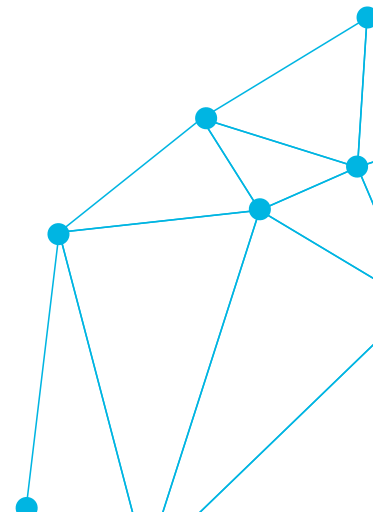


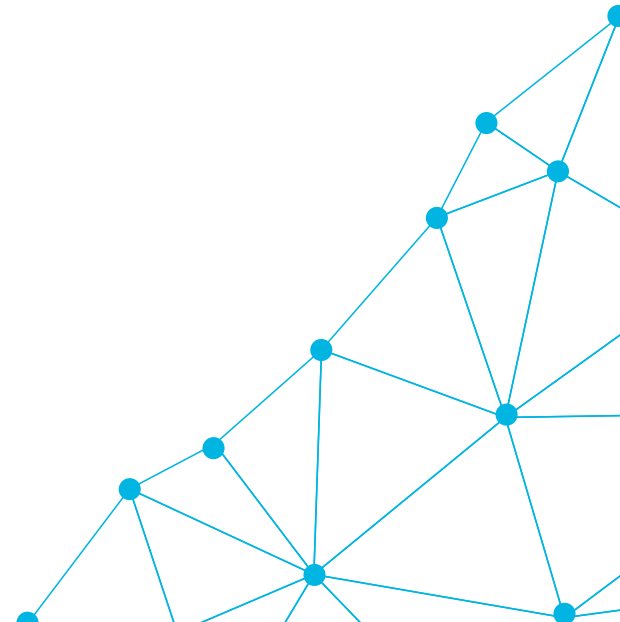
The Earned Income Tax Credit

Pamela Herd
Georgetown University

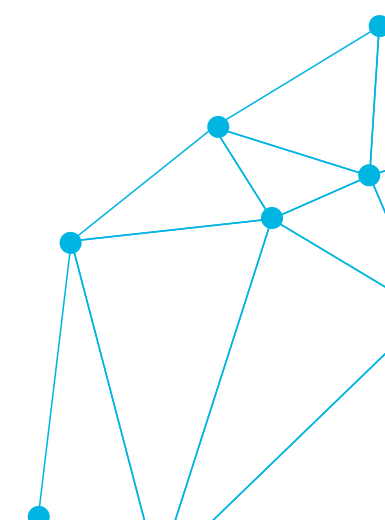
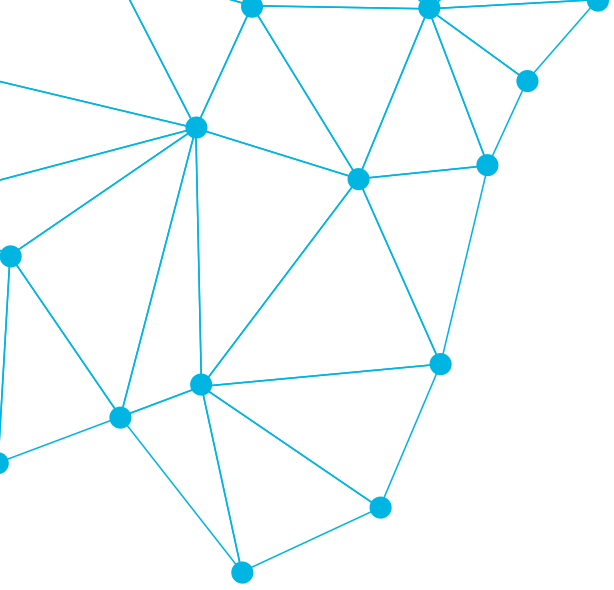


Outline

- What are administrative burdens?
- Why do burdens matter?
- Policy changes at the federal level
- Building a toolbox to reduce burdens

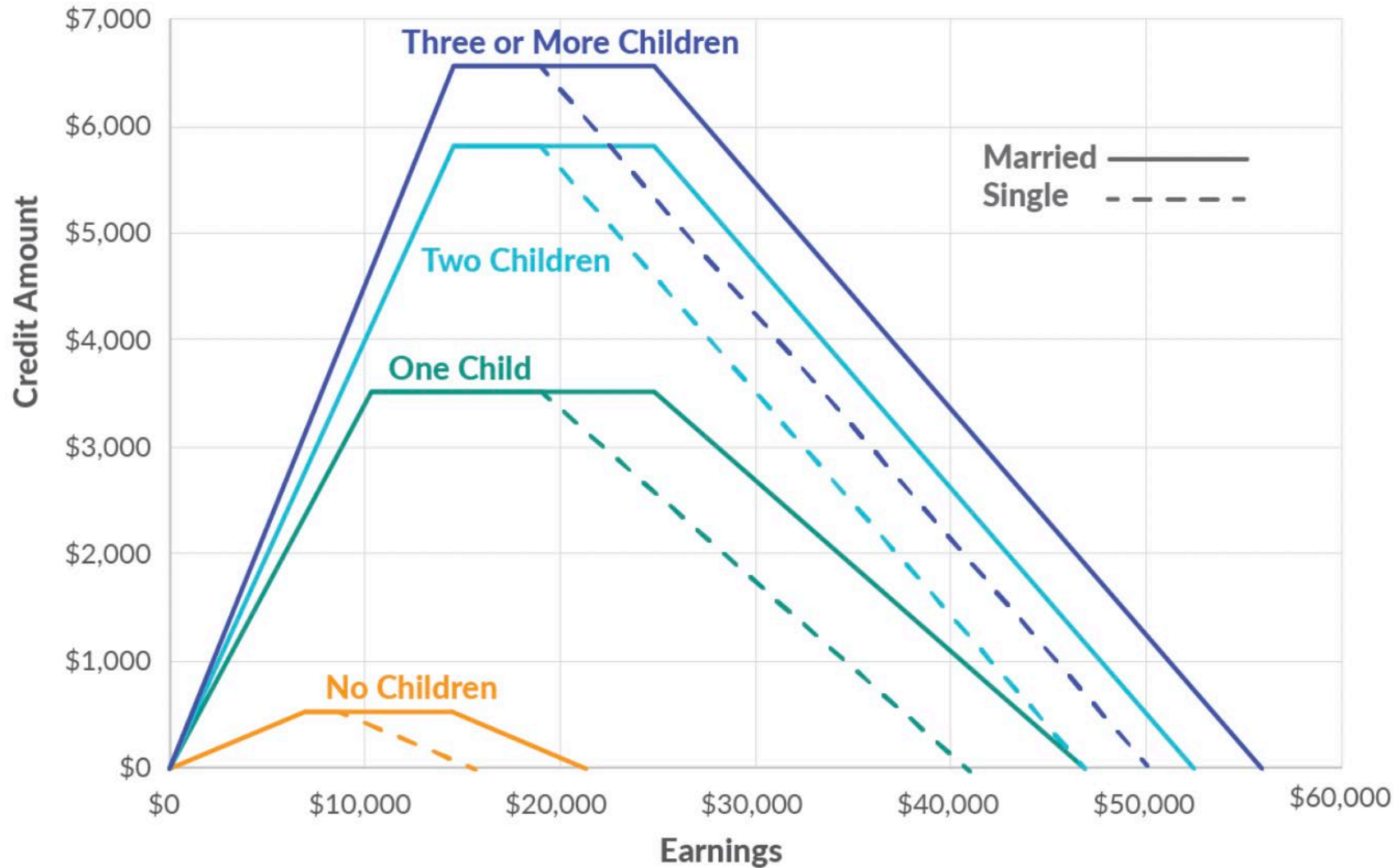


How does the EITC Work?



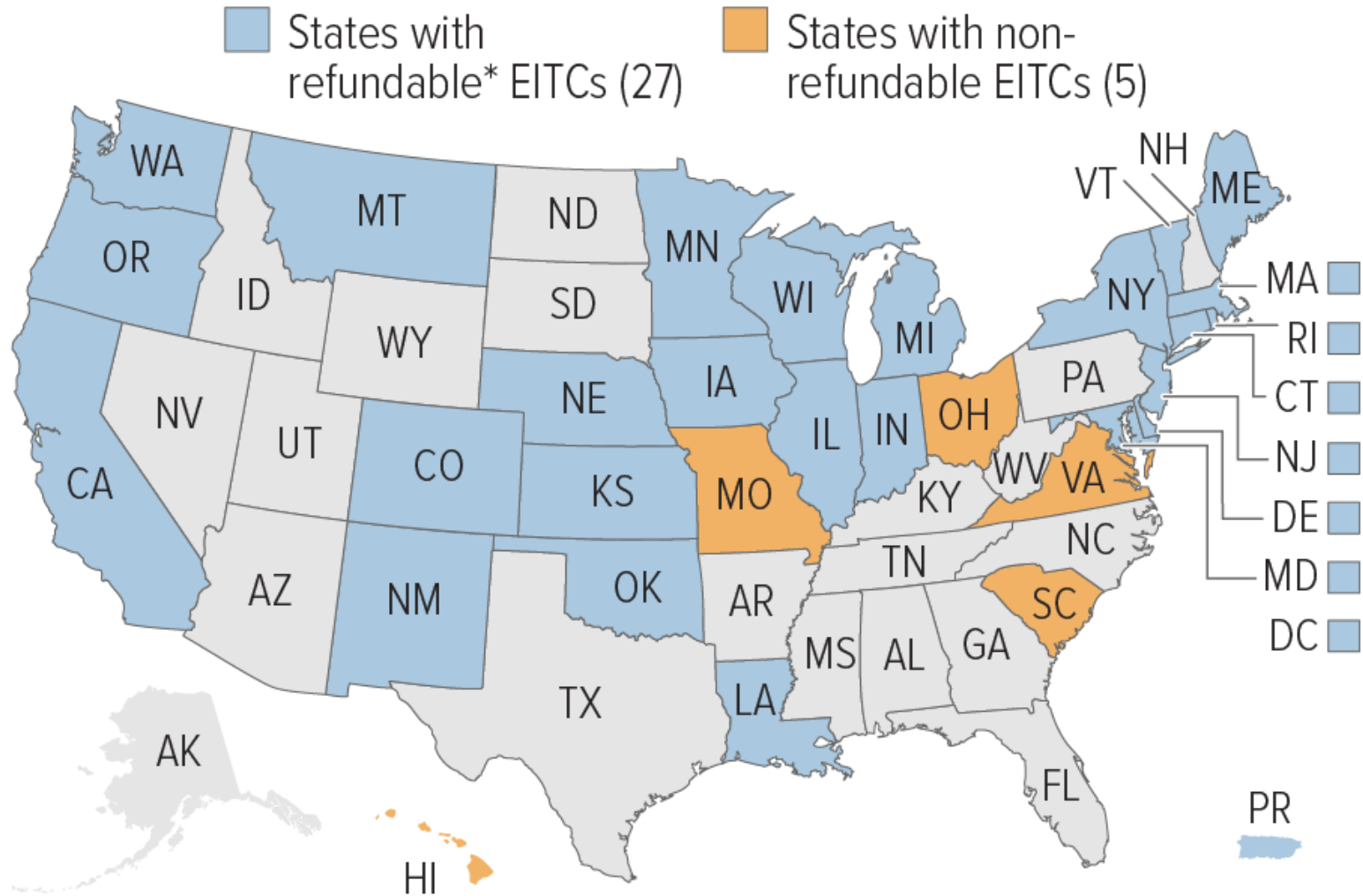
The Phase-In and Phaseout of the EITC

Credit Amount by Marital Status and Number of Children



Source: Amir El-Sibaie, "2019 Tax Brackets," Tax Foundation, Nov. 28, 2018.

30 States Plus D.C. and Puerto Rico Have EITCs



*Refundability means that the full value of an earned income tax credit (EITC) is available to all families, no matter how much they owe in taxes.

Source: CBPP analysis. Data are as of 2021



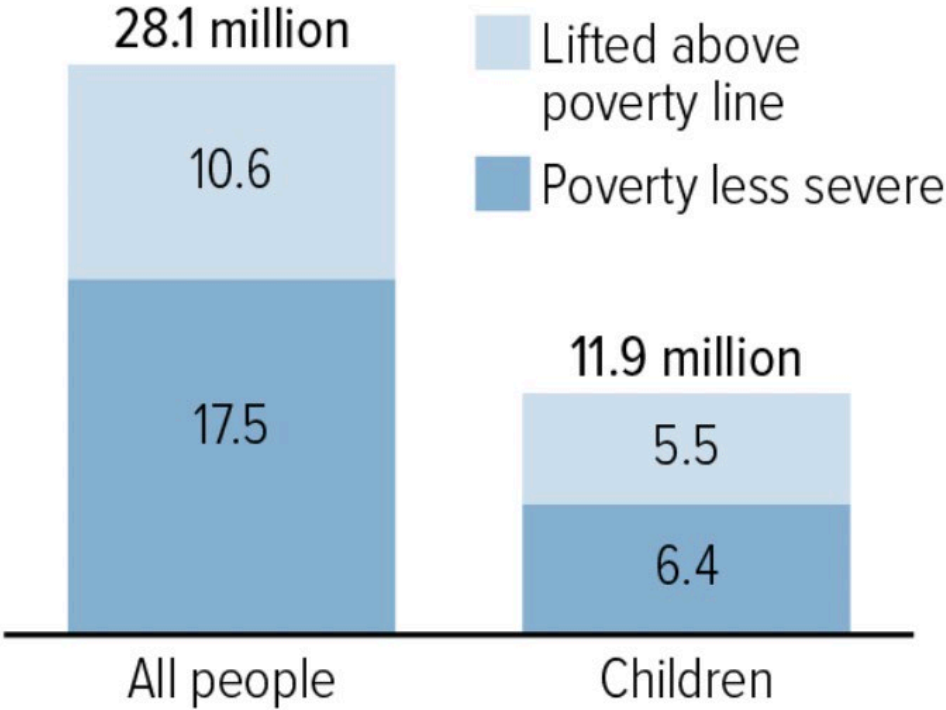
What are the Benefits of the EITC?



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

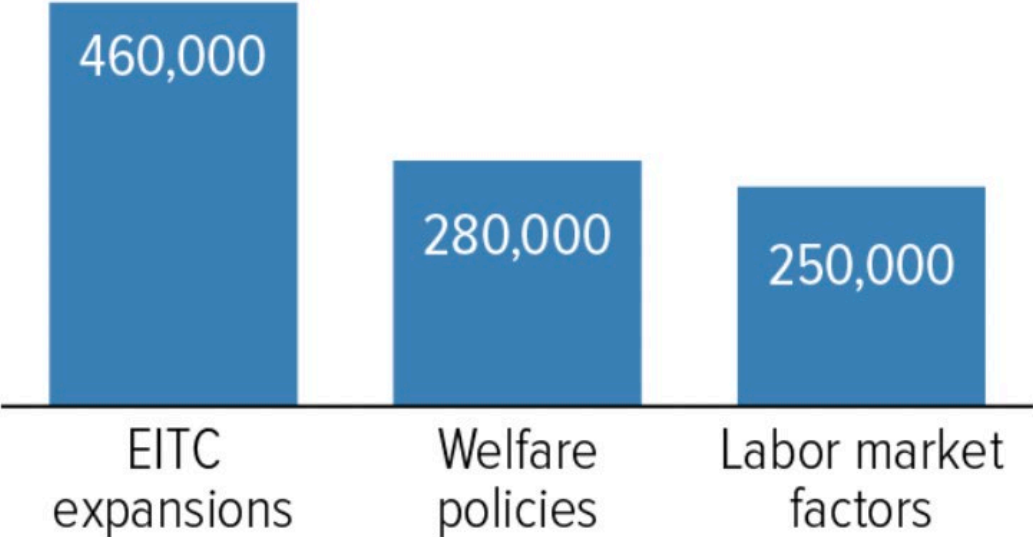
Millions whom the EITC and Child Tax Credit lifted above the poverty line or whose poverty was less severe

Poverty Reduction



EITC Biggest Factor Boosting Single Mothers' Employment, Research Finds

Increase in employed female heads of households in 1999 due to changes since 1993



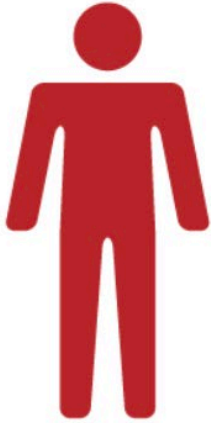
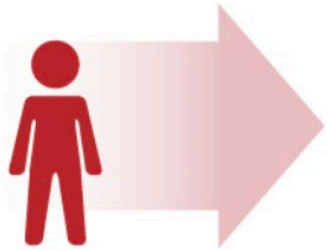
Employment Increases

Higher Earned Income Tax Credit or Other Income for Poor Children Expected to Boost Work and Earnings Later in Life

\$3,000 annual increase in income to poor children before age 6 associated with increase in work hours when they become adults

+\$3,000
a year

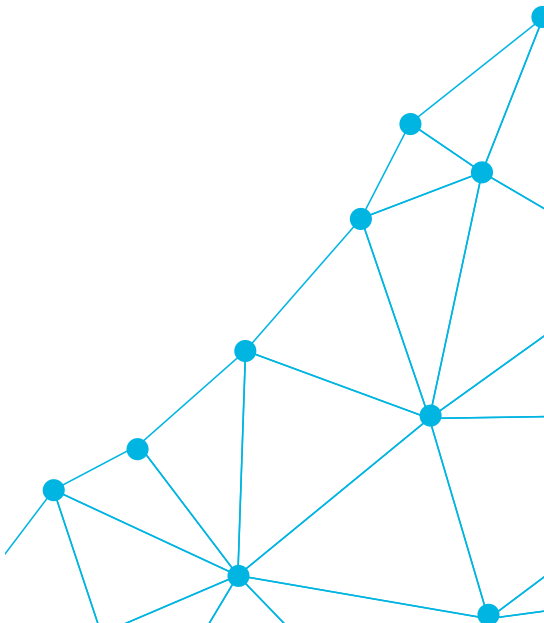
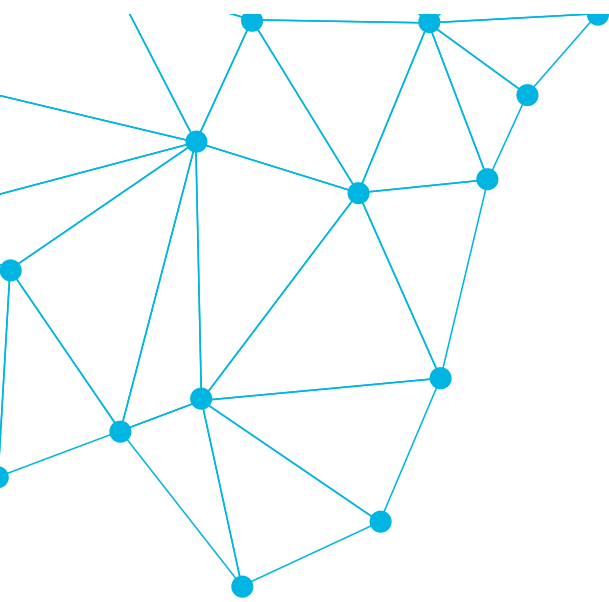
+135
working hours
a year



For each \$3,000 a year in added income that children in a poor family receive before age 6...

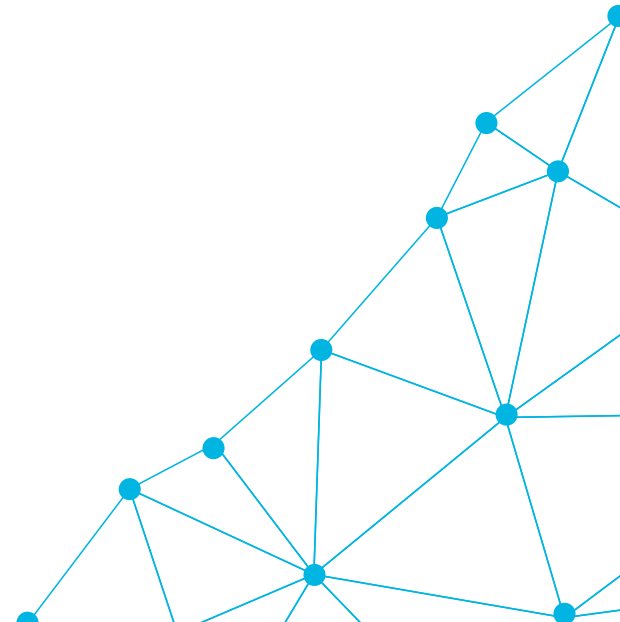
...their working hours rise by 135 hours a year between ages 25 and 37, and their annual earnings rise by 17%.*

Child Benefits

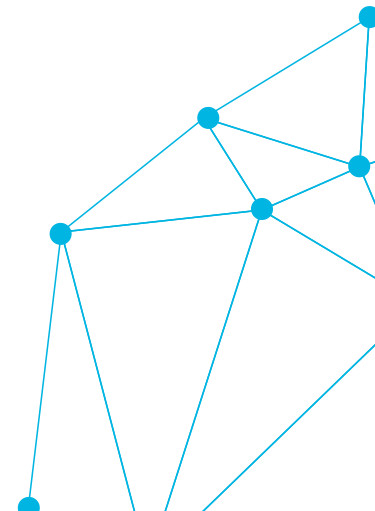
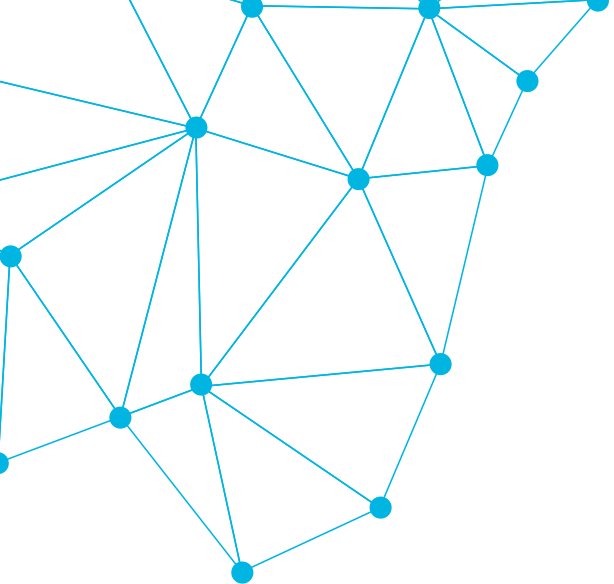


Additional benefits

- Children's health improved
- Increase in children's educational attainment
- Low administrative costs



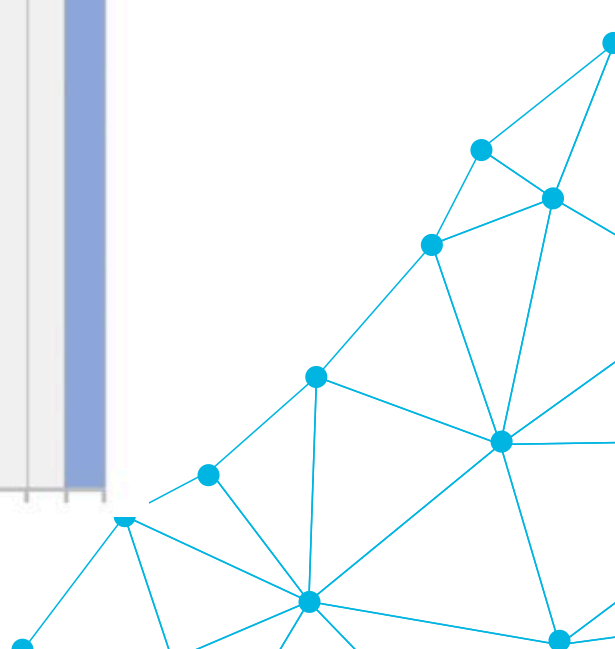
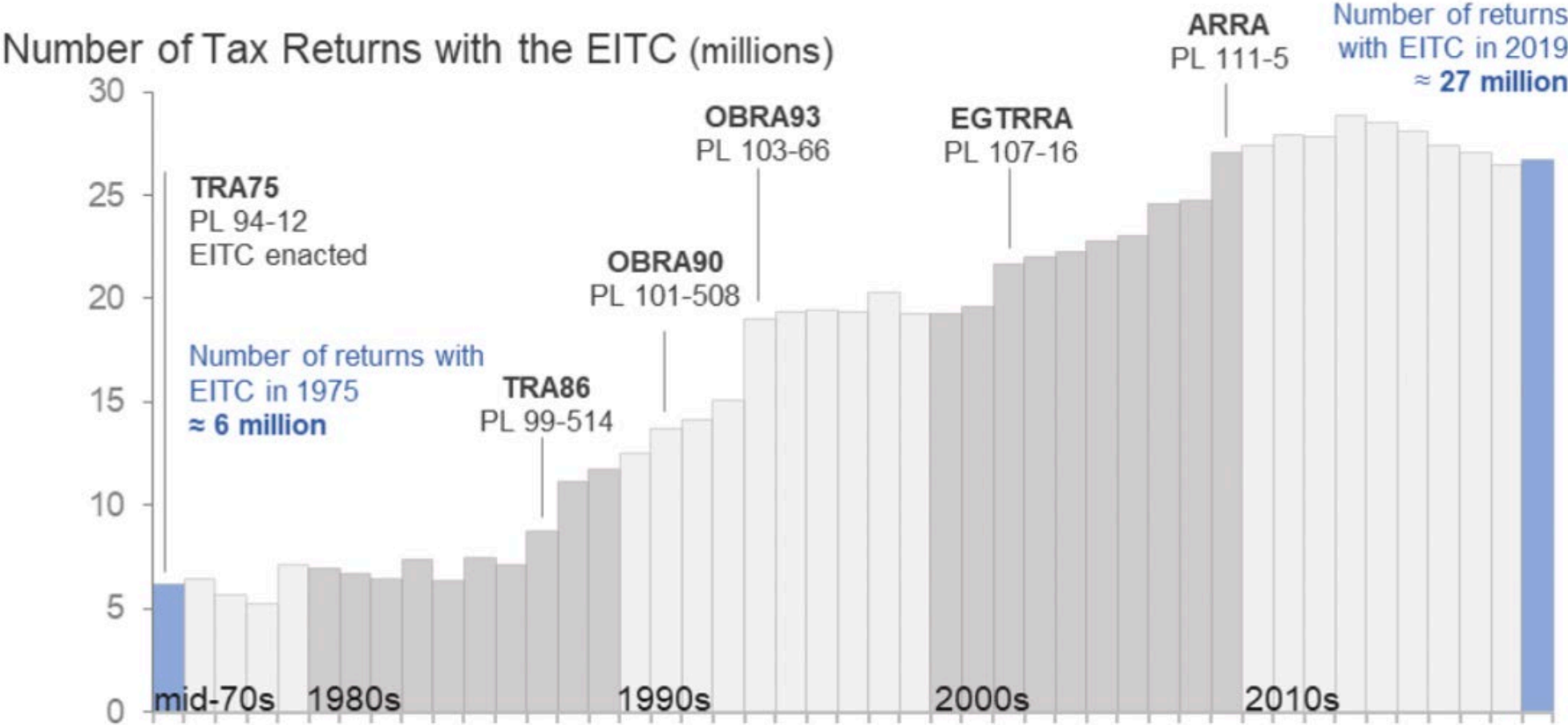
History of the EITC?



The Origins

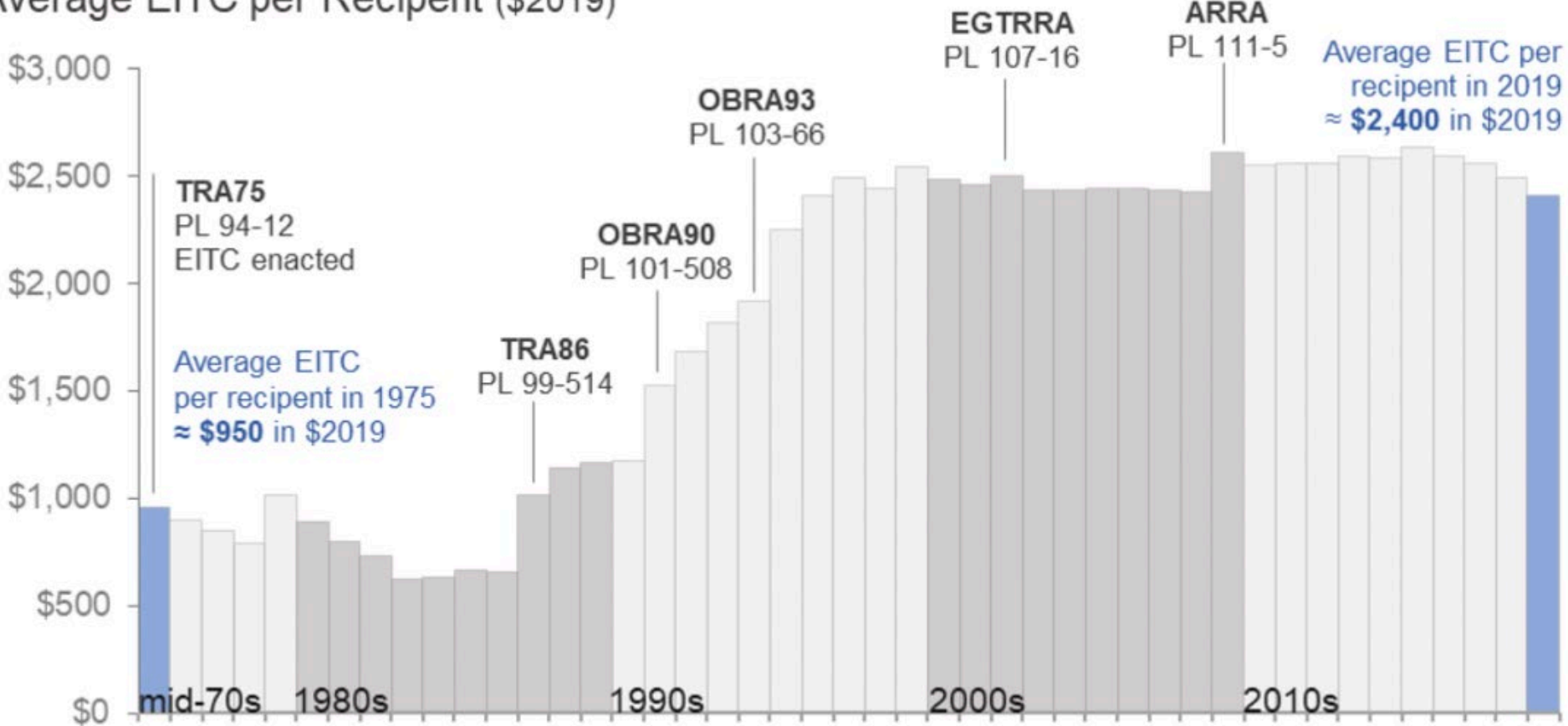
- 1972 Family Assistance Plan, modeled on the negative income tax, fell apart. Key opponent (Senator Russell Long from Mississippi) instead proposed EITC.
- The desire to maintain structural racism in the labor market was a significant factor. As Representative Phil Landrum, a Georgia Democrat, noted: “There’s not going to be anyone left to roll those wheelbarrows and press those shirts.”
- Opponents to FAP ended up proposing and supporting the EITC – deliberate prioritization of work

Number of Beneficiaries



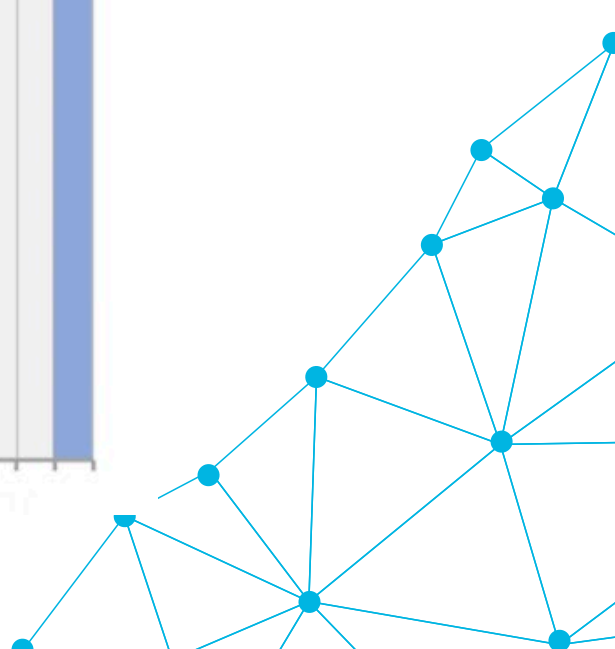
Average Benefit Changes

Average EITC per Recipient (\$2019)



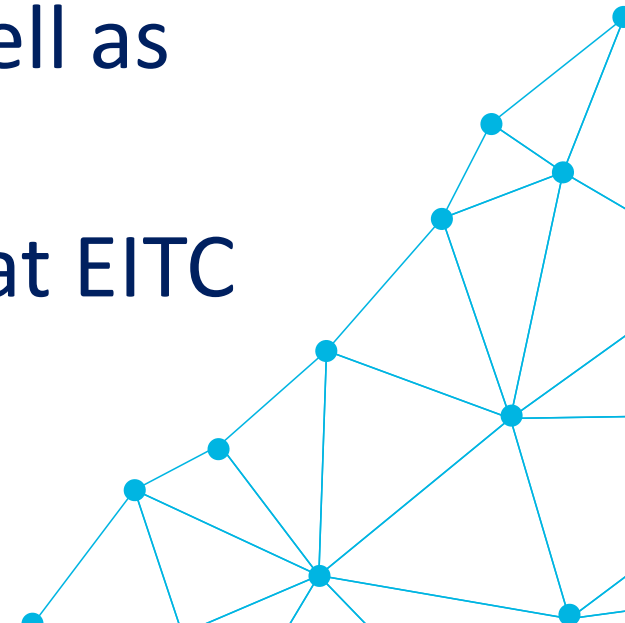
Average EITC per recipient in 2019 ≈ \$2,400 in \$2019

Source: EITC Recipient Data, U.S. Department of the Treasury, Internal Revenue Service, 2019



Expansions

- Expansions of the EITC were favored over expansions to the minimum wage, with EITC pitted against minimum wage
- EITC broadly supported by both Democrats and Republicans (compared to other benefits), as well as businesses, employers, tax prep industry
- Recently, growing view among conservatives that EITC is a form of welfare (“Lucky Duckies”)



Compliance Costs: FAFSA Assistance by H&R Block

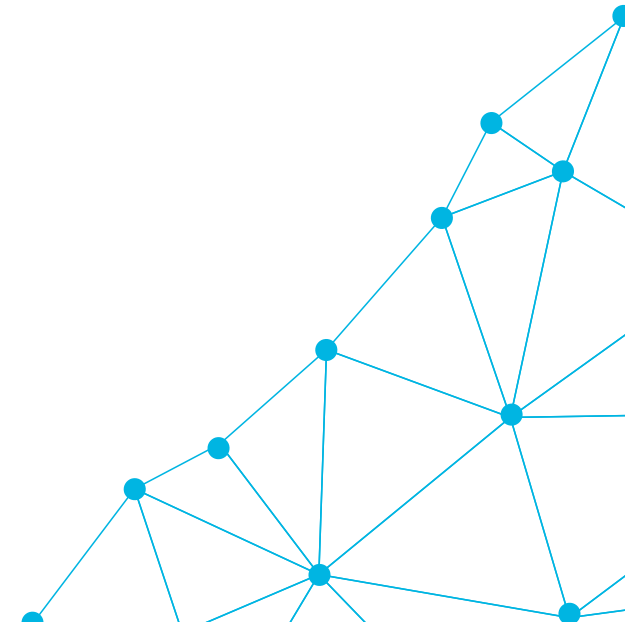
- Initially, EITC receipt was effectively automatic for those completing tax returns
- This changed in the 1990s
- Following 1990s expansion, the emerging view that EITC recipients were “Lucky Duckies” influenced the program’s administration – i.e. increased auditing



Current Problems with the EITC

Low Take-up

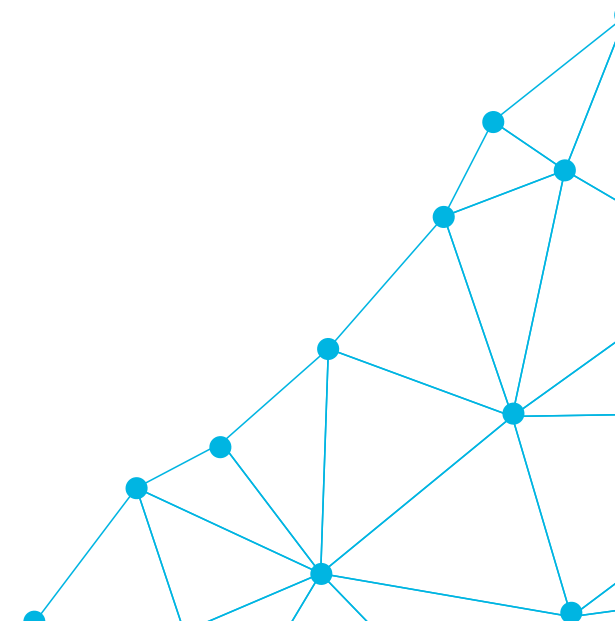
- 78-80 percent





Confusing for Eligible Populations

- Concealed within the tax system
- Design is so complicated it causes lots of errors (but even those who receive it erroneously are still low income)
- Audits (1/3 of IRS audit resources directed towards EITC)





How to move forward





Making the EITC more Accessible

- Draw on existing administrative data
- Auto enrollment
- Simplify the design
- More outreach

