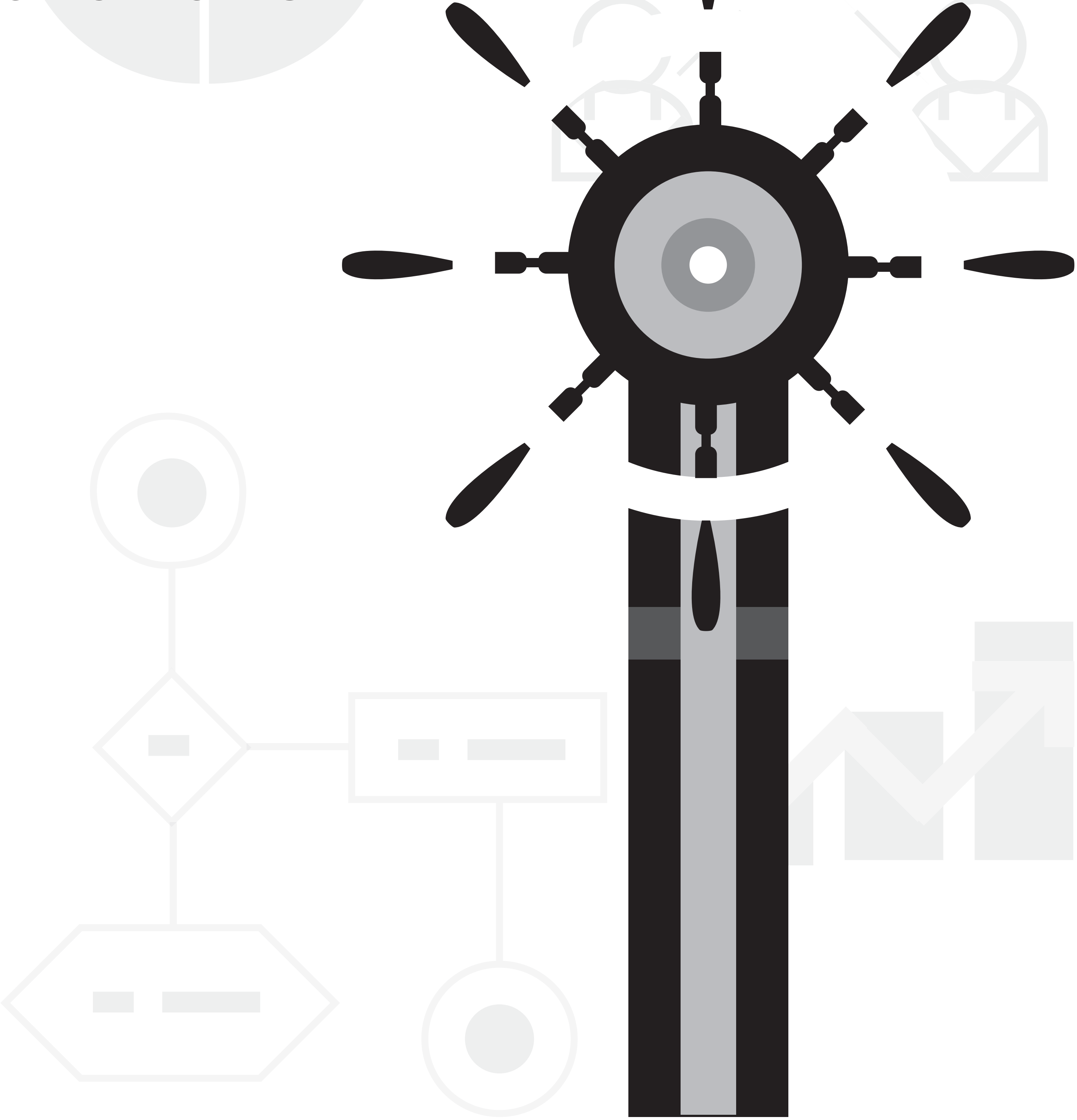
Chapter 9:

Income Programs and Laws



Earned Income Tax Credit

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Administering agency: Internal Revenue Service (IRS)

Year program started: 1975

Number of persons/households served: 27.5 million tax filers in 2015

Population targeted: low and moderate income workers

The Earned Income Tax Credit (EITC) is a federal tax credit that benefits low and moderate income workers. EITC benefits are particularly valuable for workers raising children. Very low income workers not raising children may also qualify for a smaller credit.

HISTORY

Congress established the EITC in 1975 under Section 32 of the Internal Revenue Code. Congress has expanded the EITC several times with the support of both Republican and Democratic presidents. In 2009, a substantial expansion of the EITC was enacted in the American Recovery and Reinvestment Act (ARRA). Important expansions of the Child Tax Credit and a higher education credit were also enacted through ARRA. The Protecting Americans from Tax Hikes (PATH) Act of 2015 made all of those expansions permanent.

The EITC was designed to offset the payroll and income tax burdens of low income workers raising children. Expansion of the EITC now also delivers an income supplement to such workers earning very low wages, therefore providing a work incentive.

PROGRAM SUMMARY

According to analyses of Census data by the Center on Budget and Policy Priorities (CBPP), in 2014 the EITC lifted an estimated 6.8 million people out of poverty, including 3.5 million children. The EITC lifts more children in working families out of poverty than any other single program or category of programs. It also enables near-poor parents and children to maintain incomes above the poverty line.

The EITC is received as a refund from the Internal Revenue Service (IRS). The amount of the EITC varies according to workers' earnings and number of children. Below are guidelines for work performed in 2015.

Workers who claim children for the EITC must file tax form 1040 or 1040A, and attach IRS "Schedule EIC." In addition to sons and daughters, qualifying children for the EITC may include grandchildren, step children, adopted children, brothers and sisters (or their descendants), and foster children officially placed with workers.

Number of children:	Single workers with income less than:	Married workers with income less than:	EITC up to:
3 or more children	$47,747	$53,267	$6,242
2 children	$44,454	$49,974	$5,548
1 child	$39,131	$44,651	$3,359
No children	$14,820	$20,330	$503

Workers who do not claim children for the EITC must be between 25 and 64 years old at the end of 2015. They are not required to file Schedule EIC with their tax forms.

To claim the EITC, workers cannot have investment income (such as taxable interest, tax-exempt interest, or capital gain distributions) greater than $3,400 in 2015.

Claiming public benefits like cash assistance, food stamps, SSI, Medicaid, or federal housing assistance do not affect eligibility for the EITC. The EITC is not counted as income to determine eligibility for any federally funded programs and does not count against resource limits for 12 months after receipt. For 2015, 26 states—including the District of Columbia—offered a state EITC in addition to the federal credit; and three localities—New York City, San Francisco, and Montgomery County, Md.—offer a local EITC.

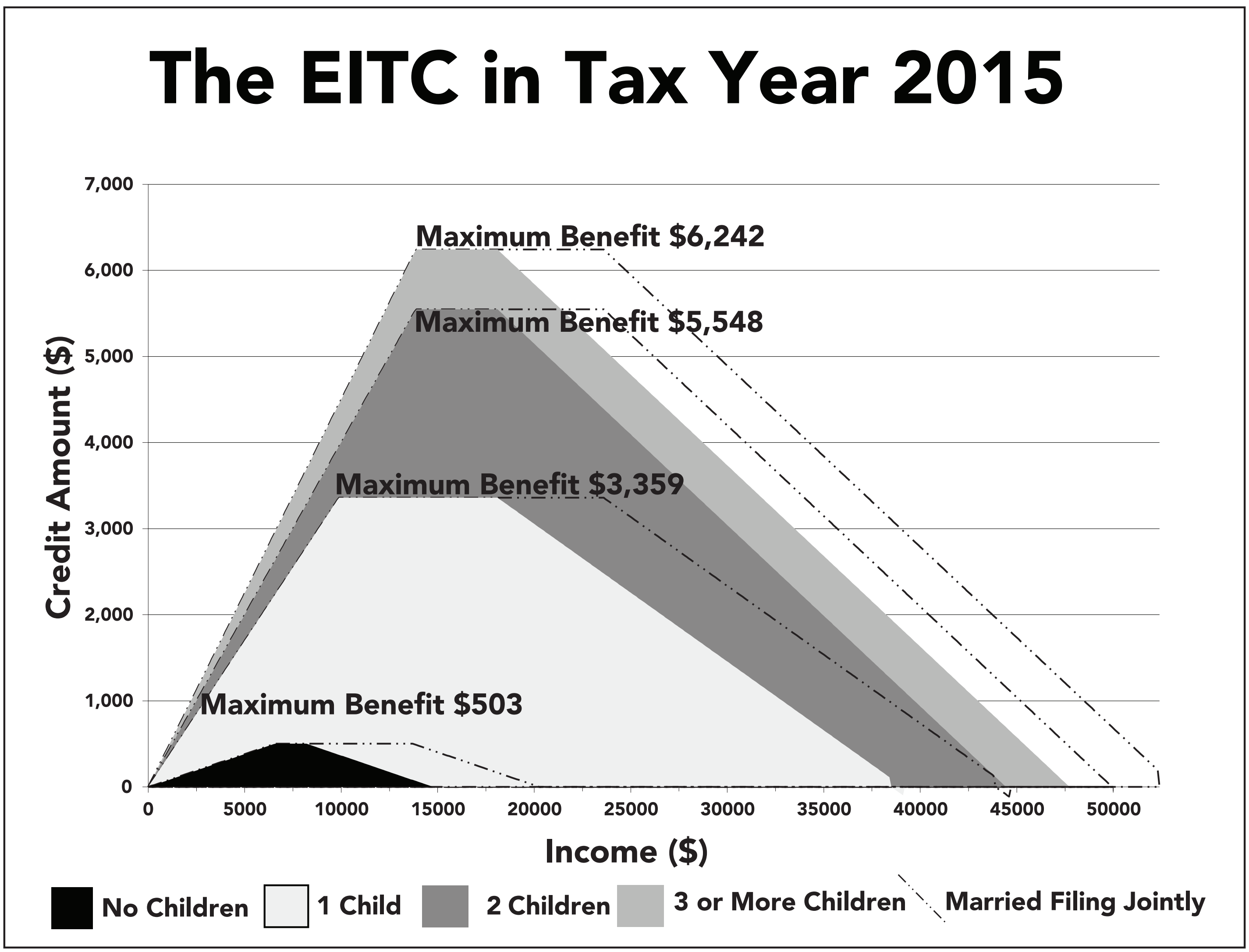
Child Tax Credit. Many workers who claim the EITC may also qualify for the Child Tax Credit (CTC), worth up to $1,000 for each qualifying child under age 17. To be eligible for the "additional CTC" in 2015, workers must have taxable earned income above $3,000. As with the EITC, CTC refunds are not counted as income in determining eligibility for any federally funded program and do not count toward resource limits for 12 months after receipt.

Higher Education Tax Credit. The American Opportunity Tax Credit was first enacted by ARRA as a revised version of the HOPE credit for higher education expenses and made permanent as part of the PATH Act in December 2015. It is worth a total of $2,500, compared to $1,800 for the HOPE credit. Up to $1,000 of the credit can be claimed even if the individual does not earn enough to owe income tax, benefitting lower income parents of college students and adult students. Such filers could not claim the HOPE credit.

Premium Tax Credit. This credit can help some individuals and families with incomes between 100 and 400 percent of the federal poverty line pay for health insurance purchased through the federal marketplace or through state marketplaces. The amount of the credit is figured on a sliding scale, so people do not have to pay more than 2.01% – 9.56 %of their adjusted gross income in 2015.

FUNDING

The EITC and other tax credits are components of the Internal Revenue Code. Consequently, the benefits of those credits do not require annual appropriations decisions. Funding for EITC administration is part of the IRS budget and is not separately appropriated. In 2015, 27.5 million lower and moderate income workers received more than $66 billion from the EITC.



FORECAST

Since the PATH ACT made expansions to the EITC and other credits permanent, attention will focus on expanding the EITC for low-wage childless workers. This is the only group of people who are taxed into poverty through the federal tax system. President Obama and Speaker of the House Paul Ryan (R-WI) issued nearly identical proposals in 2015 that would lower the eligibility age from 25 to 21 and raise the maximum credit to $1,000. Although the proposals have garnered some bipartisan support in Congress, an agreement must be reached on how to pay for it.

TIPS FOR LOCAL SUCCESS

CBPP closely monitors congressional action on the EITC and the other tax credits, publishes analyses of proposals, and issues legislative action alerts to advocates.

Although participation in the EITC is higher than in public benefit programs with more burdensome eligibility procedures, each year several million eligible workers do not claim their EITC. Nearly 60 percent of EITC recipients pay commercial tax preparers to do their tax returns, draining hundreds of dollars from their refunds and risking exposure to predatory refund loan practices.

Resources for helping people to receive their EITC include:

- The IRS sponsors the Volunteer Income Tax Assistance (VITA) and the Tax Counseling for the Elderly (TCE) programs to provide free tax filing assistance by trained community volunteers at local community sites. Search for VITA and TCE locations by ZIP code at http://irs.treasury.gov/freetaxprep.
- CBPP's Get It Back Campaign provides local organizations with training and technical assistance in building tax credit outreach campaigns and VITA programs. The campaign annually updates its tax credit outreach kit with facts about the EITC and the CTC and strategies to promote them, and its customizable outreach materials. Flyers in 24 languages, an EITC Estimator, and other tools are available at www.eitcoutreach.org.
- CFED coordinates a Taxpayer Opportunity Network that provides support to organizations running VITA programs. Learn more at www.cfed.org.
- Resources are also available from the IRS (www.eitc.irs.gov). The IRS and HUD partner to promote those credits and the VITA program.
- Community organizations and local agencies may qualify to apply for annual Community VITA grants, a matching grant program administered by the IRS to expand VITA to underserved communities (search for "VITA Grants" at www.irs.gov).

WHAT TO SAY TO LEGISLATORS

The EITC is designed to encourage and reward work. Beginning with the first dollar, a worker's EITC grows with each additional dollar of earnings until the credit reaches the maximum value. This creates an incentive for people to work and for lower-wage workers to increase their work hours.

The EITC reduces poverty by supplementing the earnings of workers who have low wages and low earnings. There has been broad bipartisan agreement that a two-parent family with two children with a full-time, minimum-wage worker should not have to raise its children in poverty. At the federal minimum wage's current level, such a family can move above the poverty line for an average family of four only if it receives the EITC as well as SNAP (food stamp) benefits.

For young children, moving out of poverty is particularly important. Research has found that lifting income in early childhood not only tends to improve a child's immediate educational outcomes, but also is associated with improved health outcomes, greater college attendance, and higher earnings in adulthood.

The EITC needs to be strengthened for low-wage childless workers who are the only group that the federal tax system taxes into poverty. A full-time, minimum-wage childless worker who earns $14,500 annually, will receive an EITC of only $23 after filing his or her 2015 tax return. This does little to offset the more than $1,000 he or she owes in income and payroll taxes.

FOR MORE INFORMATION

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