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 those expansions permanent. The “Tax Cuts and Jobs Act (TCJA) of 2017” brought significant changes to the Child Tax Credit, which is frequently claimed by EITC-eligible families.

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 2017 the EITC lifted 5.7 million people above the poverty line, including 3 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 IRS. The amount of the EITC varies according to workers’ earnings and number of children. Below are guidelines for work performed in 2018.

<table>
<thead>
<tr>
<th>Number of children:</th>
<th>Single workers with income less than:</th>
<th>Married workers with income less than:</th>
<th>EITC up to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 or more</td>
<td>$49,194</td>
<td>$54,884</td>
<td>$6,431</td>
</tr>
<tr>
<td>2 children</td>
<td>$45,802</td>
<td>$51,492</td>
<td>$5,716</td>
</tr>
<tr>
<td>1 child</td>
<td>$40,320</td>
<td>$46,010</td>
<td>$3,461</td>
</tr>
<tr>
<td>No children</td>
<td>$15,270</td>
<td>$20,950</td>
<td>$519</td>
</tr>
</tbody>
</table>

Workers who claim children for the EITC must file a tax return with the IRS “Schedule EIC.” Workers who do not claim children for the EITC must be between 25 and 64 years old at the end of 2018. They are not required to file Schedule EIC with their tax forms.

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.
To claim the EITC, workers cannot have investment income (such as taxable interest, tax-exempt interest, or capital gain distributions) greater than $3,500 in 2018.

Claiming public benefits like cash assistance, Supplemental Nutrition Assistance Program (SNAP), Supplemental Security Income (SSI), Medicaid, or federal housing assistance does 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.

Thirty states, including the District of Columbia, have state EITCs. The credit is refundable in 25 states. Additionally, 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). The TCJA brings changes to this credit for 2018. The CTC is now worth up to $2,000 for each qualifying child under age 17. Up to $1,400 of the credit is refundable. To be eligible, workers must have taxable earned income above $2,500.

While the value of this credit is doubled, low-income families who owe little to no income tax will miss out on the benefit of the increase. Additionally, children claimed for the CTC are now required to have a Social Security number (SSN). Previously, they could have a SSN or an Individual Taxpayer Identification Number (ITIN). This eligibility change will end the CTC for an estimated one million children.

The TCJA also brings a new $500 non-refundable tax credit for other dependents who don’t qualify for the CTC. There is no SSN requirement for this credit. Under the TCJA, these changes to the CTC will expire after 2025.

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% 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% to 9.56% of their adjusted gross income in 2018.

**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 2018, about 25 million lower- and moderate-income workers received nearly $63 billion from the EITC.

**FORECAST FOR 2019**

For the third year a major change to the tax filing process will likely impact a substantial number
of EITC claimants. The “PATH ACT of 2015” calls upon the IRS to delay release of tax refunds that include the EITC or the refundable part of the CTC (the ACTC) until February 15, 2019. This will enable the IRS to verify income reported on those returns to help prevent identity theft and erroneous refunds. The IRS warns that refunds released on February 15 may not reach taxpayers until about two weeks later, due to holidays and bank processing of direct deposits.

The “Tax Cuts and Jobs Act (TCJA) of 2017” did not change EITC eligibility rules, but CTC eligibility was restricted. While the value of the CTC has doubled to $2,000 per child, most lower- and moderate-wage families will not see a significant increase in their credit, especially since the refundable portion is capped at $1,400. Additionally, since children are now required to have a SSN to be claimed for the CTC, many working immigrant families will no longer benefit from the credit. In 2019, expect efforts to prevent the CTC changes and other provisions impacting low-income families in the TCJA from extending beyond the 2025 expiration.

As in previous years, 2019 will likely present proposals to strengthen and expand the EITC for low-wage childless workers. Proposals to lower the eligibility age from 25 to 21 and raise the maximum credit to $1,000 have previously received bipartisan congressional support.

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**THE EITC IN TAX YEAR 2018**

<table>
<thead>
<tr>
<th>Credit Amount ($)</th>
<th>Income ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAXIMUM BENEFIT $519</td>
<td>0 - 10,000</td>
</tr>
<tr>
<td>MAXIMUM BENEFIT $3,461</td>
<td>10,000 - 20,000</td>
</tr>
<tr>
<td>MAXIMUM BENEFIT $5,716</td>
<td>20,000 - 50,000</td>
</tr>
<tr>
<td>MAXIMUM BENEFIT $6,431</td>
<td>OVER 50,000</td>
</tr>
</tbody>
</table>

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**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. More than
half 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 claim 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 resources, training, and technical assistance to conduct tax credit outreach campaigns that promote the EITC and VITA. Popular resources such as customizable flyers in 24 languages, outreach materials, a tax credit outreach kit, an EITC Estimator, a tax guide for Uber and Lyft drivers, and other tools are available at www.eitcoutreach.org.

- Prosperity Now coordinates a Taxpayer Opportunity Network that provides support to organizations running VITA programs. Learn more at www.prosperitynow.org.

- Resources are also available from the IRS (www.eitc.irs.gov). The IRS and HUD partner to promote tax 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 likelihood of 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 $57 after filing his or her 2018 tax return. This does little to offset the more than $1,000 he or she owes in income and payroll taxes.

**FOR MORE INFORMATION**