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EITC for Childless Workers

What's at Stake for Young Workers

CLASP
The Center for Law and Social Policy

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The Earned Income Tax Credit (EITC) is one of the United States' most important anti-poverty programs. In 2018, the EITC benefitted over 22 million working families and individuals, lifting about 5.6 million people over the poverty line, including about 3 million children.¹ The credit reduced the severity of poverty for another 16.5 million people, including 6.1 million children. In addition to its direct transfer effects, which allow individuals to receive cash in the form of a refund, the EITC also supports work for those who are paid low wages because one must be employed to be eligible for the credit. Moreover, studies show that the EITC was a major contributing factor to increasing work among single mothers with low incomes during the 1990s.²

The EITC provides a sizeable tax-time payment to workers who are paid low wages and have children. For example, a household with a married couple and one child making \$10,370 a year would qualify for the maximum credit of \$3,526. A family with two children could receive up to \$5,828 in 2019. This payment helps them save money, build assets, pay bills, and cover other necessary expenses. A household's EITC amount increases with earned income until it reaches a maximum, and the refund gradually phases out as income rises above that level.³ The phase-out for a married couple with one child begins after \$19,030, so once their income exceeds that amount, their EITC payment begins to gradually decrease.⁴

Expanding EITC eligibility would help more working people move out of poverty. Individuals without dependent children can only receive a very small credit—a maximum

EITC Eligibility

To claim the EITC, tax filers must meet all of the following criteria:

- 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 either a qualifying child or be between the ages of 25 and 65; and
- You must meet the earned income limits (for the 2019 tax year):
 - \$50,162 (\$55,952 married filing jointly) with three or more qualifying children
 - \$46,703 (\$52,493 married filing jointly) with two qualifying children
 - \$41,094 (\$46,884 married filing jointly) with one qualifying child
 - \$15,570 (\$21,370 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: <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/qualifying-child-rules>

Source: "2019 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates," IRS, April 2020, <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eitc-income-limits-maximum-credit-amounts>.

of about \$500—and begin to lose the benefit even before their earnings reach the poverty threshold. These workers are the only group being taxed into poverty.⁵ Nearly 6 million workers aged 19-65 years old are taxed deeper into poverty.⁶ Younger and older workers are at a further disadvantage because 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 workers who are disproportionately paid low wages⁷ and struggle to make ends meet. Also, the maximum age limit is inconsistent with the Social Security program, which does not allow workers to receive full retirement benefits if they start collecting before they are 67 years old.⁸ Workers risk losing their EITC credit due to their age before being eligible to receive their full Social Security benefits. Having such inconsistencies in federal program eligibility can create confusion and financial challenges for workers. It may also encourage workers to take Social Security benefits early, reducing their benefits for the rest of their lives.

Expanding the EITC can also promote racial equity. Workers of color disproportionately hold jobs that pay low wages and face employment discrimination. Federal and state EITCs lift a larger share of people of color out of poverty; serve a larger proportion of people of color; and help families of color build savings or buy assets, such as cars, helping reduce the wealth gap.⁹

A New York pilot program, called Paycheck Plus, provides an enhanced EITC for childless workers that has proven to reduce deep poverty (defined as income less than 50 percent of the federal poverty line). Receiving an enhanced EITC increased workers' after-bonus earnings; reduced deep poverty; modestly increased employment rates; and led to an increase in child support payments.¹⁰ The program's impacts were larger for men who had a previous history of incarceration and who owed child support,

as well as for those participants who did not work the year before.

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.

Young Workers and Students Would Especially Benefit from Expansions

Young adult workers, many of whom begin their careers in jobs that pay low wages, may experience high poverty. In 2018, poverty rates for young adults aged 18-24 were among the highest across all ages.¹¹ Poverty was especially acute for youth and young adults of color: 21.6 percent of Asian young adults, 19.2 percent of Black young adults, and 16.4 percent of Hispanic young adults experienced poverty in 2018.¹² Over the same period, 12.4 percent of non-Hispanic white young adults were living in poverty. There are also high poverty rates among college students, more than half of whom are financially supporting themselves.¹³

Expanding the EITC would help young adults make ends meet and reward workforce participation. Younger workers disproportionately occupy hourly jobs that pay low wages. Eighteen- to 24-year-olds predominately work in service industries, including leisure and hospitality or retail and wholesale.¹⁴ Although workers under 25 represented only about one-fifth of hourly workers in 2019, they made up about two-

fifths of workers who are paid the minimum wage or less.¹⁵ A large share of these workers would be in a better financial position if lawmakers expanded the EITC. Introduced in 2019, the Working Families Tax Relief Act (WFTRA) would substantially expand the EITC and raise the after-tax income of over 5 million young workers.¹⁶ Additionally, the Economic Mobility Act of 2019, passed by the House Ways and Means Committee, also expands the EITC and would help about 5 million young workers.¹⁷

Unemployment remains unacceptably high for youth and young adults; however, they remain strong contributors to their local economies. In 2019, over 17 million young adults ages 18-24 were employed.¹⁸ The Bureau of Labor Statistics reports about 63 percent were working full time and 37 percent were working part time.¹⁹ Twenty-one percent of workers age 26 and under face “part-time underemployment,” meaning they work in part-time jobs and want to work more hours than they currently do.²⁰ These individuals would benefit from an expansion of the EITC to younger workers without qualifying children.

Disparities in income further identify the EITC as a policy that would benefit workers of color. Young adults of color are disproportionately missing from the labor force.²¹ This is because, due to historic policies rooted in racism, people who are Black and Latino are more likely than white people to live in economically depressed neighborhoods.

EITC Expansions Could Support College Students

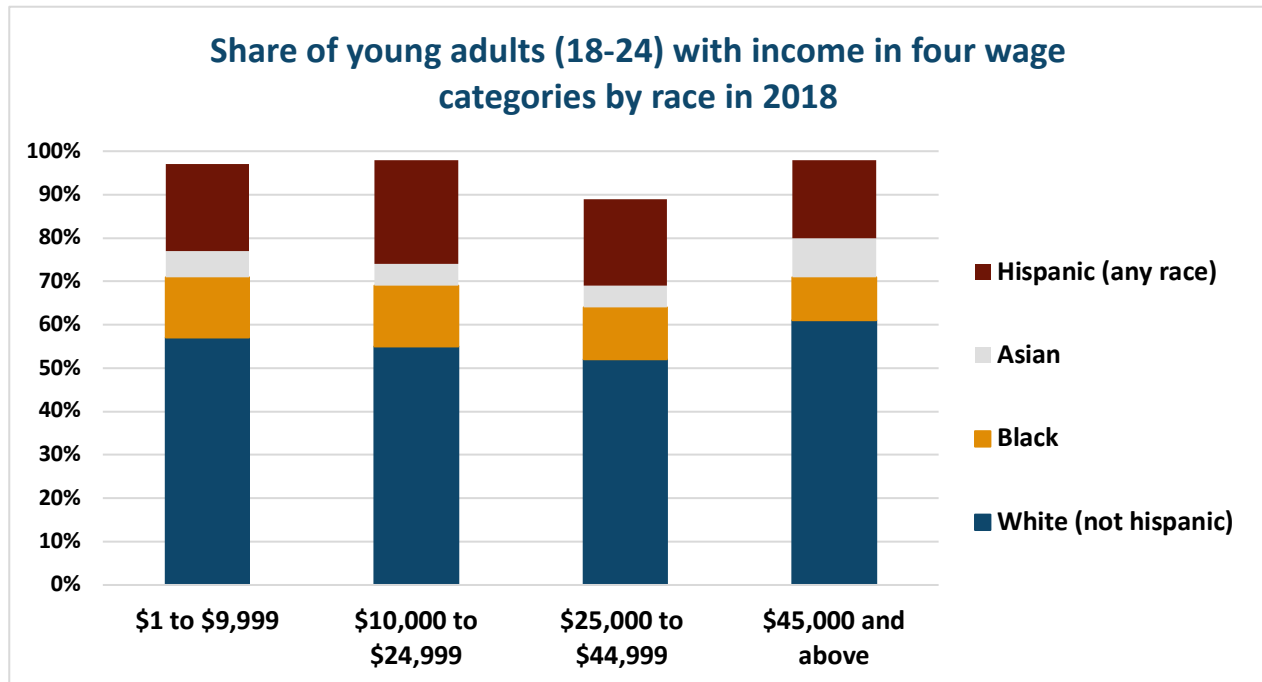
Many college students do not receive the EITC despite working and meeting income eligibility criteria. Their exclusion is either due to the age limit, or because a family member claims them as a tax dependent. Many students work and face economic hardship:

- Over 60 percent of college students work at least part time.
- Over half are financially independent from their parents.
- 39 percent of students report being food insecure.ⁱ

Expanding the EITC to eligible students could help reduce poverty and food insecurity among this population. Unfortunately, some proposals to expand the EITC for workers without children fall short of expanding it to students. Such proposals would specifically exclude college students, even if they cannot be claimed as a tax dependent.

For example, the Working Families Tax Relief Act of 2019 would expand the EITC to workers under 25, but would exclude those who attend school full-time for at least five months. If lawmakers are concerned about providing the EITC to students who are financially supported by their parents, it would be better to use criteria based directly on need. For example, EITC qualifications could be tied to whether students are eligible to receive a federal Pell Grant, which is a needs-based financial aid program.

ⁱ Kathryn Larin, “Food Insecurity: Better Information Could Help Eligible College Students Access Federal Food Assistance Benefits,” U.S. Government Accountability Office, December 2018.



Source: CLASP analysis of the 2018 Current Population Survey

They may lack access to good jobs, quality schools, relevant social networks, and public transportation.²² Discrimination also plays a role in hiring practices.²³ When young adults of color do find work, they make lower wages than their white counterparts. Among 20-to-24-year-olds, Latino youth earn \$9.32 per hour, and Black youth earn \$8.77 per hour, compared to white youth who earn \$10.18 per hour.²⁴ According to the Urban Institute, neither educational attainment nor the sector in which young people work explains this wage disparity.

Furthermore, even before the current economic crisis stemming from COVID-19, young adults were more likely than older Americans to experience material hardship like food insecurity, housing insecurity, and poor quality housing, according to an Urban Institute study.²⁵ Expanding the EITC to

younger workers would provide important resources to help them cover everyday living expenses and plan for long-term purchases.

Several studies show that workers with low incomes use funds from the EITC to cover basic necessities, their children's needs, as well as to pay off debt and overdue bills.^{26, 27} Many workers also use their refund to save for a car or home purchase, and to enroll in education or training to boost their employability and earning power.

Proposals to Expand the EITC for Workers without Children

The EITC can have a lasting impact on an individual's ability to remain and succeed in the workforce and overcome financial challenges. However, under current law, working people who don't have dependent children, including non-custodial parents, are only eligible for a nominal tax credit. Moreover, they are denied the credit entirely if they are under 25.

Historically, there has been strong bipartisan support to expand the credit to these populations.²⁸ Members of the U.S. House and Senate have introduced multiple proposals that would expand the EITC for childless workers. All such proposals would increase their maximum credit beyond the 2019 limit of \$529, by doubling it or providing more than twice that amount.²⁹ However, additional details vary, including around the phase-in and phase-out rates and whether measures expand eligibility to younger workers under 25 years old.

In 2019, Senators Sherrod Brown (D-OH), Michael Bennet (D-CO), Dick Durbin (D-IL), and Ron Wyden (D-OR) introduced the Working Families Tax Relief Act (WFTRA). It is cosponsored by nearly all Senate Democrats. The WFTRA proposes broad improvements to both the EITC and the child tax credit. It would address the needs of childless adults by raising their maximum EITC credit from \$529 to \$2,074. It would also expand eligibility to younger and older workers, changing the qualifying age range from ages

25-64 to ages 19-67, though full-time students would still face exclusions. With these policy improvements, the WFTRA would raise the after-tax incomes of more than 18 million working people.³⁰

The Economic Mobility Act of 2019, introduced by Representative Neal (D-MA), also expands the EITC for adults without dependent children. This bill would raise the maximum credit to \$1,464. It would reduce the eligibility age to 19 years old (except for college students) and increase the age limit to 66. The Economic Mobility Act would raise the after-tax incomes of about 15.5 million workers without dependent children.³¹

Further, the COVID-19 pandemic has created momentum for policymakers to strengthen the EITC for people without dependent children. For instance, in the proposed Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, introduced by Representative Nita Lowey (D-NY), the qualifying age would be lowered from 25 to 19 years old (and to 18 years old for foster youth and youth experiencing homelessness). However, for students who are in school for at least five months, the EITC eligibility age remains unchanged, at 25 years old. Additionally, the bill would increase the maximum age limit from 65 to 66 years old.

Congress Must Act

Policymakers and thought leaders on both sides of the aisle have expressed support to fill the gaps in EITC policy. There is broad agreement that this anti-poverty tool should reach workers who are paid low wages, including youth, who benefit less than workers who are custodial parents. It is time to turn this support into action.

Young workers in low-wage jobs face several obstacles to achieving financial security. Expanding the EITC to younger workers would be a good first step to better meet their needs. However, beyond improving this tax policy, more action is needed to ensure youth can get access to high-quality jobs and training programs. For millions of youth and adults in the United States who have been systemically denied access to

economic opportunities, including many people of color, economic security depends on their ability to access education and training to prepare for a successful career that pays a living wage.³²

Given the financially difficult circumstances some young adult workers may face now and in the future, it is critically important for lawmakers to expand the EITC. The EITC can provide an effective financial boost to young adult workers, enabling them to meet their basic needs, contribute to their local economies, and live lives we can all be proud of.

A previous version of this brief was authored in 2016 by Helly Lee and Andrea Amaechi.

Endnotes

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- ⁶ Center on Budget and Policy Priorities (CBPP) estimates. This number excludes full-time students aged 19-23 years old.
- ⁷ "53 Million U.S. Workers are Making Low Wages, Despite Low National Unemployment," Brookings, November 2019, https://www.brookings.edu/wp-content/uploads/2019/11/201911_Brookings-Metro_Pressrelease_lowwageworkforce.pdf.
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- ¹³ Kathryn Larin, "Food Insecurity: Better Information Could Help Eligible College Students Access Federal Food Assistance Benefits," U.S. Government Accountability Office, December 2018, <https://www.gao.gov/assets/700/696254.pdf>.
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- ¹⁶ Center on Budget and Policy Priorities (CBPP) estimates.
- ¹⁷ Center on Budget and Policy Priorities (CBPP) estimates.
- ¹⁸ Table 7. Labor Force and Employment Status of the Civilian Population 16 Years and Over by Sex and Age: 2019, U.S. Census Bureau, April 2020, <https://www.census.gov/data/tables/2019/demo/age-and-sex/2019-age-sex-composition.html>.
- ¹⁹ Table 8. Household Data Annual Averages: Employed and Unemployed Full- and Part-Time Workers

by Age, Sex, Race, and Hispanic or Latino Ethnicity [in thousands]

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²⁰ Lonnie Golden and Jaeseung Kim, “Underemployment Just Isn’t Working for U.S. Part-Time Workers,” CLASP, February 2020, <https://www.clasp.org/publications/report/brief/underemployment-just-isnt-working-us-part-time-workers>

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²² Spievaack, For People of Color.

²³ Maryam Jameel and Joe Yerardi, “Workplace Discrimination is Illegal. But Our Data Shows it’s Still a Huge Problem.” Vox, February 2019, <https://www.vox.com/policy-and-politics/2019/2/28/18241973/workplace-discrimination-cpi-investigation-eeoc>.

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²⁸ In 2014 and in 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. Similarly, Congressman Paul Ryan (R-WI), former chair of the House Budget Committee and subsequently Speaker of the House, proposed the same expansion in his Expanding Opportunity in America proposal. However, he did not include these improvements to the EITC for workers without dependent children in the \$2 trillion 2017 Tax Cut and Jobs Act.

²⁹ Marr and Huang, Childless Adults are Lone Group.

³⁰ Center on Budget and Policy Priorities (CBPP) estimates. This number excludes full-time students aged 19-23 years old.

³¹ Center on Budget and Policy Priorities (CBPP) estimates. This number excludes full-time students aged 19-23 years old.

³² 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>.