



TAX POLICY CENTER
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The Federal Earned Income Tax Credit

Providing a Foundation of Support for Workers with Children

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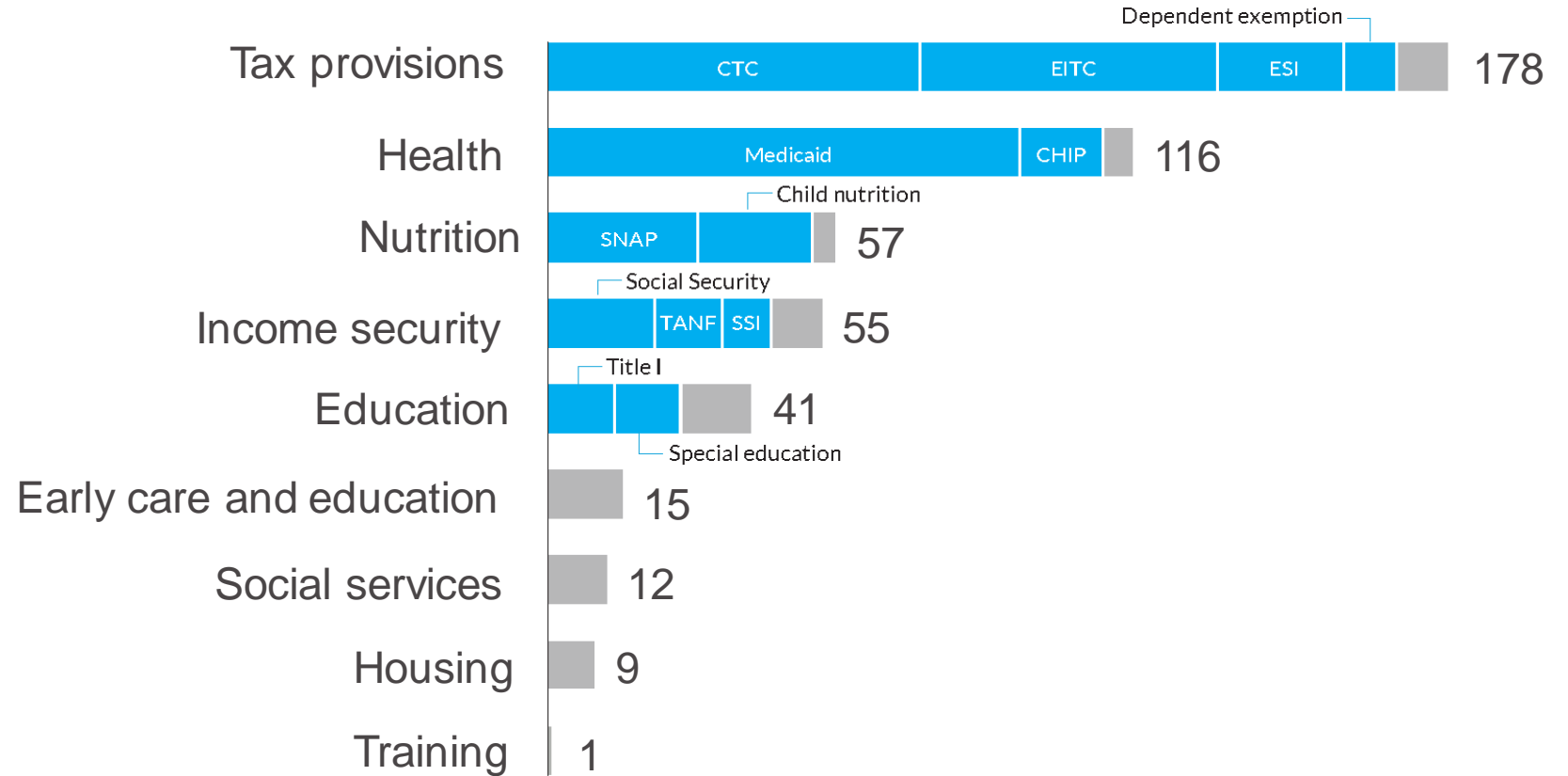
Why we have programs like the EITC

- Growing income inequality (Congressional Budget Office, 2019)
- Multiple hardships at low end of distribution
 - Food insecurity
 - Missed or delayed health care
 - Inability to meet basic needs
 - Childcare problems
- Programs / Cash

Tax programs critical for children

Billions of 2018 dollars

■ Individual programs ■ Two or more programs



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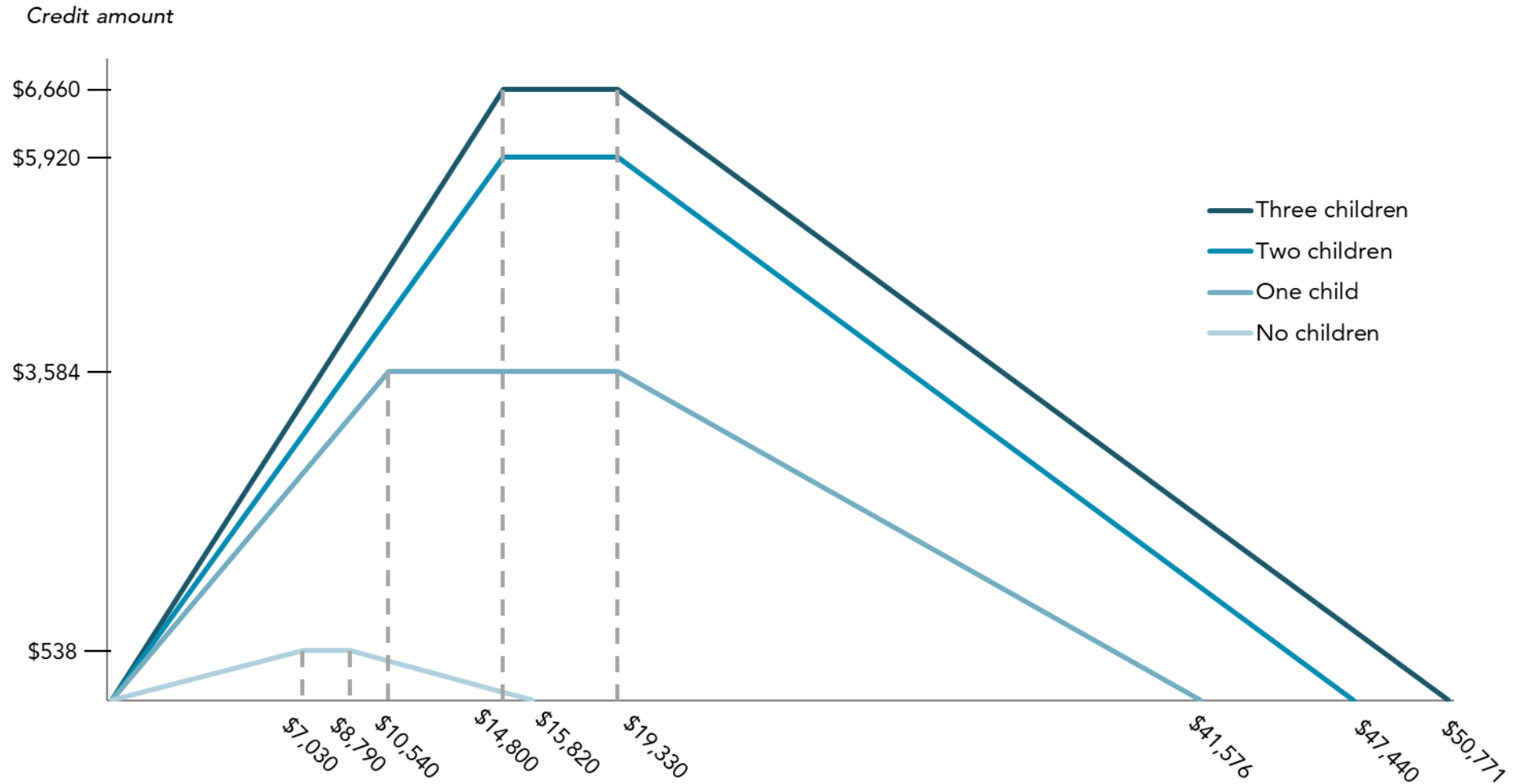
Source: Authors' estimates based primarily on Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2020* (Washington, DC: US Government Printing Office, 2019) and past years. For more source information, see the appendix.

Notes: Programs spending less than \$10 billion are not shown separately but are included in the totals by category. CHIP = Children's Health Insurance Program; CTC = child tax credit; EITC = earned income tax credit; ESI = employer-sponsored health insurance; SNAP = Supplemental Nutrition Assistance Program; SSI = Supplemental Security Income; TANF = Temporary Assistance for Needy Families.

Understanding the EITC



FIGURE 1
Earned Income Tax Credit
2020



Source: Urban-Brookings Tax Policy Center (2020). Internal Revenue Procedure 2019-44, Internal Revenue Service.

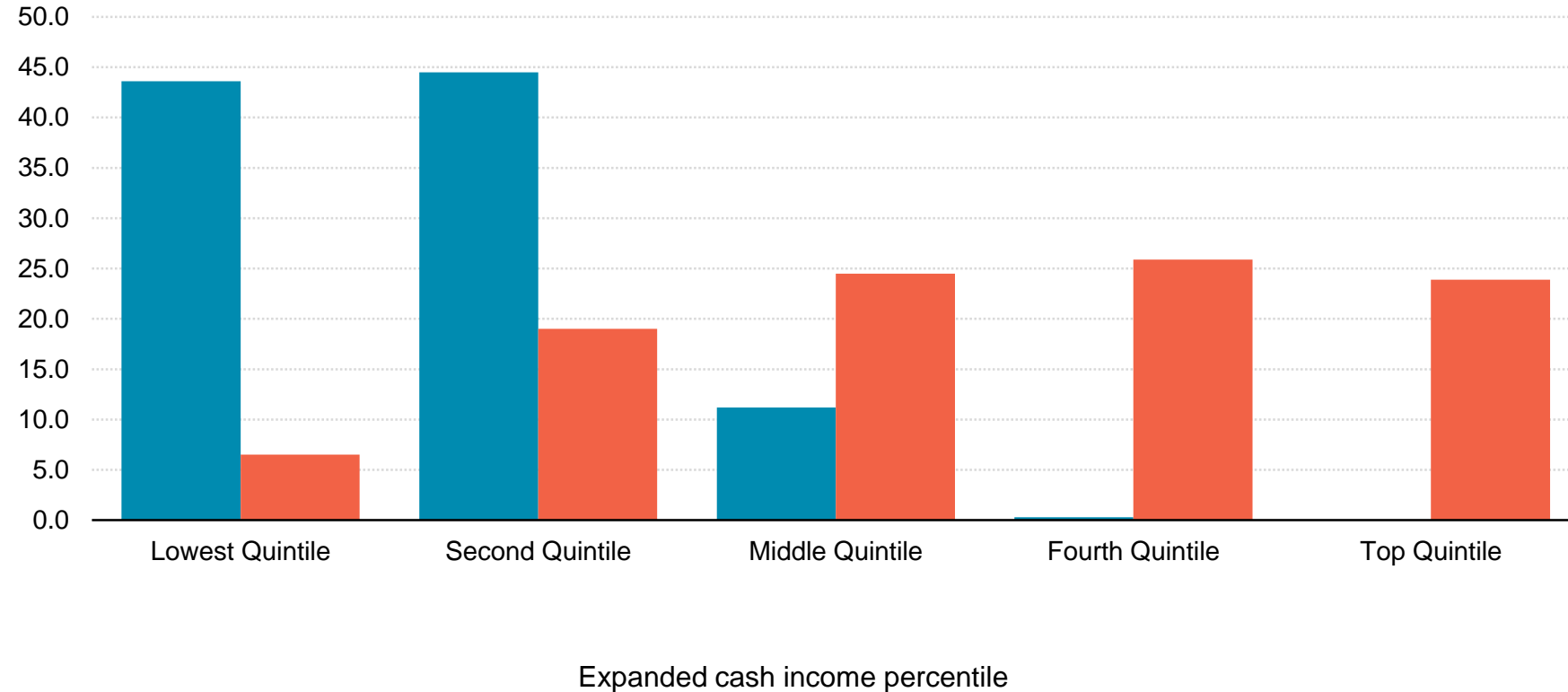
Notes: Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income \$5,890 higher than shown.

Majority of EITC benefits go to lowest income families

Benefits of the EITC and CTC

By income quintile, 2018

Share of benefits (%)

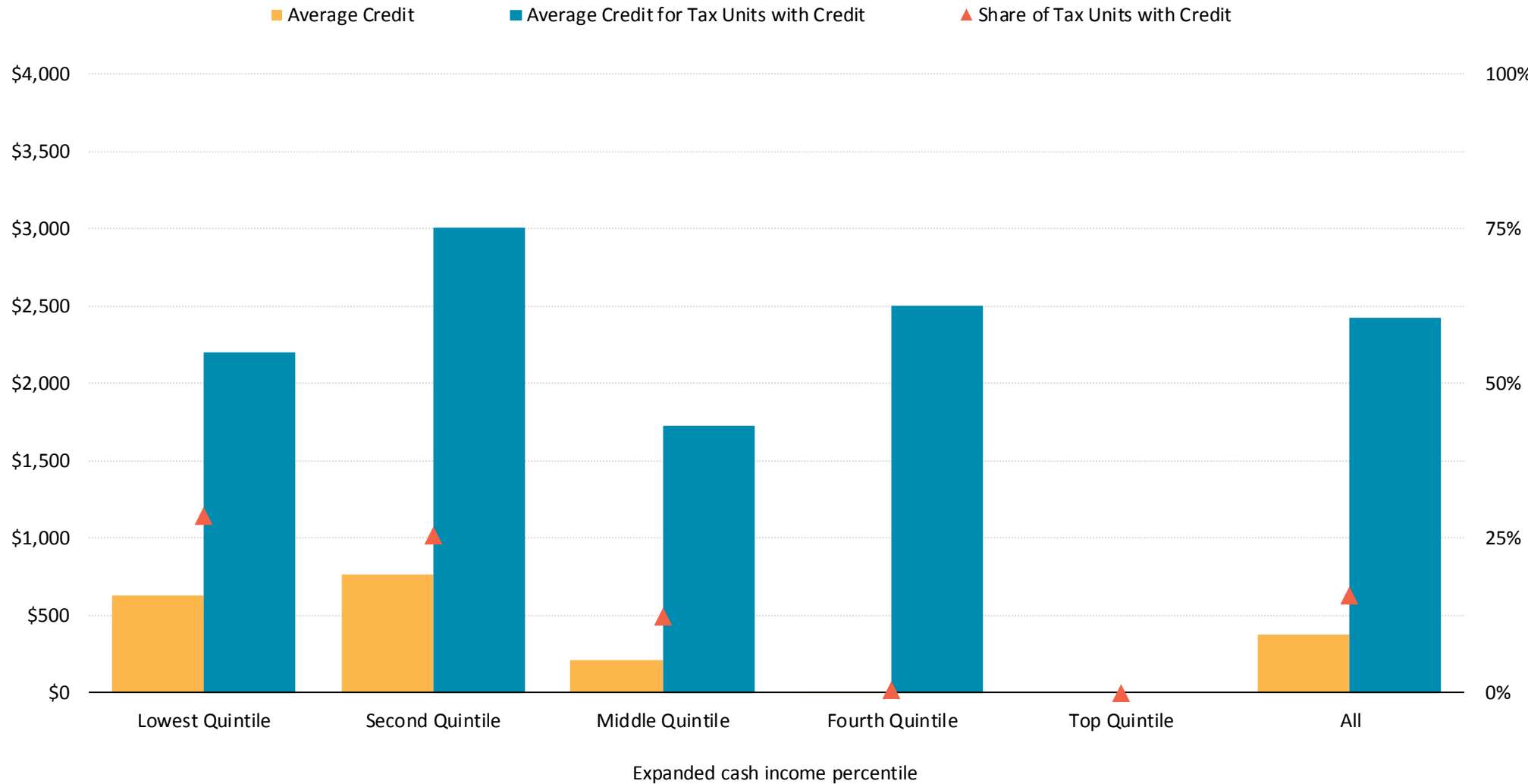


Source: Tax Policy Center Tables T13-0203 and T18-0195

Note: In 2018, Tax Policy Center projects the EITC will deliver about \$70 billion in benefits; the CTC will deliver about \$130 billion in benefits.

Distribution of EITC benefits (federal)

Distribution of Earned Income Tax Credit 2018



Source: Urban-Brookings Tax Policy Center. "TPC Microsimulation Model, version 0718-1."

Benefits of the EITC

- Administratively efficient
 - High take-up rates
 - Low consumer burden
 - Typically temporary assistance
- Largest antipoverty program for working age adults
 - Encourages people to work
 - Raises incomes of low-income workers
- Improves educational attainment
- Improved health outcomes

Areas of Concern

- Workers without custodial children left out – almost entirely – of benefits
 - Must be 25 – 64
 - Must have income below \$15,820
 - Relatively small benefit
 - *States / DC can opt to improve credit for this group of people.*

- Can exacerbate income volatility
 - Not well suited to responding to daily needs
 - But can facilitate purchase of higher cost items (transportation, durable goods)
 - *Alternate delivery mechanism?*

- Not reflect how families live today



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Thank you! Additional research can be found at: www.TaxPolicyCenter.org

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Elaine Maag; December 12, 2018