Earned Income Tax Credit

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Administering Agency: Internal Revenue Service (IRS)

Year Started: 1975

Number of Persons/Households Served: 25 million tax filers in 2019

Population Targeted: low- and moderate-income workers

The Earned Income Tax Credit (EITC) is a federal tax credit benefitting working people with low to moderate incomes. EITC benefits are particularly valuable for workers raising children. Workers not raising children with very low incomes 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 workers with low incomes raising children. Expansion of the EITC now delivers an income supplement to such workers earning very low wages, thereby providing a work incentive.

PROGRAM SUMMARY

According to analysis of Census data by the Center on Budget and Policy Priorities (CBPP), in 2018 the EITC lifted 5.6 million people above the poverty line, including 3 million children. The EITC lifts more children in working families out of poverty than any other program or category of programs. It also enables near-poor parents and children to maintain incomes above poverty line.

The EITC is received as a refund from the IRS. The amount varies according to workers' earnings and number of children. Below are guidelines for 2020:

Number of children:	Single workers with income less than:	Married workers with income less than:	EITC up to:
3 or more	$50,954	$56,844	$6,660
2 children	$47,440	$53,330	$5,920
1 child	$41,756	$47,646	$3,584
No children	$15,820	$21,710	$538

Workers who claim children for the EITC must file a tax return with the IRS using Form 1040, "Schedule EIC." Workers who do not claim children for the EITC must be between 25 and 64 years old at the end of 2020 and are not required to file the Schedule EIC with their tax forms.

In addition to sons and daughters, qualifying children may include grandchildren, stepchildren, adopted children, brothers and sisters (or their descendants), and foster children officially placed with workers by an authorized agency.

To claim the EITC, workers cannot have investment income (such as taxable interest, tax-exempt interest, or capital gain distributions) greater than $3,650 in 2020. 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 24 states. Additionally, 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 three major changes to this credit. First, 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. Families with low incomes who owe little to no income tax miss out on the benefit of the doubled credit maximum.

Second, while taxpayers and spouses can use an Individual Taxpayer Identification Number (ITIN) or a Social Security Number (SSN) to get the CTC, children claimed for this credit are required to have an SSN. Previously, children could have an SSN or an ITIN. This eligibility change will end the CTC for an estimated one million children.

Third, the TCJA 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 three 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 programs 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.

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 2.07%-9.83% of their adjusted gross income in 2020.

Recovery Rebate Credit

This temporary credit is designed to help reduce the financial burden of COVID-19 on individuals and their families. It is authorized under the "Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020." Eligible people who were not issued Economic Stimulus Payments (commonly referred to as stimulus checks) in 2020 or who received a payment less than the amount they now qualify for can claim this credit when they file a 2020 tax return in 2021. To qualify for the Recovery Rebate Credit, a person: must be a U.S. citizen or qualifying resident alien in 2020, cannot be claimed as a dependent on someone else's tax return in 2020, and must have a social security number valid for employment.

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 2019, 25 million lower- and moderate-income workers earned $63 billion from the EITC.

FORECAST FOR 2021

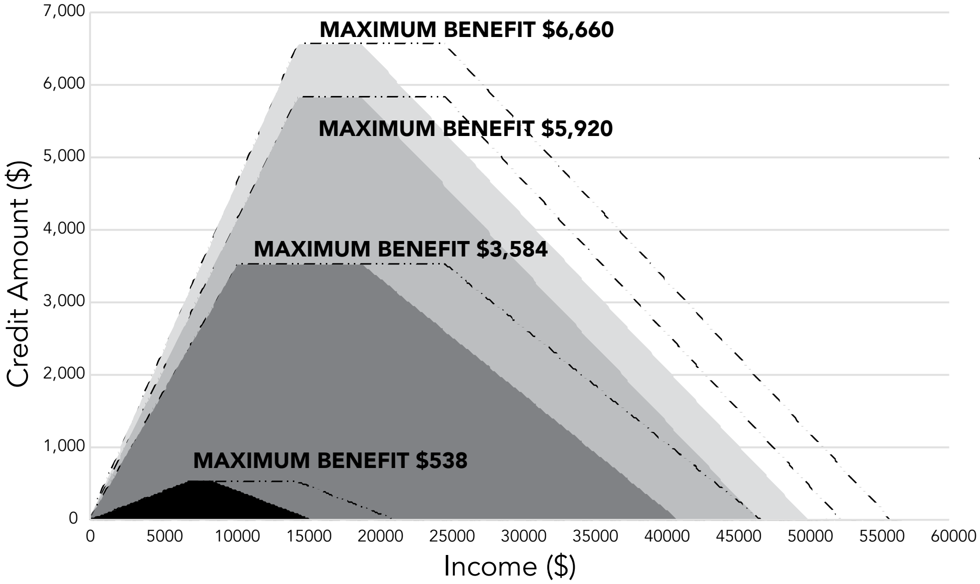
For the fifth year a major change to the tax filing process will likely impact a substantial number of EITC claimants. The "PATH Act" calls upon the IRS to delay release of tax refunds that include the EITC or the refundable part of the CTC (the ACTC) until February 15, 2021. This will enable the IRS 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 TCJA 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 an SSN to be claimed for the CTC, many working immigrant families will no longer benefit from the credit. In 2021, expect efforts to prevent the CTC changes and other provisions impacting families with low incomes in the TCJA from extending beyond the 2025 expiration.

The COVID-19 pandemic reduced the earnings of millions of people with low incomes who were no longer able to work. Since the EITC is based on earned income, many people would receive a significantly less EITC refund if they had to rely on their 2020 income. As part of the COVID relief legislation Congress passed in December 2020, the EITC and CTC "lookback" provision allows people to choose to use the higher of their 2019 or 2020 income to calculate their EITC and CTC refund on their 2020 tax return.

As in previous years, 2021 will likely involve proposals to strengthen and expand the EITC for workers without children earning low wages. The "Working Families Tax Relief Act" (S.1138 and H.R. 3157) introduced by Senators Sherrod Brown (D-OH), Michael Bennet (D-CO), Richard Durbin (D-IL), and Ron Wyden (D-OR) and Representatives Dan Kildee (D-MI) and Dwight Evans (D-PA) would expand both the EITC and CTC to improve the economic well-being of 46 million households. The bill would:

- Increase the EITC for families with children by 25%.
- Expand the EITC for workers without children by increasing the maximum credit to $2,070, raising the qualifying income limit to $25,000, and expanding the age range for eligible workers to 19-67.
- Make the CTC fully refundable so that all families receive the full amount of the credit regardless of how much they earn.
- Create a $3,000 Young Child Tax Credit that provides $1,000 in addition to a family's CTC.



THE FEDERAL EITC IN TAX YEAR 2020

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 EITC include:

- The IRS sponsored Volunteer Income Tax Assistance (VITA) and the Tax Counseling for the Elderly (TCE) programs, which 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.
- Code for America's Get Your Refund service partners with VITA, to deliver virtual free tax assistance. Visit www.getyourrefund.org.
- CBPP's Get It Back Campaign, which 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, a self-employment payments calculator, 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 reduces poverty by supplementing the earnings of workers with low wages and low earnings. There is 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 only if it receives the EITC as well as SNAP (food stamp) benefits.

The EITC is designed to encourage 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 workers with lower wages to increase their work hours.

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 outcome, but also improves health outcomes, the likelihood of college attendance, and higher earnings in adulthood.

The EITC must be strengthened for workers without children earning low wages who are taxed into poverty. A full-time, minimum-wage childless worker who earns $14,500 annually will receive an EITC of only $99 after filing his or her 2020 tax return. This does little to offset the more than $1,000 he or she owes in income and payroll taxes.

Many working families with low incomes are struggling to stay afloat as costs have risen faster than their pay over several decades. The "Working Families Tax Relief Act" would begin to fix our tax laws to help working people with low-wage jobs support themselves and their families.

FOR MORE INFORMATION

Center on Budget and Policy Priorities, 202-408-1080, www.cbpp.org.