the government, the government has a work incentive to push the low-income earners to keep on working has motivated by the EITC. This has been done by enabling them to pay less tax of 7. 65% in rates. Therefore, in practical economic sense, increasing the EITC will automatically work against the expectation of the proposed policy. This is so because, when EITC is increased by a double rate to 15. 30%, the prior incentive given shall have been withdrawn, and therefore instead of people working in order for the states to earn more informs of tax revenue, they will withdraw their labor and for this reason, unemployment shall have increased.

On the other hand, ending the American Opportunity Tax Credit will have

two definite impacts. The state has to make a choice between destroying its future labor market and cutting down on its current huge balance deficits. Even though ending the AOTC will reduce on state deficits through stopping of the postsecondary funds, it will effectively reduce on school attendance through cut out of the education funds. Therefore, if the states do not formulate best ways of creating incentives for school going, then labor market will be greatly affected in the end due to shortage in skilled labor. The recommendation suitable for this case is that, the policy makers should at cost look for alternatives of arresting the situation since both increase of Earned Income Tax Credit (EITC) and closing of American Opportunity Tax Credit (AOTC) do not economic arrest the situation of inflation and unemployment. These policies should be satisfactory for both the consumers of the policies and the policy makers. Moreover, increase in Earned Income Tax Credit (EITC) will discourage the low-income earners from participating in the labor market due to high tax rates. They would hence withdraw their labor from the market thereby increasing the employment level of the country. Usually, low tax levels charge by the government based on state tax segregation scheme where those who earn more pay more taxes, is an incentive to have the low-income earners continues providing their services in the labor market. Hence, Earned Income Tax Credit (EITC) and American Opportunity Tax Credit policies should be maintained in the country.

However, with maintenances of EITC and AOTC, the government can still reduce the huge deficits through other ways such as;

- Apply monetary policy such as reducing on borrowing rates in order to encourage more borrowing for investment to increase revenue and GDP. This would enhance rapidly on on the country's economy to counteract the increasing deficit and expenses.
- The government can open up avenues for creating of new jobs for the skilled labor to increase in public participation and revenue collection through taxes.
- The government can as well promote artistic works and industry to reduce on government reliance by the unschooled who cannot secure white-collar jobs.
- The government can also provide investments incentives to motivate small-scale businesses to the advantage of the economy.

Reference

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