



EITC Expansion Proposals

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What's at Stake for Young Workers By Helly Lee and Andrea Barnes

The Earned Income Tax Credit (EITC) is one of the United States' most important anti-poverty programs. In 2012, the EITC benefited over 27 million people, lifting 6.6 million (including 3.3 million children) out of poverty.ⁱ In addition to its direct transfer effects, which allow individuals to receive cash in the form of a refund, the EITC also encourages work among low-wage earners because one must be employed to be eligible for the credit. Studies show that the EITC was a major contributing factor to low-income single mothers' increased work participation during the 1990s.ⁱⁱ

EITC Eligibility

In order to claim EITC, tax filers must meet all of the following:

- You, your spouse and any dependents you claim must have a Social Security number
- You must have earned income
- Your filing status cannot be married filing separately
- You cannot be a qualifying child of another person
- You must have a qualifying child* or else be between the ages of 25-65
- You must meet the earned income limits (for the 2013 tax year):
 - \$46,227 (\$51,567 married filing jointly) with three or more qualifying children
 - \$43,038 (\$48,378 married filing jointly) with two qualifying children
 - \$37,870 (\$43,210 married filing jointly) with one qualifying child
 - \$14,340 (\$19,680 married filing jointly) with no qualifying children

*Qualifying children must be under 19, or under 24 and a full-time student, and must meet relationship, and residency requirements. More information on qualifying child rules can be found on the IRS website at: <http://www.irs.gov/Individuals/Qualifying-Child-Rules>

The EITC provides a sizeable tax-time payment that helps low-wage workers save, build assets, pay bills, or cover other expenses. A household's EITC amount increases with earned income until it reaches a maximum and gradually phases out as income rises.ⁱⁱⁱ

For example, in a household with a married couple and one child making \$9,560 a year, the maximum EITC amount would be \$3,250. The phase out for a married couple with one child begins after \$22,870, so their EITC amount begins to gradually decrease once their income exceeds this amount.^{iv} However, individuals without dependent children can only receive a very small credit—a maximum of about \$500—and begin to lose the benefit even before their earnings reach the poverty threshold. Younger and older workers are at a further disadvantage because, under current law, the EITC is only accessible to eligible individuals without dependent children if the workers are between ages 25-65. This leaves out a significant population of low-wage workers struggling to make ends meet.

The EITC is a major federal investment in local and regional economies. EITC recipients use funds to meet short- and medium-term needs, resulting in spending that creates an important ripple effect for local economies

Research has also shown that the EITC has long-lasting benefits across generations, including improved health, educational, and work outcomes of children whose parents receive the EITC.^v

Bi-Partisan Support for Expanding the EITC for Childless Workers

Recognizing the importance of the EITC in lifting low-wage workers out of poverty, there has been strong bi-partisan support for expanding the credit to childless workers (including non-custodial parents) and younger workers. A number of proposals to expand the EITC would do just that.

The EITC can have a lasting impact on an individual's ability to persist in the workforce and overcome financial challenges. However, under current law, childless workers, including non-custodial parents, are only eligible for a nominal credit. Moreover, they are denied the credit entirely if they are under 25.

President Obama proposed an expansion of the EITC for low-wage, childless workers in his FY 2015 budget. Congressman Ryan (R-WI), chair of the House Budget Committee, proposed the same expansion in his *Expanding Opportunity in America* proposal. Additionally, Senators Brown (D-OH), Durbin (D-IL), and Murray (D-WA) have introduced legislation in the Senate to expand the EITC. And the House is considering two separate EITC expansion bills introduced by Congressman Neal (D-MA) and Congressman Rangel (D-NY). Across President Obama's proposal, Congressman Ryan's proposal, and each of the congressional proposals, there is broad consensus that the EITC should be expanded for workers without qualifying children and made available to younger workers starting at age 21. All of the proposals increase the maximum credit rate for childless workers, doubling it from the current maximum of \$503. However, additional details, such as the phase-in and phase-out rates, vary slightly. In addition, only the President's proposal increases the maximum eligibility age to 67 (see Table 1).

It is significant that there is such strong and bi-partisan support for strengthening and expanding the EITC. Senator Rubio (R-FL) has also proposed expanding the tax credits for childless workers through a different mechanism.^{vi}

New York has also begun to pilot its own version of an enhanced EITC for childless workers called Paycheck Plus.^{vii} In the several years ahead, this program will be assessed for its effects on economic well-being, work, and other outcomes and may serve as a model for the national discussion around expanding the EITC.

Young Workers Would Benefit from Expansions

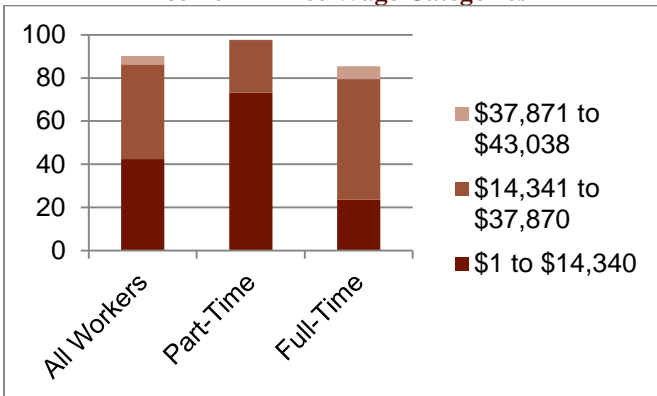
There is high poverty among young adult workers, many of whom begin their careers in low-wage jobs. In 2013, 19.8 percent of youth age 21-24 lived in poverty compared to 14.5 percent of the overall population.^{viii} Expanding the EITC would help young adults make ends meet and encourage workforce participation. A White House report estimates that 3.3 million working youth under age 25 would be newly eligible for the EITC under the president's proposal, accounting for over 24 percent of all workers who would benefit from this expansion.^{ix} The other proposals to expand the EITC would have a similar impact for young workers.

Younger workers would benefit tremendously from the proposed EITC expansions, as they disproportionately occupy hourly, low-wage jobs. Although workers under 25 represented only about one-fifth of hourly workers in 2013, they made up roughly half of the workers who earn the minimum wage or less.^x

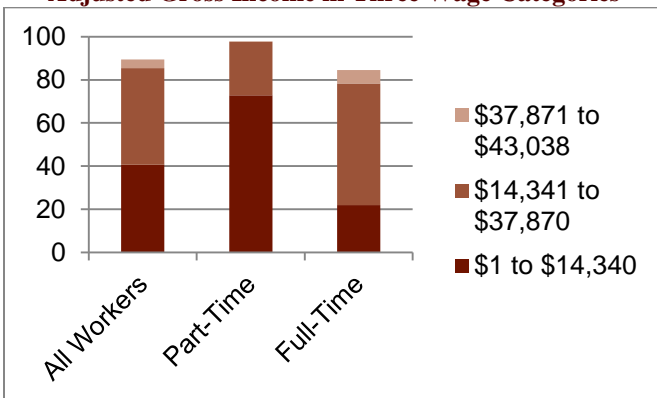
While unemployment remains unacceptably high for youth and young adults, they remain strong

contributors to their local economies. In 2012, 11.5 million young adults ages 21- 24 were employed.^{xi} Of this total, 62 percent were working full time and 38 percent were working part time. But these jobs did not pay well. Among young adults, 73 percent of part-time workers and 24 percent of full-time workers made less than \$14,340 per year—the income limit for a single individual filing for the EITC with no qualifying children. These are individuals who would benefit from an expansion of the EITC for younger workers without qualifying children.

Share (%) of Youth (Aged 21-24) with Adjusted Gross Income in Three Wage Categories



Share (%) of Youth (Aged 21-24, Without Children) with Adjusted Gross Income in Three Wage Categories



Furthermore, members of the millennial generation are much more likely than older Americans to report facing serious economic issues, such as food insecurity, falling behind on rent, problems

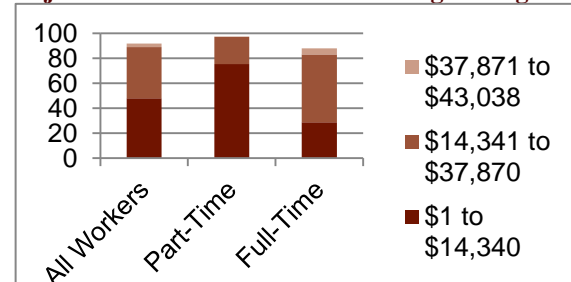
affording medical care, and problems paying utility bills and credit card balances.^{xiii} Expanding the EITC to younger workers would provide important resources to help them cover everyday living expenses and plan for long-term purchases.

Improvements to the EITC and CTC for Parents Also Need Extending

Some of the proposals to expand the EITC would further support young workers with families by also making the 2009 Recovery Act improvements to permanent. In 2009, Congress strengthened the EITC by adding a “third tier” for families with three or more children, making it possible for larger families to access larger EITC amounts (up to \$627 more) than they would have without the improvements. It also expanded the marriage penalty relief, allowing married couples to receive larger benefits at modestly higher income levels.¹ These temporary improvements are set to expire in 2017 unless Congress passes legislation to make them permanent.

The 2009 Recovery Act also lowered the income eligibility threshold for the Child Tax Credit (CTC), another anti-poverty program that supports low-income workers with children, to make it accessible to more families. Many young people in the workforce not only support themselves, but also their dependent children. The vast majority of young parents with at least one child earn less than just over \$14,340. Without the Recovery Act improvements, working parents earning below \$14,000 would not be eligible for the CTC. This expansion allows working parents making as low as \$3,000 to be eligible for the CTC.

Share (%) of Youth (Aged 21-24, With Children) with Adjusted Gross Income in Three Wage Categories



According to studies, low-income workers use the EITC to cover basic necessities and child expenses, as well as pay debt and overdue bills. Many workers also use their refunds to save for a car or home purchase, as well as enroll in education or training to boost their employability and earning power.^{xiii,xiv}

Congress Must Act

Policymakers and thought leaders on both sides of the aisle have expressed support for expanding the EITC to reach the low-wage earners (including youth) who benefit less than workers who are custodial parents. It is time to turn this support into action.

Young workers face a number of obstacles in low-wage jobs and an expansion of the EITC for younger workers is a good first step. However, more action is needed to ensure there are high-quality jobs and training programs available to youth. For millions of low-skilled and disadvantaged youth and adults in the United States, many of whom were struggling even before the recession, improved economic opportunity depends on their ability to access education and training to prepare for college and career success.^{xv}

Table 1. 2014 Proposals Expanding EITC for Childless Workers

	Current Law	President's Proposal**	Rep. Paul Ryan's Proposal**	H.R. 2116 (Neal)	H.R. 4117 (Rangel)	S. 836 (Brown/Durbin)	S. 2162 (Murray)**
Phase-in rate	7.65%	15.30%	15.30%	15.30%	23.15%	15.30%	15.3%
Phases in up to	\$6,570	\$6,570	\$6,570	\$8,820	\$6,480	\$8,820	\$8,820
Maximum credit	\$503	\$1,005	\$1,005	\$1,350	\$1,500	\$1,350	about \$1400
Phase-out rate	7.65%	15.30%	15.30%	15.30%	23.15%	15.30%	15.3%
Phase-out starts*	\$8,220	\$11,500	11,500	\$10,425	\$16,630	\$10,425	10425
Phase-out ends*	\$14,790	\$18,070	\$18.07	\$19,245	\$23,110	\$19,245	about \$20000
Lower age Limit	25	21 (full time students not eligible unless financially independent)	21	21 (full time students not eligible)	21	21	21 (full time students not eligible)
Upper age limit	65	67	65	65	65	65	65

* Under current law, the President's proposal, H.R. 2116 and S836, levels are \$5,500 higher for married filers. Under H.R.4117, for married childless workers, phase-out begins at \$24,630 (currently \$13,540) and ends at \$31,110 (currently \$20,020).

** Pay-fors: The President's proposal suggests paying for the expansion of the EITC by subjecting carried interest income from private equity funds and other investment partnerships to the same tax rules as other types of earnings and by extending payroll tax to cover distributions from certain pass-through entities engaged in professional services. Rep. Ryan's proposal, while nearly identical to the President's suggests eliminating programs serving low-income families such as the Social Security Block Grant, the Fresh Fruits and Vegetables Program, the Economic Development Administration and the Farmer's Market Nutrition Program to pay for the expansion. Senator Murray's plan proposes closing the corporate stock option and prevents companies from shifting profits to tax havens.

Note: The 2009 American Recovery and Reinvestment Act (ARRA, also known as the Recovery Act) temporarily expanded the EITC and CTC. For the EITC, the Recovery Act added a third tier for families for three or more children and expanded the marriage penalty relief. The Recovery Act also strengthened the CTC by ensuring that families making as little as \$3,000 are eligible for the credit and boosted the credit for many families who were only receiving a partial credit. The President has proposed to make the Recovery Act improvements a permanent part of the tax system. H.R. 2116 includes making the EITC improvements permanent. S.836 also proposes to make the reductions in income threshold for the CTC and the increase in rate of EITC for families with 3 or more children permanent.

For more information, see also:

<http://www.taxcreditsforworkingfamilies.org/2014-proposals-expand-eitc-workers-qualifying-children/>

ⁱ Because the EITC is a tax credit, it is not counted in the official U.S. measure of poverty. These figures indicate how many would be lifted out of poverty if the EITC were treated as a cash transfer.

<http://www.eitc.irs.gov/EITC-Central/abouteitc>

ⁱⁱ Chuck Marr, Chye-Ching Huang, and Arloc Sherman, "Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds," Center on Budget and Policy Priorities, April 2014, <http://www.cbpp.org/cms/?fa=view&id=3793>

ⁱⁱⁱ "Policy Basics: the Earned Income Tax Credit," Center on Budget and Policy Priorities, January 2014,

<http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>

^{iv} See CBPP's Value of Federal EITC calculator at:

<http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>

^v "Research Shows Long-Lasting Benefits of EITC," Center for Law and Social Policy, January 2013, <http://www.clasp.org/resources-and-publications/files/2013-EITC-Brief-FINAL.pdf>

^{vi} While Senator Rubio's proposal would help low-income childless workers by providing the same size wage supplement to workers regardless of whether they are single, or married, or have children. However, he proposes to eliminate the EITC and replace it with a "wage enhancement program." Further analysis of this proposal is available from the Center on Budget and Policy Priorities at: <http://www.offthechartsblog.org/rubio-proposal-to-replace-eitc-would-likely-come-at-expense-of-working-poor-families-with-children/>

^{vii} Rachel Pardoe and Dan Bloom, "Paycheck Plus: A New Antipoverty Strategy for Single Adults," MDRC, May 2014, <http://www.mdrc.org/sites/default/files/PaycheckPlus.pdf>

^{viii} Current Population Survey, Annual Social Economic Supplement, September 2014.

^{ix} "The President's Proposal to Expand the Earned Income Tax Credit," Executive Office of the President and U.S. Treasury Department, March 2014,

http://www.whitehouse.gov/sites/default/files/docs/eitc_report_0.pdf

^x U.S. Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers: 2013," March 2014, <http://www.bls.gov/cps/minwage2013.pdf> (last accessed August 2014).

^{xi} U.S. Department of Commerce, Bureau of the Census (2013). *Current Population Survey: 2013 March Supplement*.

^{xii} "Moving the War on Poverty Forward," Center for American Progress, February 2014,

<http://www.americanprogress.org/issues/poverty/report/2014/02/19/84087/moving-the-war-on-poverty-forward>

^{xiii} "The Role of Earned Income Tax Credit in the Budgets of Low-Income Families," National Poverty Center, June 2010,

http://npc.umich.edu/publications/u/working_paper10-05.pdf

^{xiv} "Policy Basics: The Earned Income Tax Credit," Center on Budget and Policy Priorities, January 2014,

<http://www.cbpp.org/cms/?fa=view&id=2505>

^{xv} Liz Ben-Ishai and Elizabeth Lower-Basch, "A Job Creation and Job Quality Agenda for Labor Day," Center for Law and Social Policy, August 2014, <http://www.clasp.org/resources-and-publications/publication-1/A-job-creation-and-job-quality-agenda-for-Labor-Day-1.pdf>

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