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Brown-Khanna Proposal to Expand EITC Would Raise Incomes of 47 Million Working Households

By Chuck Marr, Emily Horton, and Brendan Duke¹

A proposal to expand the Earned Income Tax Credit (EITC) from Senator Sherrod Brown and Representative Ro Khanna, along with 52 House cosponsors, would advance what should be a leading tax-reform goal — increasing the incomes of low- and moderate-income workers.² It would benefit 47 million households and help to address the income stagnation that has plagued ordinary workers over the last several decades.

The “working class” — which we define here as working-age households in which no one has a bachelor’s degree — is a racially, ethnically, and geographically diverse group, many of whom have been hit hard by the harsh economic trends of recent decades. Working-class households have enjoyed only small income gains in recent decades. The median income of these households rose only about 3 percent over the 36-year period from 1979 (the earliest year for which comparable data are available) to 2015 (the most recent year for which comparable data are available), after adjusting for inflation and accounting for taxes and government transfer payments.

While working-class incomes have largely stagnated over the past three decades, households with more education have enjoyed faster income growth. Real median income among households with a college degree has risen by 23 percent since 1979. In 2015, it was 73 percent higher than median income for working-class households, as compared to 45 percent higher in 1979. This unequal income growth has generated a substantial gap between working-class households’ current incomes and what their incomes would have been if they had grown at the same rate as more educated households’ incomes.

The Brown-Khanna proposal would help fill this gap by improving and expanding the EITC, one of the parts of the tax code best designed to support people who work for low or modest wages. The proposal would increase the credit’s value for all family types and substantially strengthen the EITC for childless workers.

¹ Vincent Palacios and Arloc Sherman provided valuable data assistance through the development of this paper. This paper draws from earlier CBPP analysis; see Chuck Marr, Brandon DeBot, and Emily Horton, “How Tax Reform Can Raise Working-Class Incomes,” updated October 3, 2017, <https://www.cbpp.org/research/federal-tax/how-tax-reform-can-raise-working-class-incomes>.

² H.R. 3757 and S. 1849.

The result would be a raise for 47 million households, including 35 million working-class households. For example, a married couple with one child that earns \$48,700 (the median income in 2015 for a working-class family of that size) would receive an EITC boost of \$2,600. Strengthening the EITC would likely have long-term economic benefits as well, as research shows that the EITC boosts employment and improves the health and educational outcomes of children in families that receive it.

The cost of the Brown-Khanna proposal is large — \$1.4 trillion over ten years — and it should be paid for by broadening the tax base and closing tax loopholes.³ For example, President Obama’s fiscal year 2017 budget would have raised more than \$2 trillion over ten years in revenues from higher-income households and profitable corporations by following that approach.⁴ Such a combination of policies would help push back on rising income inequality and significantly boost the incomes of millions of working-class families.

How the Proposal Would Work

The EITC, a federal tax credit for low- and moderate-income working people, encourages and rewards work, as well as offsetting federal income and payroll taxes. A household’s EITC amount depends on its income and earnings, marital status, and number of children; families with children and incomes up to \$53,900 in 2017 may be eligible, depending on these factors. The credit is refundable, meaning that if the credit amount exceeds a low-wage worker’s federal income tax liability, the government provides the balance as a tax refund.

The EITC, in combination with the Child Tax Credit (CTC), a partially refundable credit that helps offset the cost of raising children, supplements the earnings of low- and modest-wage workers with children and boosts working families’ incomes. These credits not only support working families in the near term but also yield long-term benefits. Recent research shows that children whose families receive more income from the EITC and CTC do better in school, on average, are likelier to attend college, and will likely earn more as adults. Low-income young children with more income also have a better chance of avoiding early onset disabilities and other illnesses associated with child poverty, which further enhances their earning ability as adults, studies show.⁵

The EITC for childless adults and non-custodial parents is, however, extremely small — too small even to fully offset federal taxes for such workers with incomes around the poverty line. In

³ Tax Policy Center (TPC) table T17-0024.

⁴ “Estimated Budget Effects of the Revenue Provisions Contained in the President’s Fiscal Year 2017 Budget Proposal,” Joint Committee on Taxation, March 24, 2016, <https://www.jct.gov/publications.html?func=startdown&id=4902>.

⁵ Chuck Marr *et al.*, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget and Policy Priorities, updated October 1, 2015, <http://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>.

addition, workers under age 25 who aren't raising children in the home are entirely ineligible. As a result, such workers are the sole group that the federal tax system taxes into or deeper into poverty.⁶

The Brown-Khanna proposal would expand the EITC significantly for all filer types, boosting incomes for 47 million working families and individuals — including 21 million who would become newly eligible for the credit — by an average of \$2,800 each.⁷ It would strengthen the EITC for workers not raising children in the home, similar to a earlier proposal from Sen. Brown and Rep. Richard Neal, by reducing the minimum qualifying age for such workers from 25 to 21, increasing the maximum credit, and increasing the credit's income limit.⁸

The centerpiece of the proposal is a substantial increase in the credit's value for all household types. The proposal would nearly double the maximum credit for workers with children by phasing in the credit more quickly as earnings rise (see Figure 1). Further, the maximum credit for childless workers would rise to \$3,000 (see Figure 2). On average, the credit amount for families with children would be more than \$5,600, and the credit amount for households without children would be more than \$1,800.⁹

⁶ Chuck Marr and Bryann DaSilva, "Childless Adults Are Lone Group Taxed Into Poverty," Center on Budget and Policy Priorities, updated April 19, 2016, <https://www.cbpp.org/research/federal-tax/childless-adults-are-lone-group-taxed-into-poverty>.

⁷ CBPP calculations from TPC tables T17-0201 and T17-0025.

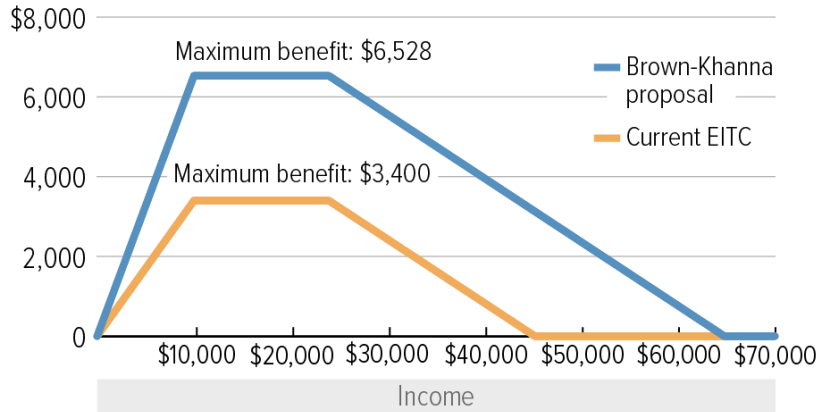
⁸ Chuck Marr *et al.*, "Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty," Center on Budget and Policy Priorities, April 11, 2016, <http://www.cbpp.org/research/federal-tax/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce>.

⁹ CBPP estimates from March 2016 Current Population Survey.

FIGURE 1

Brown-Khanna EITC Expansion Would Roughly Double Maximum Credit for Families with Children

Earned Income Tax Credit for married couple with one child, 2017



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

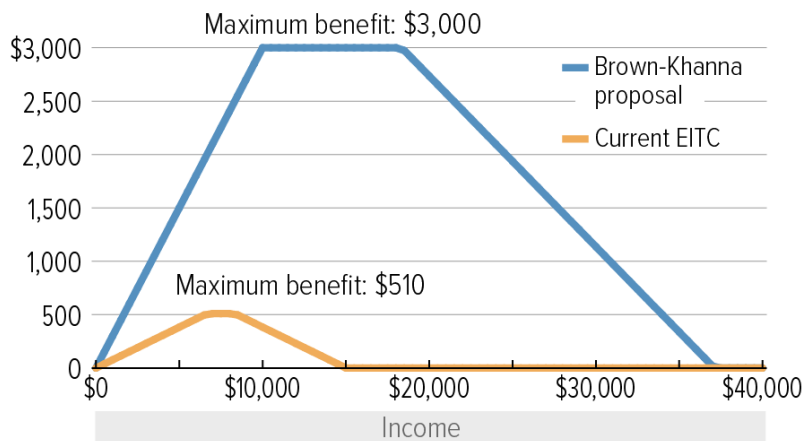
Source: H.R.3757 and S.1849; CBPP calculations

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FIGURE 2

Brown-Khanna EITC Expansion Would Boost Incomes for Workers Not Raising Children in the Home

Earned Income Tax Credit for single “childless” worker, 2017



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

Source: H.R.3757 and S.1849; CBPP calculations

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Increasing the maximum credit would expand EITC eligibility to filers with a wider range of incomes. Childless workers with incomes (in 2017 dollars) up to \$37,100 (\$42,700 for childless

couples) would be eligible for the EITC. Married couples with one child with incomes up to \$64,800 would be eligible.

Proposal Well Targeted on Working-Class Households

The EITC expansion would boost the take-home pay of low-, moderate-, and many middle-income workers, making it well targeted to increase the incomes of people left behind by recent economic trends. It would benefit 35 million working-class households, defined here as working-age households (excluding students) in which no one has a bachelor's degree. Working-class households, many of which have struggled economically in recent decades, are predominately low and middle income. Their median incomes are more than 20 percent below the *national* median, and they have enjoyed only small income gains in recent decades, after adjusting for inflation and accounting for taxes and government transfer payments.¹⁰

While working-class incomes have largely stagnated over the past three decades, households with more education have enjoyed more income growth. This unequal growth has widened the education-based income gap. Real working-class median income rose by only about 3 percent from 1979 (the earliest year for which comparable data are available) to 2015 (the most recent year for which comparable data are available). By contrast, real median income among households with a college degree has risen 23 percent since 1979 — and in 2015, was 73 percent higher than among working-class households.

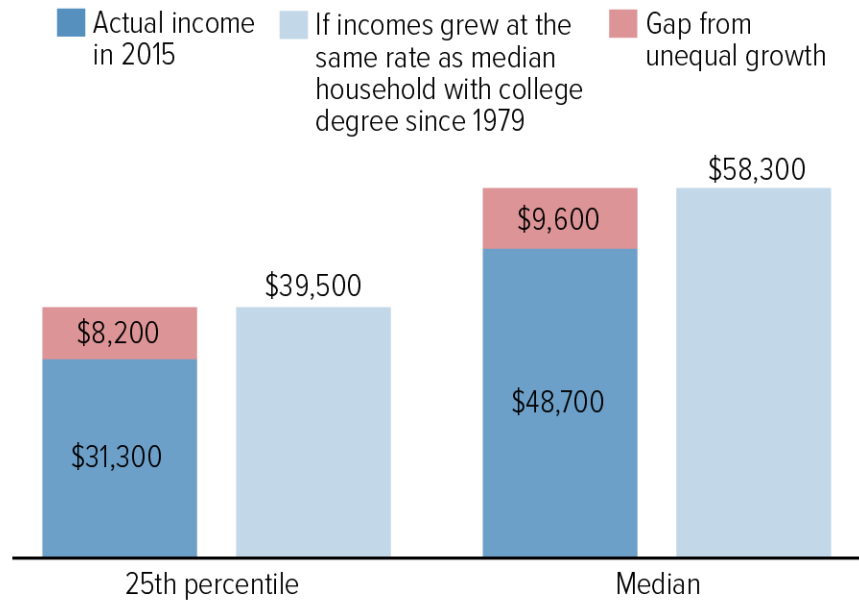
Slower income growth for working-class households has created a substantial gap between their current income and what it would have been if it had grown at the same rate as more educated households' incomes. For example, the median working-class couple with one child — that is, the working-class couple whose income is at the midway point (or 50th percentile) for such households — now earns about \$48,700. If their income had grown at the same rate since 1979 as that of similar households with a bachelor's degree, their income would be \$58,300, or roughly \$9,600 higher. (See Figure 3.)

¹⁰ Chuck Marr, Brandon DeBot, and Emily Horton, “How Tax Reform Can Raise Working-Class Incomes,” Center on Budget and Policy Priorities, updated October 3, 2017, <https://www.cbpp.org/research/federal-tax/how-tax-reform-can-raise-working-class-incomes>.

FIGURE 3

Working-Class Families Are Left Behind After Several Decades of Unequal Income Growth

Average after-tax income for three-person working-class households, 2015



Note: Incomes take into account taxes and benefits from government transfer programs and are adjusted for inflation and family size. The median income is the middle income among working-class households; the 25th percentile is the cutoff for the bottom 25 percent of these households. The income gap from unequal growth is the difference between actual working-class incomes (reflecting slow growth between 1979-2015) and the income levels that would have been reached if working-class incomes had grown at the same rate as the typical income among more educated households since 1979.

Source: CBPP analysis of Census Bureau data

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The Brown-Khanna proposal would make substantial progress in filling this gap by boosting workers' pay. For a working-class couple with one child earning \$48,700, take-home pay would rise by nearly \$2,600 in 2017 dollars. That increase would offset over one-fourth of the earnings gap the family has experienced since 1979 due to slower income growth for working-class families than for comparable families with bachelor's degrees.

Proposal Would Benefit Diverse Group of Workers Across Occupations and Geographic Areas

The 47 million households whose incomes would rise are found in every state (Appendix Table B provides state-by-state data). The proposal would substantially increase the EITC for the 26 million filers already benefiting from the credit and would extend eligibility to another 21 million filers,

including 6 million families with children and 15 million single workers and couples without qualifying children.¹¹

The 47 million households are racially, economically, and geographically diverse. (See Table 1.) Some 3.1 million are veterans or active-duty military, 3.8 million are workers with disabilities, and 7.4 million live in rural areas. They work in a diverse range of occupations, many of which pay low or modest wages. (See Table 2.)

TABLE 1

Demographic Impact of Proposed EITC Expansion, 2017

	Filers receiving a new or expanded EITC under Brown-Khanna proposal
Latino	9.5 million
Black (non-Latino)	8.4 million
White (non-Latino)	25.4 million
Asian American (non-Latino)	1.9 million
Other	1.5 million
Total	46.7 million
Including:	
Veterans and military members	3.1 million
Workers with disabilities ^a	3.8 million
Rural	7.4 million
Age 55 and over	7.0 million
Millennials (ages 18–34)	21.9 million

Note: Figures rounded to the nearest 100,000. The total number of filers benefiting is based on Tax Policy Center analysis of the Brown-Khanna proposal. The apportionment of that total among demographic groups is estimated based on data from the March 2016 Current Population Survey.

^a Includes filing units in which the filer or spouse is disabled (those with self-reported disability and those receiving Social Security or Supplemental Security Income due to a disability), and either filer or spouse is working.

¹¹ CBPP calculations from TPC tables T17-0201 and T17-0025. TPC estimates that in 2017, roughly 26 million filers will benefit from the credit under current law. IRS data indicate that for tax year 2015, 28 million filers received the EITC.

TABLE 2

Top Occupations Benefiting from EITC Expansion, 2017

	Filers receiving a new or expanded EITC under Brown-Khanna proposal
Cashiers	1,466,000
Truck drivers	1,364,000
Retail salespersons	1,263,000
Nursing, psychiatric, and home health aides	1,254,000
Customer service representatives	1,144,000
First-line supervisors of retail sales workers	1,096,000
Custodians and building cleaners	1,074,000
Laborers and freight, stock, and material movers	1,055,000
Cooks	994,000
Secretaries and administrative assistants	973,000
Waiters and waitresses	954,000
Stock clerks and order fillers	760,000
Personal and home health care aides	758,000
Maids and housekeeping cleaners	728,000
Construction laborers	714,000

Note: Figures rounded to the nearest 1,000. The total number of filers benefiting is based on Tax Policy Center analysis of the Brown-Khanna proposal. The apportionment of that total among occupations is estimated based on data from the 2015 American Community Survey. For married filers, occupation is that of the higher-earning spouse.

Proposal Would Dramatically Reduce Poverty

An expansion of this scale would also strengthen the EITC's anti-poverty impact, more than doubling the number of people that the credit lifts out of poverty. The EITC is already a powerful anti-poverty program; in 2015, it lifted about 6.5 million people out of poverty, including about 3.3 million children. The income boost from the Brown-Khanna expansion would lift another 8.3 million people out of poverty, including 2.9 million children.

The expansion also would reduce the *severity* of poverty for 16.9 million people with incomes below the poverty line, including 5.3 million children, by lifting them closer to the poverty threshold. (See Figure 4.)

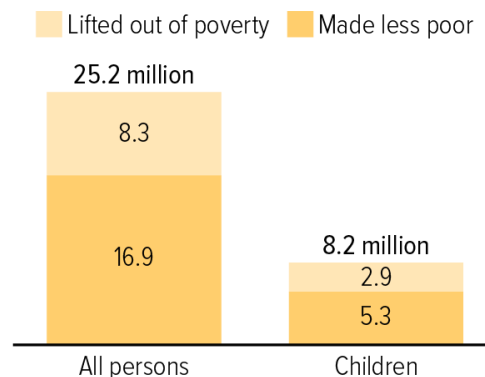
To be sure, the Brown-Khanna proposal is expensive. But it falls in a range for which offsetting revenue-raising measures that represent sound policy can be identified. For example, President Obama's fiscal year 2017 budget would have raised more than \$2 trillion over ten years in net revenues from high-income households and profitable corporations by closing or narrowing tax preferences that are of low priority or limited effectiveness.¹² Many of these tax expenditures have flawed designs; rather than creating an incentive to undertake more of a particular activity (such as to save or invest more), they subsidize actions that individuals or companies largely would have taken anyway. Moreover, the tax code contains various loopholes that allow individuals or corporations to avoid tax in ways that Congress never intended.¹³

Addressing these flaws in the tax code would not only make good economic sense, but also could go a long way toward offsetting the cost of a robust EITC expansion, helping low-wage workers and addressing the gap in incomes that has widened in recent decades.

FIGURE 4

Brown-Khanna EITC Expansion Would Lift 8 Million Out of Poverty

Millions of people lifted out of poverty or made less poor by proposed expansion of Earned Income Tax Credit



Note: Uses Supplemental Poverty Measure. Unlike the Census Bureau's official poverty measure, the SPM counts the effect of government benefit programs and tax credits.
Source: CBPP analysis of Census Bureau's March 2016 Current Population Survey and 2015 SPM public use file.

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¹² "Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2017 Budget Proposal," Joint Committee on Taxation, March 24, 2016, <https://www.jct.gov/publications.html?func=startdown&id=4902>.

¹³ For further discussion of tax expenditure reforms, see Chuck Marr, Chye-Ching Huang, and Joel Friedman, "Tax Expenditure Reform: An Essential Ingredient of Needed Deficit Reduction," Center on Budget and Policy Priorities, February 28, 2013, <https://www.cbpp.org/research/tax-expenditure-reform-an-essential-ingredient-of-needed-deficit-reduction>.

APPENDIX TABLE 1

Brown-Khanna Earned Income Tax Credit Parameters, 2017 (Filing status: single^a)

	Phase-in rate	Income at which phase-in ends	Maximum credit amount	Income at which phase-out begins	Phase-out rate	Income at which phase-out ends
Childless	30.00%	\$10,000	\$3,000	\$18,340	15.98%	\$37,113
1 Child	65.28%	\$10,000	\$6,528	\$18,340	15.98%	\$59,191
2 Children	76.80%	\$14,040	\$10,783	\$18,340	21.06%	\$69,540
>2 Children	86.40%	\$14,040	\$12,131	\$18,340	21.06%	\$75,940

^a 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. For married filers, the income level at which the phase-out begins is increased by \$5,590.

Source: H.R. 3757 and S.1849; CBPP calculations.

APPENDIX TABLE 2

State-by-State Impact of Brown-Khanna EITC Expansion, 2017

	Filers receiving a new or expanded EITC under Brown-Khanna proposal
United States	46,700,000
Alabama	783,000
Alaska	103,000
Arizona	987,000
Arkansas	487,000
California	5,293,000
Colorado	759,000
Connecticut	424,000
Delaware	134,000
District of Columbia	80,000
Florida	3,207,000
Georgia	1,597,000
Hawaii	206,000
Idaho	264,000
Illinois	1,767,000
Indiana	1,058,000
Iowa	453,000
Kansas	423,000
Kentucky	708,000
Louisiana	766,000

State-by-State Impact of Brown-Khanna EITC Expansion, 2017

	Filers receiving a new or expanded EITC under Brown-Khanna proposal
Maine	214,000
Maryland	744,000
Massachusetts	841,000
Michigan	1,533,000
Minnesota	746,000
Mississippi	533,000
Missouri	984,000
Montana	167,000
Nebraska	280,000
Nevada	439,000
New Hampshire	179,000
New Jersey	1,039,000
New Mexico	332,000
New York	2,743,000
North Carolina	1,571,000
North Dakota	109,000
Ohio	1,849,000
Oklahoma	623,000
Oregon	605,000
Pennsylvania	1,846,000
Rhode Island	147,000
South Carolina	806,000
South Dakota	137,000
Tennessee	1,099,000
Texas	3,875,000
Utah	431,000
Vermont	93,000
Virginia	1,109,000
Washington	938,000
West Virginia	294,000
Wisconsin	859,000
Wyoming	83,000

Notes: State figures rounded to the nearest 1,000; national total rounded to the nearest 100,000. The total number of filers the receiving the expanded EITC is based on Tax Policy Center analysis of the Brown-Khanna proposal. For state estimates, we then assign each state a pro-rated share of the corresponding national total, based on data from the 2015 American Community Survey.