



# EITC Expansion Proposals

Updated November 2016

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

The Earned Income Tax Credit (EITC) is one of the United States' most important anti-poverty programs. In 2014, the EITC benefited over 27 million people, lifting 9.4 million (including over 5 million children) out of poverty.<sup>1</sup> 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.<sup>2</sup>

### 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 2015 tax year):
  - \$47,747 (\$53,267 married filing jointly) with three or more qualifying children
  - \$44,454 (\$49,974 married filing jointly) with two qualifying children
  - \$39,131 (\$44,651 married filing jointly) with one qualifying child
  - \$14,820 (\$20,330 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 with children 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 above that level.<sup>3</sup>

For example, a household with a married couple and one child making \$9,920 a year would qualify for the maximum credit of \$3,373 and a family with two children could receive up to \$5,572 in 2016. The phase out for a married couple with one child begins after \$23,740, so their EITC amount begins to gradually decrease once their income exceeds this amount.<sup>4</sup> In December 2015, a bipartisan tax and budget agreement made permanent the provisions that added a "third tier" for families with three or more children and expanded the marriage penalty relief, allowing married couples to receive larger benefits at modestly higher income levels.

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.<sup>5</sup>

## 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.

In 2014 and each subsequent budget, President Obama proposed an expansion of the EITC for low-wage, childless workers, and proposed lowering the eligibility age from 25 to 21. Congressman Ryan (R-WI), chair of the House Budget Committee in the previous Congress, proposed the same expansion in his *Expanding Opportunity in America* proposal.<sup>6</sup> There have been multiple proposals in the House and Senate that have sought to expand the EITC to childless workers (See Table 1). There are also two separate bills that seek to lower the age of eligibility to 18 for those formerly in foster care that were introduced by Senator Casey (D-PA) and Representative Davis (D-IL). 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 or more from the 2016 maximum of \$506. However, additional details, such as the phase-in and phase-out rates, vary slightly. It is significant that there is such strong and bi-partisan support for strengthening and expanding the EITC.

New York began piloting its own version of an enhanced EITC for childless workers called Paycheck Plus in 2013.<sup>7</sup> It launched its second site in Atlanta in 2015. 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

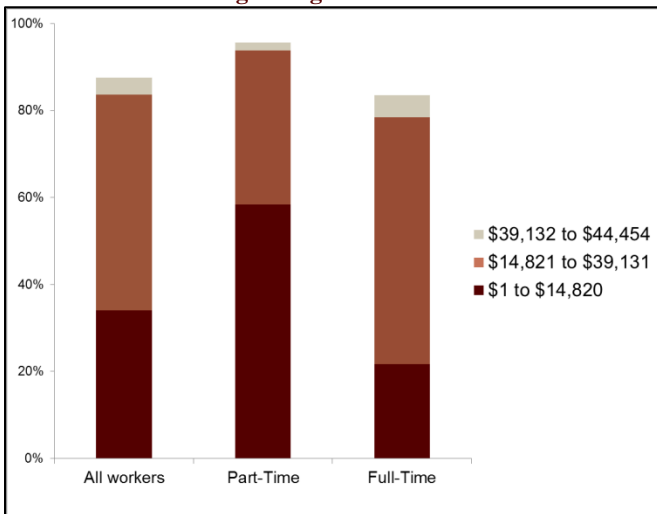
There is high poverty among young adult workers, many of whom begin their careers in low-wage jobs. In 2015, 20 percent of youth age 21-24 lived in poverty compared to 14.8 percent of the overall population.<sup>8</sup> Expanding the EITC would help young adults make ends meet and encourage workforce 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 2014 proposal, accounting for over 24 percent of all workers who would benefit from this expansion.<sup>9</sup> 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. 18-24 year-olds predominately work in service industries, including leisure and hospitality or retail and wholesale.<sup>10</sup> Although workers under 25

represented only about one-fifth of hourly workers in 2015, they made up roughly half of the workers who earn the minimum wage or less.<sup>11</sup>

While unemployment remains unacceptably high for youth and young adults, they remain strong contributors to their local economies. In 2015, over 11 million young adults ages 21- 24 were employed.<sup>12</sup> Of this total, 66 percent were working full-time and 34 percent were working part-time. But these jobs did not pay well. Among young adults, 65 percent of part-time workers and 35 percent of full-time workers made less than \$14,820 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 young adults without children with income in three wage categories in 2015**

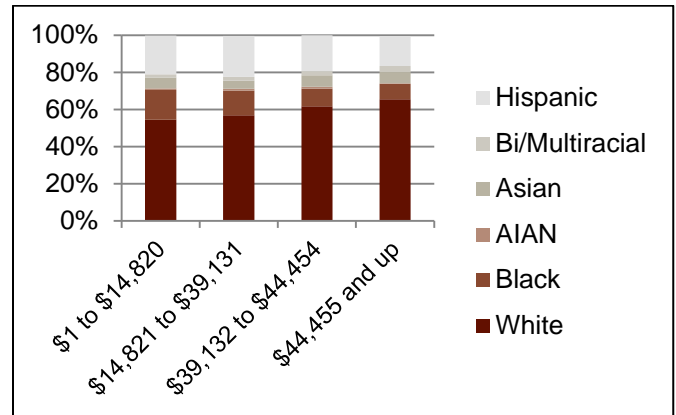


Source: CLASP analysis of the 2015 Current Population Survey  
\*These numbers reflect the 2015 EITC thresholds

Disparities in income further identify the EITC as a policy that would benefit young workers of color. Not only are young adults of color disproportionately missing from the labor force, but when they are working, they make lower wages. The biggest disparities are seen for Black working young adults. While Black young adults represent 14% of workers 21-24 years of age, they

represent 16% of workers making incomes less than \$14,820, and 8% of young workers making over \$44,455.

**Share of young adults with income in three wage categories by race in 2015**



Source: CLASP analysis of the 2015 Current Population Survey

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.<sup>13</sup> The Great Recession was particularly damaging to younger workers, as median wages have declined or remained unchanged in the last decade in four out of the top five industry sectors employing 18-24 year-olds<sup>14</sup>. Expanding the EITC to younger workers would provide important resources to help them cover everyday living expenses and plan for long-term purchases.

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.<sup>15,16</sup>

## Congress Must Act

Policymakers and thought leaders on both sides of the aisle have expressed support for filling the gaps in EITC policy 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.<sup>17</sup>

[http://www.whitehouse.gov/sites/default/files/docs/eitc\\_report\\_0.pdf](http://www.whitehouse.gov/sites/default/files/docs/eitc_report_0.pdf)

<sup>10</sup> Tom Allison and Konrad Mugglestone, “Where do Young Adults Work?” Young Invincibles, December 2014, <http://younginvincibles.org/wp-content/uploads/2014/12/Where-Do-Young-Adults-Work-12.4.pdf>

<sup>11</sup> U.S. Bureau of Labor Statistics, “Characteristics of Minimum Wage Workers: 2015,” April 2016, <http://www.bls.gov/opub/reports/minimum-wage/2015/home.htm> (last accessed August 2016).

<sup>12</sup> U.S. Department of Commerce, Bureau of the Census (2014). *Current Population Survey: 2014 March Supplement*.

<sup>13</sup> “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>

<sup>14</sup> Allison and Mugglestone, 2014

<sup>15</sup> “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](http://npc.umich.edu/publications/u/working_paper10-05.pdf)

<sup>16</sup> “Policy Basics: The Earned Income Tax Credit,” Center on Budget and Policy Priorities, January 2016,

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

<sup>17</sup> 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>

<sup>1</sup> 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>

<sup>2</sup> Chuck Marr, Chye-Ching Huang, and Arloc Sherman, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget and Policy Priorities, October 2015,

<http://www.cbpp.org/cms/?fa=view&id=3793>

<sup>3</sup> “Policy Basics: the Earned Income Tax Credit,” Center on Budget and Policy Priorities, January 2016,

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

<sup>4</sup> <http://www.taxpolicycenter.org/statistics/eitc-parameters>

<sup>5</sup> “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>

<sup>6</sup> Congressman Ryan included the expansion in his *Expanding Opportunity in America* proposal but did not include an EITC expansion in his most recent *A Better Way* tax proposal.

<sup>7</sup> 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>

<sup>8</sup> Current Population Survey, Annual Social Economic Supplement, September 2016.

<sup>9</sup> “The President’s Proposal to Expand the Earned Income Tax Credit,” Executive Office of the President and U.S. Treasury Department, March 2014,



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**Table 1. Proposals for Expanding EITC for Childless Workers**

	Current Law (Tax year 2016)	President's Proposal <sup>*</sup>	Paul Ryan's Proposal <sup>†</sup>	S. 1012 (Brown)	H.R. 902 (Neal)	S. 3231 (Baldwin & Booker)
Phase-in rate	7.65%	15.30%	15.30%	15.30%	15.30%	23.15%
Phases in up to	\$6,610	\$6,610	\$6,610	\$9,390	\$9,390	\$6,612
Maximum credit	\$506	\$1,011	\$1,011	\$1,437	\$1,437	\$1,531
Phase-out rate	7.65%	15.30%	15.30%	15.30%	15.30%	23.15%
Phase-out starts <sup>*</sup>	\$8,270	\$11,500	\$11,500	\$10,750	\$10,750	\$16,969
Phase-out ends <sup>*</sup>	\$14,880	\$18,070	\$18,070	\$19,245	\$19,245	\$23,581
Minimum age to receive credit	25	21 <sup>‡</sup>	21	21	21 <sup>§</sup>	21
Maximum age to receive credit	64	66	64	64	64	66

Note: In addition, H.R. 3005 (Davis) and S. 2327 (Casey, Murray, and Warren) both include EITC expansions for childless workers, and also allows qualified former foster youth to receive the EITC for childless workers starting at age 18.

<sup>\*</sup> Under current law, the President's proposal, H.R. 902 and S. 1012, phase out levels are \$5,500 higher for married filers.

<sup>†</sup> This reflects Representative Paul Ryan's *Expanding Opportunity in America* proposal.

<sup>‡</sup> Full-time students not eligible unless financially independent.

<sup>§</sup> Full-time students not eligible.