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December 17, 2008

The Earned Income Tax Credit (EITC) is a federal tax benefit for low- and moderate-income workers that helps offset the payroll and income taxes they pay. Very low-wage workers can also receive an income supplement through the EITC: if the size of the credit exceeds the amount of federal income tax they owe, they receive the difference in the form of a refund check from the IRS. (This kind of credit is known as a "refundable credit.") Twenty-four states have established their own EITCs to supplement the federal credit.

Who Is Eligible, And For How Much?

Working families with children that have annual incomes below about \$34,000 to \$41,000 (depending on marital status and the number of children in the family) generally are eligible for the EITC. Also, poor workers without children that have incomes below about \$13,000 (\$16,000 for a married couple) can receive a very small EITC.

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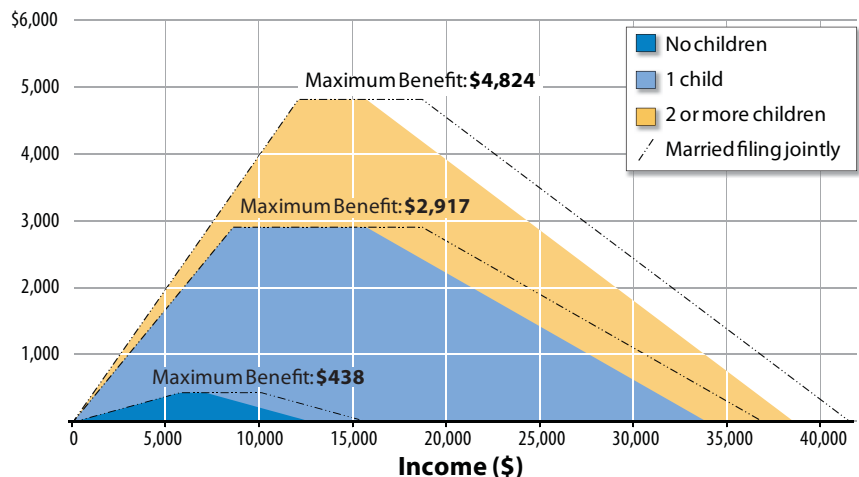
Research indicates that families use the EITC to pay for necessities, repair homes, maintain vehicles that are needed to commute to work, and in some cases, obtain additional education or training to boost their employability and earning power.

Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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The Federal Earned Income Credit in Tax Year 2008

Credit amount



Note: Married couples with income in the phaseout range qualify for a higher credit than single parents—shown by dashed lines.

Making Work Pay

The EITC rewards low-wage work by reducing the taxes that low-wage workers pay on their earnings and by supplementing their wages. Only people who work are eligible for the EITC, and for workers with very low earnings (such as those who work less than full time), the size of the credit increases with each additional dollar of earnings, providing an incentive for more work.

As a result, studies have shown that the EITC has encouraged large numbers of single parents to leave welfare for work. The Committee for Economic Development, an organization of 250 corporate executives and university presidents, concluded in 2000 that “The EITC has become a powerful force in dramatically raising the employment of low-income women in recent years.”

Reducing Poverty

In 2005, the EITC lifted 4.1 million people out of poverty, including 2.2 million children. Without the EITC, the poverty rate among children would have been nearly one-fourth higher. The EITC lifts more children out of poverty than any other single program or category of programs.

One way the EITC reduces poverty is by supplementing the earnings of minimum-wage workers.

There is broad bipartisan agreement that a two-parent family with two children with a full-time, minimum-wage worker should not have to raise its children in poverty. At the minimum wage’s current level, such a family can reach the poverty line only if it receives the EITC as well as food stamps.

Strengthening The EITC

The EITC for workers without children is extremely small — too small even to fully offset federal income taxes for workers at the poverty line. As a result, single childless adults are the only Americans that the federal income tax taxes into poverty.

In 2007 House Ways and Means Committee Chairman Rangel proposed doubling the maximum size of the EITC for childless workers and allowing workers with incomes up to around \$17,000 to benefit from the credit. This change, which would benefit more than 7 million workers, would improve work incentives for childless adults — and, in particular, for less-educated men, a group whose declining employment rates are a major cause for concern.

The EITC also could be expanded for families with three or more children, who are more than twice as likely as smaller families to be poor. Providing larger families with a larger EITC, as members of Congress of both parties have proposed in recent years, would reflect the higher costs these families face for child care, food, and other necessities.

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