



# OUTCOMES: EARNED INCOME TAX CREDIT AND CHILD TAX CREDIT

***The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are federal tax credits that supplement the earnings of low-income workers and families with children.*** Both tax credits rise with household earnings up to a maximum point, and then phase out gradually so as to maximize incentives for work. The Child Tax Credit is specifically designed to offset the cost of raising children, and provides up to a \$1,000 refund per child. Families with two children with incomes up to \$110,000 (or \$75,000 for single or head-of-household filers) [can qualify](#) for the full CTC; however, families with two children that earn less than \$3,000 are ineligible for the credit. Low-income families and some working individuals are eligible for the EITC, and the specific amount of the credit that each tax filer receives [is dependent on](#) earnings, number of qualifying children, and marital status. Both credits include a refund if the amount of the credit exceeds the amount a household owes in taxes. According to the CBPP, about [83 million people](#)—including 47 million children—claim the ETC or the low-income component of the CTC.

For more information, visit the Center on Budget and Policy Priorities “Policy Basics” on the [EITC](#) and the [CTC](#).

## Who benefits?

***Tax credits help the working poor.*** In order to be eligible for the refundable portion of either credit, recipients must work, and the benefit level varies depending on the amount of earnings. The EITC and the refundable portion of the CTC are both only available to low-income households.

***Many veterans and/or single parents claim the EITC and CTC; claimants live in all parts of the country.*** About [2 million](#) veteran or military households receive the EITC, refundable portion of the CTC, or both. More than [one-fifth](#) of rural and micropolitan (small cities and towns) residents filing a tax return for 2012 claimed the EITC, rates higher than the rest of the nation. A significant majority of EITC recipients are also [single parents](#); in 2003, 73% of EITC benefits went to single mothers or fathers.

***Tax credits are often a temporary solution.*** Most EITC recipients [claim the credit for 1-2 years at a time](#), mainly to offset the cost of a child’s birth or a spouse’s loss of income. Recipients usually pay more in federal taxes in their lifetime than they receive in EITC. Between 1989 and 2006, [about half of](#) all taxpayers with children used the EITC at least once.

## Following 2015 Improvements in Policy, Gaps Remain

***At the end of 2015, Congress voted to make certain EITC and CTC provisions permanent.*** These provisions were enacted in 2009 and slated to expire after 2017, but a bipartisan effort made permanent the 2009 improvements in CTC and EITC policy. The provisions strengthen the anti-poverty impact of the two credits by [about 20%](#), and their permanent extension will benefit up to 50 million Americans, including up to 25 million children. For instance, a single mother of two working full time at minimum wage would have lost all of her Child Tax Credit had the provisions expired; her Child Tax Credit with the permanent improvement is \$1,725. In total, the improvements will raise [roughly 16 million](#) people above or closer to the poverty line.

***Despite these improvements, the EITC is still insufficient, particularly for childless workers and non-custodial parents.*** Because the EITC is so low for workers who are not raising children, federal taxes pushed [7.5 million childless workers](#) below or further below poverty in 2014. All workers under age 25 without children are ineligible for the EITC, meaning that they receive none of the EITC’s benefits for poverty reduction and labor force participation when they are just entering the workforce. In 2013, the average EITC benefit for childless workers who are eligible was [less than one-tenth](#) of the average credit for filers with children. A single childless worker who earned \$14,800 in 2015 made too much to qualify for any EITC. This is further problematic because many “childless workers” are actually non-custodial parents, and still have parenting or child support obligations. A proposal in Congress to expand the EITC to these workers would benefit up to [16.2 million](#) people. *For the story of one low-income childless worker who is struggling to make ends meet and would benefit from fixing this gap in EITC, see CHN’s blog post about Lajuana Clark [here](#).*

Updated October 2016. For this outcomes sheet and more, visit [www.chn.org/outcomes](http://www.chn.org/outcomes).

## Why it Matters: Good Outcomes from the EITC and CTC

Many of these outcomes were compiled from CBPP fact sheets; see their EITC and CTC Chart Book [here](#).

### **Tax credits reduce poverty and improve social mobility.**

- A [recent study](#) of single mothers found that a \$1,000 increase in the EITC led to a 5.5 to 9.4 percentage point reduction in the share of families living below the poverty line. The researchers took both the immediate earnings boost and the increased work incentives caused by the tax credit into account, and found that typical estimates that only include the former (such as the finding based on Census poverty data that the EITC and CTC lifted [9.2 million people](#) including 4.8 million children out of poverty in 2015) likely [only account for half](#) of the tax credit's poverty-reduction effects because they don't include changes in labor force participation.
- In 2013, the number of children in poverty would have been [one-quarter higher](#) without the EITC.
- A full-time minimum wage worker earns only 61% of the poverty line for a family of four. After taking earnings, payroll taxes, EITC and CTC into account, the family's income rises to [87% of the poverty line](#).
- These tax credits [help families pay](#) routine bills as well as, because they are delivered as a lump sum, make major purchases (such as a car, more stable housing, or tuition) and build assets, all of which improve chances of economic mobility.

### **Tax credits improve children's long-term outcomes.**

- For every dollar that tax credits increase, researchers found that children's test scores [rise by enough](#) to produce more than a dollar's increase in future earnings, making tax credits cost-effective investments. They also find that a \$1000 tax credit to families with young children increases the probability of college attendance at age 20 by more than 29 percentage points, and increases in tax credits also lead to a reduced teenage birth rate as well as increased neighborhood quality and retirement savings during adulthood.
- Another study [found that](#) for every \$3,000 in additional annual income that a child's family receives before the child's sixth birthday, the child will, between the ages of 25 and 37, work 135 hours a year more than they would have and earn 17% more than they would have had their parents not received the tax credits. While these effects are a result of general increases in income, the researchers find that the results are directly applicable to low-income tax credits like the EITC.
- Other researchers have confirmed that increases in family EITC receipt [are associated with](#) significant increases in test scores, high school graduation rates, and college attendance, with larger impacts for boys, younger children, and minority children.

### **Tax credits encourage work, reduce reliance on welfare, and strengthen local economies.**

- [An abundance of researchers](#) have all found significant positive effects of the EITC on employment and labor force participation. The "phase-in" portion of the EITC encourages recipients to enter the labor force by increasing the returns to labor, and the "phase-out" portion reduces EITC benefit by less than a dollar for each additional dollar earned, so that increased earnings still pay off.
- The EITC [reduces cash welfare](#) caseloads by boosting employment for single mothers. Researchers have found that the EITC was responsible for [about 15%](#) of the very large decline in welfare receipt during the 1990s.
- The EITC boosts [Social Security](#) retirement benefits for working-age women by boosting employment and earnings.
- For every \$1.00 claimed in benefits, EITC generates [at least \\$1.50-\\$2.00](#) in local economic activity.

### **Tax credits improve health.**

- Increases in EITC receipt have been [shown to improve](#) a variety of mental and physical health outcomes for mothers.
- Mothers receiving a greater EITC benefit are [less likely](#) to have children with low birth weights and [less likely](#) to have children born prematurely. Healthy birth weights are associated not only with infant health, but also with positive health and economic outcomes during adulthood.