



# Research Shows Long-Lasting Benefits of EITC

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## 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 26 million families and individuals in 2016.<sup>1</sup>

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 as well as families experiencing a temporary decrease in their household income. In 2016, refundable tax credits lifted over 8 million people out of poverty, including 4.4 million children.<sup>2</sup>
- **Promoting work.** EITC makes work pay for low-wage workers offsets 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 benefit.<sup>3</sup>

## Intermediate Impact of EITC

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

- **Providing positive health impacts.** William Evans and Craig Garthwaite studied the EITC's 1993 expansions, which increased the benefit levels for families with two or more children. They found that the expanded EITC improved mental health for mothers who had a high school degree or lower and two or more children. Additionally, higher EITC payments increased the probability that mothers would report excellent or very good health status.<sup>4</sup>

In 2011, Hilary Hoynes, Douglas Miller, and David Simon evaluated the health impact of EITC on infant health outcomes. They 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, \$1,000 increase in EITC correlated with a 7 percent reduction in low birth weights.<sup>5</sup>

- **Encouraging asset building and savings.** Building assets and savings are key strategies for lifting 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. Thirty-nine percent of families reported saving a portion of their refund, and 27 percent of families used some of their refund to purchase, repair, or save for a car.<sup>6</sup> Having reliable transportation could improve their access to employment.

## Long-Term Impact of EITC

Recent studies have shown the EITC's long-term benefits for families and children, including:

- **Economic mobility for working mothers.** According to 2009 report, single mothers who secure employment can develop the skills needed to increase their earnings.<sup>7</sup>
- **Increased educational achievement in children.** Research suggests that increasing income, even by a little, helps children in low-income families do better in school. One study found that \$1,000 in additional tax credits can raise a child's math and reading scores.<sup>8</sup> It also found that children who qualify for a larger EITC in childhood are more likely to graduate high school or complete a General Educational Development degree. They're also more likely to enter college by age 19 or 20.
- **Increased earnings as adults.** For children in low-income families, an additional \$3,000 in annual family

income between their prenatal year and fifth birthday correlates with an average 17 percent increase in annual earnings in adulthood, compared to similar children whose families do not receive additional income.<sup>9</sup>

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, increased income may reduce stress among parents and improve household relations, which benefits all family members.<sup>10</sup>

## Policy Implications

The EITC is a widely successful program that lifts families out of poverty, providing short-, intermediate-, and long-term benefits. Greater investment is necessary to ensure the program continues to support families. That includes expanding the EITC for childless workers and young adults.<sup>11</sup>

<sup>1</sup> EITC Statistics for tax year 2016, <https://www.eitc.irs.gov/eitc-central/eitc-information-for-press/eitc-information-for-the-press>

<sup>2</sup> Based on the 2016 supplemental poverty measure. <https://www.census.gov/content/dam/Census/library/publications/2017/dem/p60-261.pdf>

<sup>3</sup> 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>

<sup>4</sup> 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>

<sup>5</sup> 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](http://www.econ.ucdavis.edu/faculty/hoynes/working_papers/Hoynes-Miller-Simon-EITC.pdf)

<sup>6</sup> 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](http://npc.umich.edu/publications/u/working_paper10-05.pdf)

<sup>7</sup> Dahl, DeLeire, and Schwabish, "Stepping Stone or Dead End? The Effect of the EITC on Earnings Growth."

<sup>8</sup> Michelle Maxfield, "The Effects of the Earned Income Tax Credit on Child Achievement and Long-Term Educational Attainment," November 2013, [https://msu.edu/~maxfiel7/20131114%20Maxfield%20EITC%20Child%](https://msu.edu/~maxfiel7/20131114%20Maxfield%20EITC%20Child%20Education.pdf)

[20Education.pdf](#)

<sup>9</sup> Greg Duncan, Kathleen Ziol-Guest and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," Child Development, February 2010, <https://www.ipr.northwestern.edu/events/other-events/docs/conf08-attainment/papers/duncan.pdf>

<sup>10</sup> 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](http://www.nber.org/papers/w14624.pdf?new_window=1)

<sup>11</sup> Helly Lee and Andrea Amaechi, "EITC Expansion Proposals," November 2016, CLASP, <http://www.clasp.org/resources-and-publications/publication-1/2014-09-17-Youth-EITC-Young-Workers-FINAL.pdf>.