THE EARNED INCOME TAX CREDIT (EITC)

What is the EITC?

The Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people.[1] It supports and rewards work while offsetting federal payroll and income taxes. Twenty-nine states, plus the District of Columbia, have established their own EITCs to supplement the federal credit.

In the 2016 tax year, almost 26 million working families and individuals in every state received the EITC. During the 2016 tax year, the average EITC was $3,176 for a family with children (boosting wages by about $265 a month), compared with just $295 for a family without children.

When filing taxes for 2018 (due in April 2019), working families with children that had annual incomes below about $40,320 to $54,884 (depending on marital status and the number of dependent children) may have been eligible for the federal EITC. Also, the working poor who have no children and have incomes below about $15,270 ($20,950 for a married couple) can receive a very small EITC.

The amount of EITC depends on a recipient's income, marital status and number of children. Workers receive the credit beginning with their first dollar of earned income; the amount of the credit rises with earned income until it reaches a maximum level and then begins to phase out at higher income levels. The EITC is "refundable," which means that if it exceeds a low-wage worker's income tax liability, the IRS will refund the balance.

EITC Snapshot

1. The EITC is a federal tax credit that boosts the incomes of 26 million working families and individuals.
2. The EITC encourages and rewards work while lifting 5.8 million people out of poverty, including 3 million children.
3. The 2017 tax law did nothing to improve the EITC and even reduces its value in the long term.
4. Measures to expand and improve upon the EITC should address the extremely small EITC for childless workers, as well as bring great parity between the EITC support offered to families living in the US and Puerto Rico.

Encouraging and Rewarding Work, Reducing Poverty

The EITC is designed to encourage and reward work. Because women and people of color make up a disproportionate share of low-wage workers, they particularly benefit from the wage supplement that the EITC provides. As noted, a worker's EITC grows with each additional dollar of earnings until reaching the maximum value. This creates an incentive for people to work and for low-wage workers to increase their work hours.

This incentive feature has made the EITC highly successful. Studies show that the EITC encourages large numbers of single parents to work, especially when the labor market is strong. Specifically, a highly regarded study found that EITC expansions are the most important reason why employment rose among unmarried mothers with children during the 1990s—the EITC was more effective in encouraging work than either Temporary Assistance to Needy Families or the strong economy.

In 2017, the EITC lifted about 5.7 million people out of poverty, including 3 million children. The number of poor children would have been more than one-quarter higher without the EITC. The credit reduced the severity of poverty for another 19.5 million people, including 7.3 million children. In combination with the Child Tax Credit (CTC), the EITC lifts even more families with children out of poverty.

Moving out of poverty is particularly important for young children. Research has found that lifting low-income families' income when a child is young not only tends to improve a child's immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood. A burgeoning literature links EITC receipt to improved school performance and higher college attendance rates.

At the same time, because women and people of color make up a disproportionate share of low-wage workers, the EITC is also a powerful tool for addressing economic disparities that are not only uniquely faced by these communities, but also are often more pronounced and overwhelming when compared to men and White households. In 2018, about 60% of self-reported EITC recipients were women and 30% were people of color.[2] Moreover, by supporting employment, the EITC has the additional effect of boosting Social Security retirement benefits, which is critical to lowering poverty for older women and people of color.

The EITC and the 2017 Tax Law

It is important to note that the 2017 tax law did not contain any improvements to the EITC and its drafters never even proposed any EITC expansion, despite previous proposals from former House Speaker Paul Ryan to expand it for childless workers. In fact, the 2017 tax law *weakened* the EITC over time. To help offset the cost of its permanent corporate tax cuts, the law cut health coverage and adopted a new inflation measure (the "chained" Consumer Price Index) to adjust tax brackets and certain tax provisions each year that will grow more slowly than the regular CPI. This will raise taxes on households at all income levels over time. Among other things, it will cause the maximum EITC to rise more slowly than under prior law, eroding the credit's value for millions of working households. For example, the credit in 2027 for a married couple making $40,000 with two children will be $319 smaller than under prior law ($4,675 versus $4,994).

Ways to Improve the EITC

In contrast to the EITC for families with children, the EITC for workers not raising children in the home remains extremely small—too small even to fully offset federal taxes for workers at the poverty line and leaving them effectively taxed into poverty. Under current law, a childless adult or noncustodial parent working full-time, year-round at the federal minimum wage is ineligible for the EITC. (Such an individual would receive the maximum EITC if he or she claimed children.) As a result, low-wage workers not claiming children for the credit are the sole group that the federal tax system taxes into or deeper into poverty. Moreover, the credit continues to completely exclude young childless workers below the age of 25 who are trying to get a toehold in the economy, as well as those over age 65 who are not claiming children.

The top priority for improving the EITC is addressing these glaring gaps for workers not claiming children. Policymakers should increase the size of the maximum credit for such workers while extending it to workers under 25 and over 65, which could help boost the incomes of women and people of color with low wages. Policymakers should also work to address disparities in support and access between the EITC offered to families living in the US and Puerto Rico. Finally, policymakers should consider ways to build its success for families with children. Working-class incomes have stagnated over the last few decades and the EITC is a well-designed, proven tool for increasing them. Further increasing the EITC's phase-in rate for families with children would provide a boost for low-income working families while extending the credit to millions of working moderate-income families.

***Resources*:**

- "Policy Basics: The Earned Income Tax Credit," Center on Budget and Policy Priorities, April 19, 2018, https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit.
- "Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty," Center on Budget and Policy Priorities, April 11, 2016, https://www.cbpp.org/research/federal-tax/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce.
- "How Tax Reform Can Raise Working-Class Incomes," Center on Budget and Policy Priorities, October 13, 2017, https://www.cbpp.org/research/federal-tax/how-tax-reform-can-raise-working-class-incomes.
- "Expand the EITC, Expand Workers' Livelihoods," UnidosUS, November 1, 2016, http://publications.unidosus.org/bitstream/handle/123456789/1638/expandeitc_nclr_111516.pdf?sequence=6&isAllowed=y.

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[1] Much of the material in this factsheet comes from "Policy Basics: The Earned Income Tax Credit," Center on Budget and Policy Priorities, April 19, 2018, https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit. The Center on Budget and Policy Priorities is a member of the Tax Alliance for Economic Mobility.

[2] UNIDOS U.S. calculations based on CPS March 2018 Annual Social and Economic Supplement. In terms of gender, about 60% of EITC recipients were women. *Id.*