

## The Earned Income Tax Credit

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

### Who Is Eligible, and for How Much?

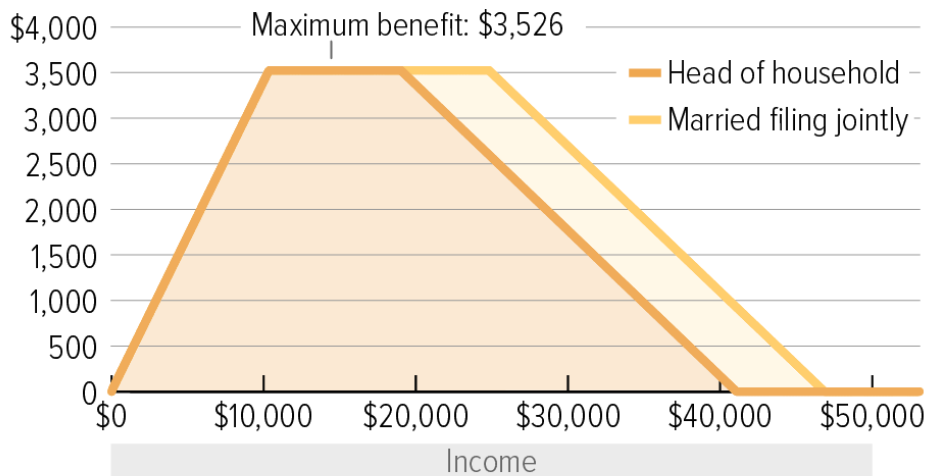
When filing taxes for 2019 (due in April 2020), working families with children that have annual incomes below about \$41,100 to \$56,000 (depending on marital status and the number of dependent children) may be eligible for the federal EITC. Also, working-poor people who have no children and have incomes below \$15,570 (\$21,370 for a married couple) can receive a very small EITC. In the 2018 tax year, over 22 million working families and individuals in every state 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.

During the 2017 tax year, the average EITC was \$3,191 for a family with children (boosting wages by about \$266 a month), compared with just \$298 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.

## Earned Income Tax Credit for Households with One Child, 2019



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

Source: Internal Revenue Service

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## Encouraging and Rewarding Work

The EITC is designed to 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 join the labor force 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 join the labor force, 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 the strong economy or the 1996 law that weakened core basic needs programs.

## Reducing Poverty

In 2018, the EITC lifted about 5.6 million people out of poverty, including about 3 million children. The number of poor children would have been more than one-quarter higher without the EITC. The credit reduced the severity of poverty for another 16.5 million people, including 6.1 million children. In combination with the [Child Tax Credit](#), the EITC lifts even more families with children out of poverty.

## Policy Basics – The Earned Income Tax Credit

The EITC reduces poverty by supplementing the earnings of low-wage [workers and by rewarding work](#). There has been 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 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

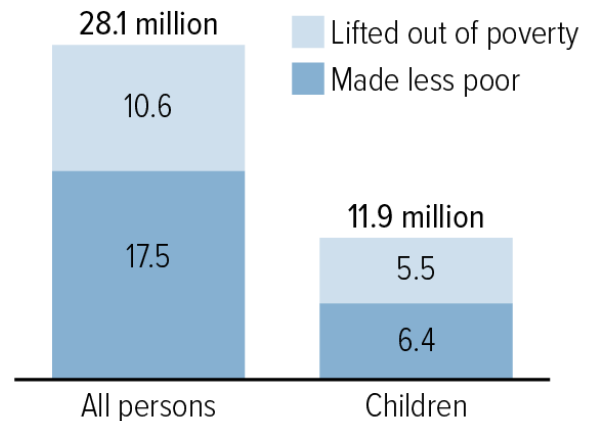
In contrast to the EITC for families with children, the [EITC for workers not raising children in the home](#) remains extremely small – too small even to fully offset federal taxes for workers at the poverty line. Under current law, a childless adult or noncustodial parent working full-time, year-round 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.

### 2019 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 (“**phases 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

## Earned Income Tax Credit and Child Tax Credit Have Powerful Anti-Poverty Impact

Millions of people lifted out of poverty or made less poor by EITC and Child Tax Credit, 2018



Note: These figures use the Supplemental Poverty Measure. Unlike the Census Bureau’s official poverty measure, the SPM counts the effect of non-cash government programs like housing and food assistance, and tax credits.

Source: CBPP analysis of Census Bureau March 2019 Current Population Survey

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## Policy Basics – The Earned Income Tax Credit

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

### 2019 Earned Income Tax Credit Parameters (Filing status single<sup>a</sup>)

|                       | Phase-in rate | Phase-in ends | Maximum credit amount | Phase-out begins | Phase-out rate | Phase-out ends |
|-----------------------|---------------|---------------|-----------------------|------------------|----------------|----------------|
| <b>Childless</b>      | 7.65%         | \$6,920       | \$529                 | \$8,650          | 7.65%          | \$15,570       |
| <b>1 Child</b>        | 34%           | \$10,370      | \$3,526               | \$19,030         | 15.98%         | \$41,094       |
| <b>2 Children</b>     | 40%           | \$14,570      | \$5,828               | \$19,030         | 21.06%         | \$46,703       |
| <b>&gt;2 Children</b> | 45%           | \$14,570      | \$6,557               | \$19,030         | 21.06%         | \$50,162       |

<sup>a</sup> 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

### 2019 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 |
|-----------------------|---------------|---------------|-----------------------|------------------|----------------|----------------|
| <b>Childless</b>      | 7.65%         | \$6,920       | \$529                 | \$14,450         | 7.65%          | \$21,370       |
| <b>1 Child</b>        | 34%           | \$10,370      | \$3,526               | \$24,820         | 15.98%         | \$46,884       |
| <b>2 Children</b>     | 40%           | \$14,570      | \$5,828               | \$24,820         | 21.06%         | \$52,493       |
| <b>&gt;2 Children</b> | 45%           | \$14,570      | \$6,557               | \$24,820         | 21.06%         | \$55,952       |

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

Updated December 10, 2019

For more information on the Earned Income Tax Credit, see:

[“Policy Basics: State Earned Income Tax Credits”](#)

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

[“Chart Book: The Earned Income Tax Credit and Child Tax Credit”](#)

[“State Fact Sheets: The Earned Income and Child Tax Credits”](#)

[“Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty”](#)

[“Childless Adults Are Lone Group Taxed Into Poverty”](#)