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Revised June 30, 2015

## **Pro-Work Tax Credits Help 2 Million Veteran and Military Households But Half of These Families Will Lose Part or All of Their Tax Credits Unless Congress Acts**

By Arloc Sherman, Bryann DaSilva, Vincent Palacios, and Chye-Ching Huang

About 2 million veteran and military households earn the Earned Income Tax Credit (EITC) or low-income component of the Child Tax Credit (CTC), two tax credits for low- and moderate-income working households. But about half — 1 million — of these families will lose some or all of these tax credits unless Congress saves key provisions of the EITC and CTC that will otherwise expire at the end of 2017. Thousands of veteran and military families in each state stand to lose.

- **Pro-work tax credits boost the economic security of millions of veteran and military households.** Some 2 million veteran and military households earn either the EITC or the low-income component of the CTC, or both, according to an analysis of Census and IRS data. In about 240,000 of these households, a member of the household is currently serving in the military; in the rest, a member of the household is a veteran.
- **But unless Congress acts to save key provisions of the CTC and EITC, 1 million veteran and military families will lose some or all of their credits.** Key EITC and CTC provisions are set to expire at the end of 2017. If lawmakers don't save these provisions by making them permanent, 1 million veteran and military families — 50 percent of the households that currently receive the credits — will lose some or all of their credits.
- **Closing the large gap in the EITC for childless adults and non-custodial parents would also help veterans and serving military members.** Workers who don't claim dependent children for tax purposes currently are eligible for little or no EITC, and partly for that reason, they are the only group that the federal tax code actually taxes into poverty. President Obama and House Ways and Means Committee Chairman Paul Ryan (R-WI) have offered nearly identical proposals to help close this glaring gap in the EITC for childless workers. About 500,000 veterans and military members would benefit from these proposals.

## The EITC and CTC Boost the Economic Security of Veteran and Military Families

About 2 million veteran or military households receive the EITC, refundable portion of the CTC, or both; Table 1 estimates the number of households receiving the credits in each state. (See Appendix for methodology.)

There are about 2.6 million children in these households under the age of 18.<sup>1</sup> On average, veteran and military households earning any EITC received an EITC of about \$1,610. Veteran and military households that earned the low-income portion of the CTC received about \$1,350 per household on average from that tax credit. Because the credits increase with earnings for low- and moderate-income households, the EITC and CTC encourage and reward work. A growing body of research also suggests that children in families receiving these tax credits have improved health, perform better in school, are likelier to attend college, and can be expected to work and earn more as adults.<sup>2</sup>

For many veteran and military households, these credits make a major difference to their economic security. For example, the federal EITC and CTC together keep roughly 100,000 veteran and military households from falling below the poverty line, and lessen the severity of poverty for another 470,000 such families, based on the federal government's Supplemental Poverty Measure (SPM).<sup>3</sup> (The SPM, unlike the official poverty measure, counts tax credits as income.)

TABLE 1

### Estimated Veteran and Military Households Receiving EITC or Low-Income Component of Child Tax Credit

50 States + DC	2,000,000
Alabama	42,000
Alaska	8,000
Arizona	46,000
Arkansas	32,000
California	154,000
Colorado	39,000
Connecticut	12,000
Delaware	7,000
Dist. of Columbia	2,000
Florida	134,000
Georgia	86,000
Hawaii	14,000
Idaho	16,000

<sup>1</sup> One in four veteran and military families with children receive the EITC, refundable portion of the CTC, or both.

<sup>2</sup> Chuck Marr *et al.*, "Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds," Center on Budget and Policy Priorities, updated April 3, 2015, <http://bit.ly/1NupNqR>.

<sup>3</sup> These poverty figures use 2013 Census Bureau data. The SPM poverty line for a couple with two children was \$25,144 in 2013. The poverty-reduction figures cited here include the entire CTC, both its low-income (that is, refundable) and non-refundable portions. Refundable credits like the EITC and the low-income portion of the CTC help families whose incomes are so low that they owe little or no federal income tax.

TABLE 1

### Estimated Veteran and Military Households Receiving EITC or Low-Income Component of Child Tax Credit

Illinois	62,000
Indiana	47,000
Iowa	19,000
Kansas	25,000
Kentucky	38,000
Louisiana	38,000
Maine	12,000
Maryland	27,000
Massachusetts	22,000
Michigan	62,000
Minnesota	27,000
Mississippi	26,000
Missouri	51,000
Montana	12,000
Nebraska	14,000
Nevada	21,000
New Hampshire	8,000
New Jersey	24,000
New Mexico	20,000
New York	66,000
North Carolina	90,000
North Dakota	5,000
Ohio	77,000
Oklahoma	38,000
Oregon	32,000
Pennsylvania	73,000
Rhode Island	5,000
South Carolina	45,000
South Dakota	8,000
Tennessee	57,000
Texas	172,000
Utah	18,000
Vermont	4,000
Virginia	64,000
Washington	54,000
West Virginia	15,000
Wisconsin	36,000
Wyoming	5,000

Source: CBPP analysis of IRS data (including state data on the overlap between the EITC and refundable Child Tax Credit compiled by the Brookings Metropolitan Policy Program) on the total number of EITC and low-income Child Tax Credit filers in tax year 2012; and CBPP analysis of Census Bureau data to determine the share of such tax filers in each state that were military families. The Census figures are from the March 2014 Current Population Survey for the share of veteran and military families nationwide receiving the credits, and from three years of the American Community Survey (2011 to 2013) for the share of such filers in each state. State figures are rounded to the nearest thousand; national total is rounded to the nearest 100,000.

These figures show the effect of the federal EITC and refundable CTC. But 26 states plus the District of Columbia also offer state EITCs, typically set as a percentage of the federal EITC, that build on the success of the federal tax credit.<sup>4</sup>

## **1 Million Veteran and Military Households Will Lose Some or All of Their Credits If Lawmakers Fail to Act**

Unless Congress acts, key EITC and CTC provisions will expire at the end of 2017, eliminating all or part of the EITC, CTC, or both, for 1 million veteran and military families now receiving for the credits. Table 2 shows how many veteran and military households in each state stand to lose some or all of their EITC or CTC.<sup>5</sup> (See Appendix for methodology.)

If these provisions expire:

- **Not one penny of the \$14,500 in earnings of a full-time, minimum-wage worker would count toward the CTC.** The earnings needed to qualify for even a tiny CTC would jump from \$3,000 to \$14,700. The earnings needed to qualify for the *full* CTC would rise from \$16,330 to more than \$28,000 for a married couple with two children. A single veteran with two children who works full time at the minimum wage (and earns \$14,500) would lose his entire CTC of \$1,725, for example.
- **Many married couples would face higher marriage penalties and cuts to their EITC.** Currently, to reduce the marriage tax penalty, the income level at which the EITC begins to phase out is set \$5,000 higher for married couples than for single filers. After 2017, it would only be \$3,000 higher, which would cut the EITC for many low-income married couples and increase the marriage penalty for many two-earner families.
- **Larger families would face a cut in their EITC.** After 2017, the maximum EITC for families with more than two children would fall by over \$700, to the level of the maximum EITC for families with two children.

Table 2 shows that it is critical for veteran and military families in every state that Congress acts to save these key provisions by making them permanent.

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<sup>4</sup> For more on state EITCs, see Erica Williams and Michael Leachman, “States Can Adopt or Expand Earned Income Tax Credits to Build a Stronger Future Economy,” updated February 18, 2015, <http://bit.ly/1CzfBYw>.

<sup>5</sup> For more detail on the provisions set to expire, see Chuck Marr, Bryann DaSilva, and Arloc Sherman, “Letting Key Provisions of Working-Family Tax Credits Expire Would Push 16 Million People Into or Deeper Into Poverty,” Center on Budget and Policy Priorities, February 20, 2015, <http://bit.ly/1QPYrwi>.

TABLE 2

**Estimated Veteran and Military Families with Children That Would Lose All or Part of EITC or CTC if Key Provisions Expire at End of 2017**

<b>50 States + DC</b>	<b>1,000,000</b>
Alabama	23,000
Alaska	4,000
Arizona	23,000
Arkansas	18,000
California	78,000
Colorado	22,000
Connecticut	5,000
Delaware	4,000
Dist. of Columbia	1,000
Florida	67,000
Georgia	48,000
Hawaii	9,000
Idaho	9,000
Illinois	29,000
Indiana	25,000
Iowa	10,000
Kansas	14,000
Kentucky	22,000
Louisiana	20,000
Maine	6,000
Maryland	13,000
Massachusetts	10,000
Michigan	32,000
Minnesota	13,000
Mississippi	14,000
Missouri	27,000
Montana	7,000
Nebraska	8,000
Nevada	10,000
New Hampshire	3,000
New Jersey	13,000
New Mexico	11,000
New York	30,000
North Carolina	54,000
North Dakota	2,000
Ohio	39,000
Oklahoma	20,000
Oregon	17,000
Pennsylvania	34,000
Rhode Island	2,000
South Carolina	23,000
South Dakota	3,000

TABLE 2

### Estimated Veteran and Military Families with Children That Would Lose All or Part of EITC or CTC if Key Provisions Expire at End of 2017

Tennessee	32,000
Texas	94,000
Utah	9,000
Vermont	2,000
Virginia	34,000
Washington	28,000
West Virginia	9,000
Wisconsin	17,000
Wyoming	3,000

Source: CBPP analysis of Treasury Office of Tax Analysis estimates of how many filers in each state benefit from the key provisions of the EITC and CTC set to expire at the end of 2017; and CBPP analysis of Census Bureau data to determine the share of such tax filers in each state that were military families. The Office of Tax analysis figures are for 2015, however we expect this to be a reasonable proxy for the number of such filers who stand to lose from the expiration of these provisions if they expire at the end of 2017. The Census figures are from the March 2014 Current Population Survey for the share of veteran and military families nationwide losing some or all of their CTC and/or EITC if key provisions expire at the end of 2017, and from three years of the American Community Survey (2011 to 2013) for the share of such filers in each state. State figures are rounded to the nearest thousand; national total is rounded to the nearest 100,000.

### Plugging Hole in EITC for Childless Workers Would Help About 500,000 Veterans and Serving Military Members

Many “childless workers” — workers who can’t claim dependent children for the EITC when filing their taxes — receive little or no EITC, and such workers under age 25 are completely ineligible for the credit. Also, the maximum tax credit for these workers is just under \$500, and most of them receive far less — just \$270 on average in 2012. Partly because of this small or nonexistent EITC, these workers are the sole group that the federal tax system taxes into (or deeper into) poverty.<sup>6</sup>

Promisingly, the President and House Ways and Means Committee Chairman Paul Ryan (R-WI) have both proposed nearly identical plans to help fix these shortcomings of the EITC. For example, the EITC for a single childless worker making poverty-level wages (roughly \$12,600 in 2015) would rise from about \$170 under current law to about \$840 in 2015 under both proposals.<sup>7</sup> These proposals would help about 500,000 veterans and members of the military who are currently serving. (See Appendix for methodology.)

<sup>6</sup> Chuck Marr *et al.*, “Lone Group Taxed Into Poverty Should Receive a Larger EITC,” Center on Budget and Policy Priorities, updated April 14, 2014, <http://bit.ly/1e6TuDk>.

<sup>7</sup> Chuck Marr and Chye-Ching Huang, “Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty,” February 20, 2015, Center on Budget and Policy Priorities, <http://bit.ly/1Fc61uc>.

## Appendix: Methodology

The estimates in this analysis use a combination of IRS and Census Bureau data and Treasury estimates.

**Estimates of veteran and military households receiving the EITC and/or refundable CTC.** IRS data (including IRS state data on the overlap between the EITC and refundable CTC compiled by the Brookings Metropolitan Policy Program) show that, in total, about 31.3 million households (filing units) received either the EITC or the low-income portion of the CTC in 2012.<sup>8</sup> Census data from the March 2014 Current Population Survey (CPS) indicate that, nationally, 6.4 percent of such households have a member who is a veteran or serving in the military.<sup>9</sup> Multiplying the 31.3 million total from IRS data by this 6.4 percent yields the number of veteran and military households receiving these credits nationally (2.0 million).<sup>10</sup> We allocate this national total by state based on the estimated distribution of such households in American Community Survey data (ACS) for 2011 to 2013.<sup>11</sup> State figures are rounded to the nearest thousand; the national total is rounded to the nearest 100,000.

**Estimates of veteran and military families losing some or all of their credits if key provisions expire at the end of 2017.** Treasury Office of Tax Analysis estimates show that 15.6 million families in 50 states and Washington, D.C. benefit in 2015 from the key provisions of the EITC and CTC set to expire at the end of 2017. We expect this is a reasonable proxy for the number of such families that would lose some or all of their credits if these provisions expire at the end of 2017. Census data from the March 2014 CPS indicate that 6.7 percent of such households have a member who is a veteran or on active duty. Multiplying the 15.6 million total from Treasury estimates by this 6.7 percent yields the number of veteran and military families who are estimated to lose their CTC and/or EITC if key provisions expire at the end of 2017 (1 million). We allocate this national total by state based on the estimated distribution of such households in ACS data for 2011 to 2013. State figures are rounded to the nearest thousand; the national total is rounded to the nearest 100,000.

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<sup>8</sup> Published IRS figures show that 27.8 million tax filers claimed the EITC in tax year 2012. In addition, according to unpublished IRS data compiled by the Brookings Institution's Metropolitan Policy Program, approximately another 3.5 million tax filers claimed the low-income (refundable) portion of the CTC in 2012, not counting those who also claimed the EITC, for a total of about 31.3 million families who claimed either credit.

<sup>9</sup> Taxes and tax credits in the CPS are estimated by the Census Bureau based on income and other information provided by CPS respondents.

<sup>10</sup> The Census data undercount the total number of households receiving the EITC and CTC. For this reason, we start with the actual number of households receiving the credit in IRS records and use Census data to estimate the portion of participating families that are armed-forces families. If we used only the Census data, the results would be similar but a bit lower. In some respects, our estimates are low. They leave out some veteran and armed-forces families that we could not reliably identify from the Census data, such as families with a member of the military who is serving overseas or stationed in barracks (this service member is therefore not covered in the CPS). Moreover, we do not count families where the only current or former service member is a dependent living at home. For example, a recently discharged veteran with service-related disabilities living with his or her parents would most likely count as a tax dependent for these calculations and would not be included in our tally.

<sup>11</sup> We estimate families' taxes and tax credits in the ACS based on income and other information provided by ACS respondents. The estimates use three years of data from the ACS to improve reliability.

**Estimates of the number of veterans and military households that would benefit from proposal to fix the gap in the EITC for childless workers.** Treasury Office of Tax Analysis estimates show that in 2016, the President's proposal for a more adequate EITC for childless workers would help 13.1 million such workers in the 50 states and Washington, D.C. Census data from the March 2014 CPS indicate that 4.0 percent of such workers are veterans or military personnel. Multiplying the 13.1 million total from the Treasury estimate by this 4.0 percent yields the estimated number of veteran and military workers who would benefit nationally, 500,000. Chairman Ryan's proposal is nearly identical to the President's, but unlike the President's proposal, would not raise the age at which a worker could receive the EITC to allow workers aged 65 and 66 to claim it. While the President's proposal would therefore benefit more workers, estimates for the effect of both proposals round to 500,000 (estimates are rounded to the nearest 100,000).