



Tax Credits That Can Lift Millions More Out of Poverty *Facts About the Child Tax Credit and Earned Income Tax Credit*

Why do these tax credits make so much difference? They provide refund checks to poor families with children and to adults without children even if they are too poor to owe income taxes. These “refundable” credits have been shown to lift millions of families out of poverty, and also to be a powerful work incentive. But right now many of our poorest families and individuals are denied the credits.

The Child Tax Credit provides up to \$1,000 per child under age 17. But there’s a catch. This year, a family earning less than \$11,750 does not qualify for the credit – *they are too poor*. Ten million children are totally excluded because they are *too poor*. Another 10 million children get only a partial credit. A parent working full-time, year round even with the increase in the minimum wage that took effect mid-year earns too little to qualify for the credit. Every year, the minimum earnings are adjusted upward. Poor people are less likely to get raises than most, so more and more are excluded every year.

The Earned Income Tax Credit provides a lot of help to low-income working families with children. (In 2006, eligible families with two or more children could receive a maximum EITC credit of \$4,536.) What’s less known is that it provides a very small amount of help to adults without children – working people aged 25-64 with incomes averaging about 60 percent of the poverty line (\$6,050 in 2005) get a credit averaging \$230 (the maximum credit is \$412). Improving the EITC for these very poor workers would both decrease hardship and strengthen the incentive to work. Half of poor noncustodial fathers do not work, so increasing incentives is an important strategy that may result in increased child support payments.

Who will benefit from expanding these credits? Millions of our poorest children and adults. According to the Tax Policy Center, half of all African-American children, 46 percent of Hispanic children, and 18 percent of white children received either no Child Tax Credit or a reduced amount in 2005 because their families' earnings were too low. More than 4 million workers without children received a small EITC refund in 2005. According to the Center on Budget and Policy Priorities, about half work in service industries; one in five (21 percent) work full-time, year round. Sixty percent are non-Hispanic white, 17 percent are African American, and 15 percent are Latino.

How can these credits be expanded? There are many possible approaches.

The refundable Child Tax Credit would help the most children by eliminating the earnings requirement. If all poor families with children qualified for the credit, 3.3 million people, two-thirds of whom are children, would be lifted out of poverty. Millions more would become less deeply poor. If Congress retains a work requirement but lowers the minimum earnings, between 2 and 5 million children will become newly eligible in 2009, with close to 10 million more children receiving an increased credit (the numbers helped depend on how much the threshold is lowered and on no longer adjusting the threshold annually for inflation). The **EITC rate for workers without children** has not been increased since its inception in 1993. Increasing the rate and allowing workers with somewhat higher incomes to claim the maximum credit would make between a quarter of a million and about 2 million low-income workers newly eligible, depending on the details.

Can we afford to increase these low-income credits? Yes – if we make the right choices. Congress should reduce the extent of the tax cuts enacted since 2001 for the richest Americans. If it does so, improvements in the Child Tax Credit and the EITC can easily be made without increasing the deficit. By 2012, millionaire households will receive \$162,000 each in annual tax cuts, at a cost of \$73 billion in that year alone. Congress can lift millions out of poverty for a small fraction of the cost of the tax cuts for the richest Americans.

More info: Center for American Progress, *From Poverty to Prosperity*, at http://www.americanprogress.org/issues/2007/04/poverty_report.html.
Center on Budget and Policy Priorities, *Facts About Tax Credits for Working Families*, http://www.cbpp.org/eic2007/EIC_Facts_Text.pdf.