

The Earned Income Tax Credit

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Updated January 15, 2016

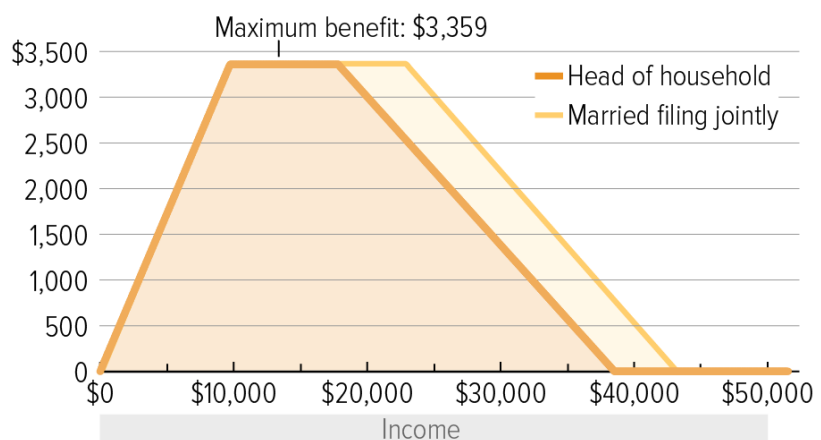
The Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people. It encourages and rewards work as well as offsets federal payroll and income taxes. Twenty-six states, plus the District of Columbia, have established their own [EITCs](#) to supplement the federal credit.

Who Is Eligible, and for How Much?

When filing taxes for 2015 (due in April 2016), working families with children that have annual incomes below about \$39,000 to \$53,300 (depending on marital status and the number of dependent children) may be eligible for the federal EITC. Also, working-poor people who have no children and have incomes below about \$14,800 (\$20,300 for a married couple) can receive a very small EITC. In the 2013 tax year, the most recent year for which data are available, over 27 million working families and individuals received the EITC.

The amount of EITC depends on a recipient's income, marital status, and number of children. As the figure shows, workers receive the credit beginning with their first dollar of earned income; the amount of the credit rises with earned income until it reaches a maximum level and then begins to phase out at higher income levels (see the table at the end of this piece for how the EITC is calculated). The EITC is "refundable," which means that if it exceeds a low-wage worker's income tax liability, the IRS will refund the balance.

Earned Income Tax Credit for Households with One Child, 2015



Note: Assumes all income is from earnings (as opposed to investments, for example).

Source: Internal Revenue Service

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

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During the 2013 tax year, the average EITC was \$3,074 for a family with children (boosting wages by about \$256 a month), compared with just \$281 for a family without children.

Research indicates that families mostly 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.

Encouraging and Rewarding Work

The EITC is designed to encourage and reward work. As noted, a worker's EITC grows with each additional dollar of earnings until reaching the maximum value. This creates an incentive for people to leave welfare for work and for low-wage workers to increase their work hours.

This incentive feature has made the EITC highly successful. [Studies show](#) that the EITC encourages large numbers of single parents to leave welfare for work, especially when the labor market is strong.

Specifically, a highly regarded study found that EITC expansions are the most important reason why employment rose among single mothers with children during the 1990s — the EITC was more effective in encouraging work than either welfare reform or the strong economy.

Reducing Poverty

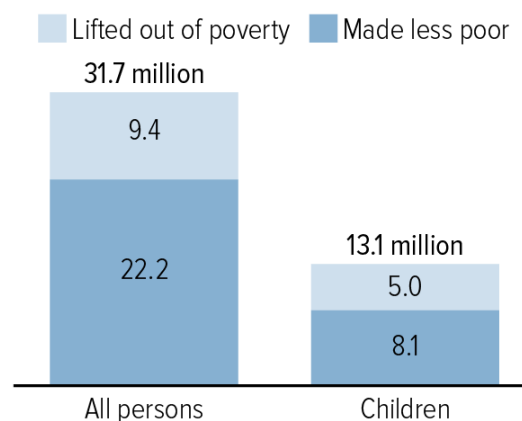
In 2013, the EITC lifted about 6.2 million people out of poverty, including about 3.2 million children. The number of poor children would have been one-quarter higher without the EITC. The credit reduced the severity of poverty for another 21.6 million people, including 7.8 million children. In combination with the [Child Tax Credit \(CTC\)](#), the EITC lifts even more families with children out of poverty (see figure).

The EITC reduces poverty by supplementing the earnings of low-wage [workers and by encouraging work](#). There has been broad bipartisan agreement that a two-parent family with two children with a

■ The EITC rewards low-wage work by reducing federal taxes that low-wage workers pay on their earnings and supplementing their wages.

Earned Income Tax Credit and Child Tax Credit Have Powerful Antipoverty Impact

Millions of persons lifted out of poverty or made less poor (using Supplemental Poverty Measure) by EITC and CTC, 2013



Note: Unlike the Census Bureau's official poverty measure, the SPM counts the effect of government benefit programs and tax credits. Figures may not add due to rounding.

Source: CBPP analysis of Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

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full-time, minimum-wage worker should not have to raise its children in poverty. At the federal minimum wage’s current level, such a family can move above the poverty line only if it receives the EITC as well as SNAP (food stamp) benefits.

Moving out of poverty is particularly important for young children. [Research has found](#) that lifting low-income families’ income when a child is young not only tends to improve a child’s immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood. A burgeoning literature links EITC receipt to improved school performance and higher college attendance rates.

A Hole in the EITC

In contrast to the EITC for families with children, the EITC for childless workers remains extremely small — too small even to fully offset federal taxes for workers at the poverty line. Under current law, a childless adult or noncustodial parent working full-time, year-round at the federal minimum wage is ineligible for the EITC. (Such an individual would receive the maximum EITC if he or she had children.) [As a result](#), low-wage workers not raising children are the sole group that the federal tax system taxes into or deeper into poverty.

For more on the EITC and Child Tax Credit, see [“EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds.”](#)

2015 Earned Income Tax Credit Parameters

Working households qualify for an EITC based on earnings. Beginning with the first dollar of earnings, as a low-income household earns more, its EITC increases (“**phasing in**”). As the EITC phases in, it is calculated at a set percentage of earnings called the “**phase-in rate**,” which depends on marital status and number of children. For example, a married couple with two children has an EITC phase-in rate of 40 percent, so for each dollar this family earns up to a certain level, its EITC increases by 40 cents. The **phase-in ends** when the EITC reaches its **maximum amount**. For households whose income falls between the point where the phase-in ends and a second, higher threshold, the EITC stays constant at the maximum amount. For households whose income is above the second threshold, the point where the EITC **phase-out begins**, a household’s EITC amount decreases by a set percentage of income (the “**phase-out rate**”) until the EITC is reduced to zero, where **the phase-out ends**.

TABLE 1

2015 Earned Income Tax Credit Parameters (Filing status single ^a)

	Phase-in rate	Phase-in ends	Maximum credit amount	Phase-out begins	Phase-out rate	Phase-out ends
Childless	7.65%	\$6,580	\$503	\$8,240	7.65%	\$14,820
1 Child	34%	\$9,880	\$3,359	\$18,110	15.98%	\$39,131
2 Children	40%	\$13,870	\$5,548	\$18,110	21.06%	\$44,454
>2 Children	45%	\$13,870	\$6,242	\$18,110	21.06%	\$47,747

^a Note: Unmarried filers who claim children for the purposes of the EITC usually file as heads of household; the parameters for each family size are the same as for single filers.

TABLE 2

2015 Earned Income Tax Credit Parameters (Filing status married filing jointly)

	Phase-in rate	Phase-in ends	Maximum credit amount	Phase-out begins	Phase-out rate	Phase-out ends
Childless	7.65%	\$6,580	\$503	\$13,750	7.65%	\$20,330
1 Child	34%	\$9,880	\$3,359	\$23,630	15.98%	\$44,651
2 Children	40%	\$13,870	\$5,548	\$23,630	21.06%	\$49,974
>2 Children	45%	\$13,870	\$6,242	\$23,630	21.06%	\$53,267

Source: Internal Revenue Code, [26 U.S.C. §32\(b\)](#).