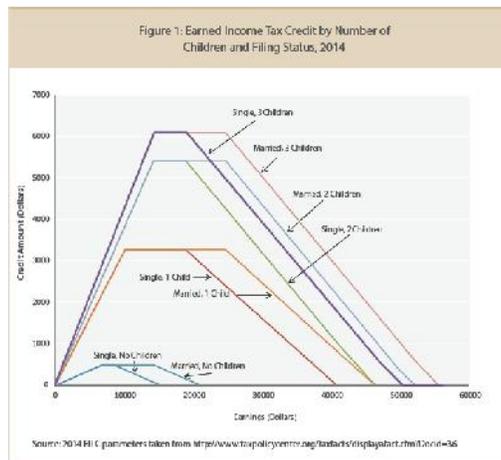


Taxation and the Family: What is the Earned Income Tax Credit?

The earned income tax credit (EITC) subsidizes low-income working families. The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches its maximum; both the percentage and the maximum credit depend on the number of children in the family. The credit then stays flat at that maximum as earnings continue to rise, but eventually earnings reach a phase-out range. From that point the credit falls with each additional dollar of income until it disappears entirely (figures 1 and 2). The phaseout begins at a higher income for married couples than for single parents. The credit is fully refundable: any excess beyond a family's income tax liability is paid as a tax refund.



- Families with three or more children may receive a credit of up to \$6,143 in 2014. The maximum credit is \$5,460 for families with two children, \$3,305 for families with one child, and just \$496 for those without children.

Figure 2. 2014 Earned Income Tax Credit Parameters

Type of Return	Single Filers				Percent	
	Maximum eligible earnings	Maximum credit	Begin phase-out	Break even point	Credit Rate	Phase-out Rate
Childless	6,493	496	8,110	14,990	7.65	7.65
One child	9,720	3,305	17,830	30,171	34.00	15.58
Two children	13,650	5,460	17,830	43,756	40.00	21.06
Three or More Children	17,650	6,143	17,830	46,997	45.00	21.06
Married Couples Filing Jointly						
Childless	6,180	496	13,510	20,070	7.65	7.65
One child	9,720	3,305	23,250	45,941	34.00	15.98
Two children	13,650	5,460	23,250	49,185	40.00	21.06
Three or More Children	13,650	6,143	23,250	52,427	45.00	21.06

- In addition, 24 states and the District of Columbia administered their own state EITCs in 2014. States typically calculate EITCs as a fixed percentage of the federal credit. The EITC is refundable in 21 states and the District of Columbia.
- After the Supplemental Nutritional Assistance Program (SNAP), the EITC is the largest cash or near cash assistance program targeted at low-income families. TPC estimates that more than 26 million households will receive a total of \$60 billion in reduced taxes and refunds in 2015 (Urban-Brookings Tax Policy Center Microsimulation Model, version 0613-2). The Center for Budget and Policy Priorities, using Census Bureau data estimates that in 2012, "the credit lifted 6.5 million people out of poverty, including over 3 million children." The IRS reports that more than three-fourths of eligible families claimed the Earned Income Tax Credit in 2005, a much higher take-up rate than that for Temporary Assistance to Needy Families (32 percent in 2009) or for SNAP (72 percent in 2009).

Figure 3. Real Federal Spending on EITC, CTC, and Welfare, 1975-2011



Sources: Budget of the United States Government, Fiscal Year 2014, for AFDC/TANF; Internal Revenue Service Statistics of Income, various years for EITC and CTC; Bureau of Labor Statistics for CPI-Duranton.

- The EITC has been successful at encouraging people, particularly single mothers, to take jobs. Its effectiveness at increasing hours worked is more ambiguous.
- Critics complain that the EITC is too complex, forcing potential recipients to seek help filing their federal tax return: two-thirds of low-income parents get such assistance, typically from paid tax preparers.
- The credit's complexity may also contribute to its relatively high error rate. In 2011, the GAO reported that about \$17 billion EITC claims were paid out in error in tax year 2010. The reasons for the high level of improper payment included high turnover of eligibility, confusion among eligible claimants, and the complexity of the law.
- The EITC imposes significant marriage penalties on some families. If a single parent receiving the EITC marries, the addition of the spouse's income may reduce or eliminate the credit. To address this issue, the Economic Growth and Tax Relief Reconciliation Act of 2001 raised the income level at which the EITC begins to phase out for couples to \$3,000 above that for single filers. The American Recovery and Reinvestment Act of 2009 (ARRA) increased that amount to \$5,000 for 2009 and indexed that threshold to inflation. The Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010 extended ARRA's EITC provisions through 2012. In 2012, the American Taxpayer Relief Act temporarily extended the ARRA provisions through 2017, and permanently extended the EGTRRA provision. In 2014, the phaseout threshold for joint filers will be \$5,430 higher than that for singles.
- Several reforms to the EITC have been proposed. One would increase the credit for childless workers to an amount closer to that for families with children; that would provide much-needed assistance for many additional poor workers.
- The EITC could also be consolidated with other tax provisions benefiting families with children into a single family credit, with lower phaseout rates and a uniform definition of who counts as a child. That could simplify tax filing and increase the assistance provided to working families with children.
- Separating the EITC into two parts—one directed at providing an incentive to work and the other at costs associated with raising children—could both increase work effort and provide more assistance for needy families with children.

See Also

Taxation and the Family: What is the Child Tax Credit (CTC)?

(ctc.cfm)

Taxation and the Family: How does the tax system subsidize child care expenses? (child-care-subsidies.cfm)

Data Sources

Tables T13-0263 (<http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=4040>) : Distribution of the Tax Benefits of the Earned Income Tax Credit by Cash Income Class and Percentile

Tables T07-0163 (<http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1567>) & T07-0095 (<http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1498>) Options to Expand the Earned Income Tax Credit for Childless workers

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Last updated: February 12, 2014