

Research shows long-lasting benefits of EITC

Short Term Impact of EITC

The Earned Income Tax Credit (EITC) is one of the largest anti-poverty programs available in the U.S., reaching more than 27 million families and individuals in 2011.ⁱ

The EITC fights poverty in the short term by:

- **Providing a short-term safety-net.** EITC supplements the income of workers whose wages do not pay enough to keep them above the poverty line and families experiencing a temporary decrease in their household income. In 2011, the EITC lifted the incomes of almost 5.7 million people above the poverty line, including 3.1 million children.ⁱⁱ
- **Promoting work.** EITC makes work pay for low-wage workers and helps offset work-related costs such as transportation and child care. The EITC has been shown to encourage work among low-wage workers, particularly among working mothers. The EITC expansions of 1994-1996 are estimated to have contributed to an increase in the employment rates of single mothers, particularly those with two or more children. By 1997, the employment rate of single mothers with two or more children had increased by roughly 8 percentage points more than the employment rate of single mothers with one child, who received a smaller benefitⁱⁱⁱ

Intermediate Impact of EITC

Studies have also shown that EITC has intermediate impact on families and children:

- **Providing positive health impacts.** William Evans and Craig Garthwaite studied the 1993 expansions of the EITC which increased the benefit levels for families with two or more children and suggested that the expansion of EITC improved mental health for mothers with a high school degree or lower who had two or more children. In addition, the increase in payments increased the probability of mothers reporting excellent or very good health status overall.^{iv}

Furthermore, in 2011, Hilary Hoynes, Douglas Miller and David Simon evaluated the health impact of EITC on infant health outcomes and found that increased EITC income reduces the incidence of low birth weight and increases mean birth weight. For single mothers with 12 years of education or less, an increase of \$1000 in EITC was associated with a 7% reduction in low birth weight rate.^v

- **Encouraging asset building and savings.** Building assets and savings are key strategies for helping to lift families out of poverty. However, for many low-income families, there are few opportunities to save and build assets. EITC provides families an opportunity to do so.

A 2010 study surveyed EITC recipients who received refunds of at least \$1,000. This

survey revealed that 39% of families reported saving a portion of their refund, and 27% of families used some of their refund to purchase, repair or save for a car.^{vi} This may, in turn, improve their access to employment by having reliable transportation.

Long Term Impact of EITC

Recent studies have shown that EITC also has significant long-term benefits for families and children by:

- **Supporting working mothers.** A 2009 report studying the effect of EITC on earnings growth showed that once a single mother becomes employed, she will develop the skills to increase her earnings and her work continues to pay off through future increases in earnings.^{vii}
- **Increasing educational achievement in children.** Research suggests that even relatively minor increases in income help children in low-income families do better in school. One study found an increase of \$1,000 in tax credit raises a child's math and reading test scores.^{viii} The same study also suggests that the effects are even larger for children growing up in more disadvantaged families.

Families may use the additional income to purchase more goods and services such as food, clothing and books, which help maintain basic child welfare and enhance child development. More indirectly, the effects of having increased income may reduce stress among parents, and improve household relations which benefit all family members, including children and therefore improve their ability to learn.^{ix}

- **Increasing earnings as adults.**

Raj Chetty, John Friedman and Jonah Rockoff also found that EITC contributes to higher test scores. They suggested that this in turn would increase the probability of college attendance and raise later earnings as adults.^x

Policy Implications

The EITC is a widely successful program that has been shown to help lift families above poverty and contribute to the short-, intermediate- and long-term support of low-income families. The “fiscal cliff” deal struck by Congress in January 2013, included a 5-year extension of improvements in the EITC which expanded the program for families with 3 or more children; however, much more needs to be done to ensure that EITC continues to support families. Congress must make these improvements to EITC permanent and protect and strengthen the program in upcoming tax reform and deficit reduction debate

^{vi} Ruby Mendenhall, Kathryn Edin, Susan Crowley, Jennifer Sykes, Laura Tach, Katrin Kriz, and Jeffrey R. Kling, “The Role of Earned Income Tax Credit in the budgets of Low-Income Families,” June 2010, http://npc.umich.edu/publications/u/working_paper10-05.pdf

^{vii} Dahl, DeLeire, and Schwabish, “Stepping Stone or Dead End? The Effect of the EITC on Earnings Growth.”

^{viii} Gordon Dahl and Lance Lochner, “The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit,” May 2012, <http://ftp.iza.org/dp6613.pdf>

^{ix} Kevin Milligan and Mark Stabile, “Do Child Tax Benefits Affect the Wellbeing of Children? Evidence from Canadian Child Benefit Expansions,” December 2008, http://www.nber.org/papers/w14624.pdf?new_window=1

^x Raj Chetty, John N. Friedman, and Jonah Rockoff, “Impacts of Tax Credits,” November 2011, <http://www.irs.gov/pub/irs-soi/11rpchettyfriedmanrockoff.pdf>

ⁱ EITC Statistics for tax year 2011, <http://www.eitc.irs.gov/central/eitcstats/>

ⁱⁱ Based on the 2011 supplemental poverty measure. <http://www.nwlc.org/our-blog/5-public-programs-lift-millions-women-out-poverty>

ⁱⁱⁱ Molly Dahl, Thomas DeLeire and Jonathan Schwabish, “Stepping Stone or Dead End? The Effect of the EITC on Earnings Growth,” April 2009, <http://www.irp.wisc.edu/publications/dps/pdfs/dp136509.pdf>

^{iv} William N. Evans and Craig L. Garthwaite, “Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health,” August 2010, <http://www.nber.org/papers/w16296>

^v Hilary W. Hoynes, Douglas L. Miller and David Simon, “Income, the Earned Income Tax Credit, and Infant Health,” October 2011, http://www.econ.ucdavis.edu/faculty/hoynes/working_papers/Hoynes-Miller-Simon-EITC.pdf