CENTER FOR Economic Progress
Working Solutions for Working Families

We Deserve a Better Tax Break

While the wealthiest Americans and many corporations await major tax cuts, current tax reform efforts risk largely missing low- to middle-income taxpayers. That's because they don't adequately address two key tax credits for working people: the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The Center for Economic Progress (CEP) knows that any tax reform effort seeking to reduce poverty and help average Americans must include expansions of both the EITC and the CTC.

Our Most Powerful Anti-Poverty Tool

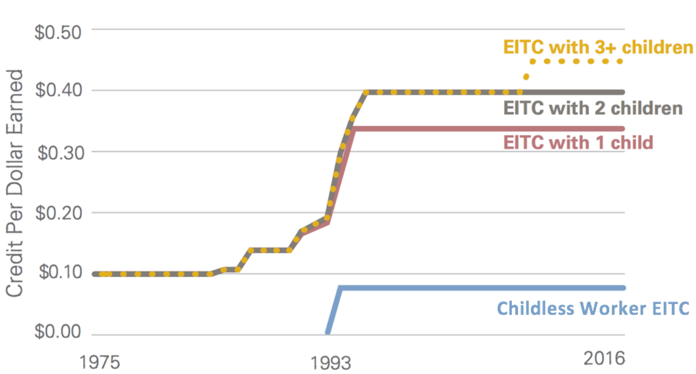
The Earned Income Tax Credit is one of the nation's largest and most effective anti-poverty tools. It supplements the earnings of low-wage workers to bridge the gap between what they can earn in the labor market and what it takes to support a household. Research shows that the EITC is effective at both reducing hardship and boosting labor force participation. Unfortunately, many low-wage workers miss out on the EITC because current rules exclude them.

Who is being left out?

While the EITC for taxpayers with qualifying children, established in 1975, has been expanded several times, the "childless worker" EITC has been left untouched since it was created in 1993. Less than 4% of total EITC refund dollars goes to those classified as "childless workers," though they make up over 25% of all EITC filers.[1] Workers who cannot claim a qualifying child:

- Are not eligible for the EITC at all if they are younger than 25 or older than 64 years;
- Receive a boost of only 7.65 cents per dollar earned, compared to 45 cents for a worker claiming three or more children; and,
- Can receive a maximum credit of $510 while a worker claiming three or more children can receive over $6,300.

The EITC has grown for all but childless workers.



"Childless workers" also cannot collect the maximum credit if they earn more than $8,270 per year—the equivalent of working fewer than 20 hours a week at the Illinois minimum wage of $8.25 an hour. This is below the federal poverty guideline of $12,060 for a single individual. This means that taxpayers who cannot claim qualifying children can be ***taxed into poverty*** because their tax liability begins before they meet the poverty threshold and is not offset by the EITC.

The Mislabeled "Childless Worker"

While "childless workers" are not able to claim a child according to the EITC rules, not all of them are childless. Many have children and help out informally, contribute financially while residing in the same household, or pay court-ordered child support. Boosting the incomes of these workers increases the resources that are available for their kids.

Another group for whom "childless" is inaccurate are parents whose children are now adults. Many of these parents—and other older workers without children—are struggling in today's labor market but do not qualify for Social Security.

A Solution for Young Adults

The EITC for those without qualifying children should be available to workers 18 and older. Though some are concerned that a lower age would provide unneeded help to college students or distort the decision about working versus going to school, these concerns are unwarranted. Students who are supported by their parents and are not financially independent would not qualify, while the credit would aid the educations of many students who must work to support themselves.

This would also help to increase labor force participation, which is particularly important given the severity of the employment crisis facing many young adults and among men and persons of color, especially in Chicago. Low labor force participation is associated with community disconnection, elevated criminal activity, high rates of incarceration, and—most fundamentally—poverty. Expanding the EITC is a proven way to incentivize workforce participation.

A Credit for Working Families

Though an expansion of the EITC has enjoyed prominent bipartisan support in the past, a more likely victory for working families in current tax reform efforts would be an expansion of the Child Tax Credit.

While a doubling of the standard deduction to $12,000 per filer would help low-wage workers avoid getting taxed into poverty, this shift may increase the tax bill of some families that would lose additional deductions for children. It is imperative that any such losses be supplemented by a boost to the CTC.

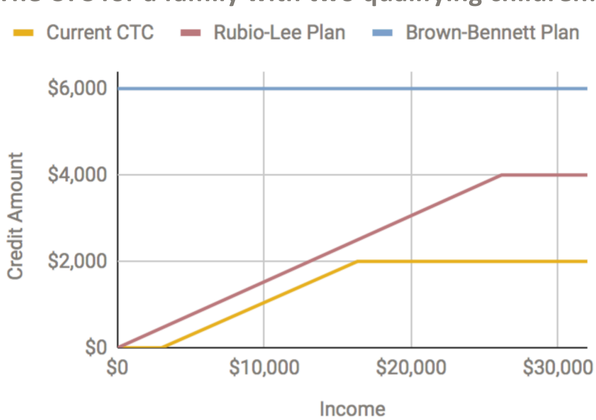
Reaching Those Who Need It

Many are skeptical that increasing the CTC will reach the working families that need relief the most. Indeed, even tripling the Child Tax Credit would provide only a modest increase in after-tax income for the lowest 10% of filers.[2] While increasing the amount of the credit is necessary, key to CTC reform is change to its refundability.

The CTC currently phases in at 15 cents on the dollar after $3,000 in earnings for a family. By making the credit refundable against payroll taxes, it would phase in at the first dollar of earnings, targeting lower-wage workers. This is a priority for Republican Senators Marco Rubio and Mike Lee, who also advocate an increase of the credit to at least $2,000.

Still, this boost would not reach families who need it the most as long as the credit phases in as a percentage of income earned.[3] Democratic Senators Michael Bennet and Sherrod Brown have proposed an alternative, the American Family Act of 2017, that would triple the CTC and make it fully refundable so that lower-income families get the full credit regardless of their earnings.

The CTC for a family with two qualifying children:



A family with two children currently needs an income of $16,333 to receive the full $2,000 CTC for which it is eligible. Under Rubio and Lee's plan, two-child families making less than $16,333 would receive a boost of up to $500. The greatest benefit, though, would go to families making $26,144 or more who could claim the expanded CTC maximum of $4,000.

The Right Reform

While it helps all income-eligible families by tripling the CTC, the Brown-Bennett plan would most benefit families with the lowest wages. By making the credit fully refundable, families will no longer be penalized for making too little.

The CTC should target precisely these families. The credit already helps millions of children who are in poverty. By expanding the CTC and putting money back into the pockets of families who have limited incomes, the credit will more effectively contribute to the immediate well-being of millions of children as well as to their educational and economic prospects.

The Impact on Real People

CEP operates one of the nation's largest free tax preparation programs. During the 2017 tax season, we prepared almost 17,000 tax returns. Over 6,000 of these returns included the EITC, with an average credit of more than $1,600.

These clients had a median adjusted gross income (AGI) of just over $12,000, and those without qualifying children had a median AGI of under $8,500. Many of those we serve live below the poverty line, and they are not alone. In Illinois, almost 13% of households live in poverty, and the rate of poverty is over two times higher in households of color than in white households,[4] contributing to a dramatic racial wealth gap.

Moving Forward

That is why CEP is committed to policy solutions that tackle poverty, such as the EITC expansion proposed by Rep. Ro Khanna and Sen. Sherrod Brown in the Grow American Incomes Now Act. The bill would boost the incomes of almost 50 million people across the country, lifting up to 8 million out of poverty.[5]

This would be the better tax break that Illinoisans and Americans deserve: reform that is targeted at the majority of Americans rather than a select few, and that provides financial relief to those who really need it. CEP is committed to pursuing policy solutions, including expansions of the CTC and EITC, that help the people we serve and millions more across the country.

Policy Brief | November 1, 2017

David Marzahl, President & CEO
dmarzahl@economicprogress.org

Nora Niazian, Policy Fellow
nniazian@economicprogress.org

Visit us at www.economicprogress.org

[1] Earned Income Tax Credit (EITC) interactive and resources, Brookings Institution, accessed 21 December 2016. <https://www.brookings.edu/interactives/earned-income-tax-credit-eitc-interactive-and-resources/>

[2] Ernie Tedeschi, "For the Non-Rich, the Child Tax Credit Is the Key to Tax Reform," *New York Times*, 17 October 2017.

[3] Robert Greenstein, Chye-Ching Huang, Chuck Marr, Emily Horton and Roderick Taylor, "Child Tax Credit Increases in GOP Tax Plan Exclude Millions of Children in Low-Income Working Families," Center on Budget and Policy Priorities, 25 October 2017.

[4] Prosperity Now Scorecard, Prosperity Now, accessed 31 October 2017. < http://scorecard.prosperitynow.org/data-by-location>

[5] Chuck Marr, Emily Horton and Brendan Duke, "Brown-Khanna Proposal to Expand EITC Would Raise Incomes of 47 Million Working Households," Center on Budget and Policy Priorities, 10 October 2017.