

# TAX & BUDGET

## FACT SHEET

# The EITC and the Refundable Child Tax Credit Are Extremely Important to Women's Economic Security

January 2014

*Refundable tax credits for low- and moderate-income working families, including the federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), provide a significant economic boost to women and their families.*

### Refundable tax credits keep women and their families out of poverty.

- In 2012, the EITC, which helps low- and moderate-income workers and their families, lifted the incomes of almost 5.5 million people above the poverty line, including over 1.5 million adult women and nearly 3 million children.<sup>1</sup>
- In 2011, the EITC and the CTC together lifted the incomes of almost six million people, over half of whom were children, above the poverty line.<sup>2</sup>

### These tax credits provide highly effective work incentives.

- Refunds from the EITC and CTC are only available to people who earn income from work. They offset the other taxes that families pay and boost the wages of hard-working parents.
- Considerable research has demonstrated the EITC's effectiveness at encouraging work, especially among low-income single mothers.<sup>3</sup>
  - Research highlighted by the Center on Budget and Policy Priorities shows that the EITC contributed as much to the increases in work among single mothers after the mid-1990s as the welfare reforms enacted in that period.<sup>4</sup>

### The EITC and the CTC put money in the pockets of women supporting their families on low wages.

**Jessica, a single mom with three kids, makes \$14,500 per year working full time in a child care center.**

- Jessica would be eligible for an EITC worth \$6,044 and a \$1,725 CTC.

**Nicole and David, a married couple who both work full time at minimum wage jobs, support their two children with their combined annual income of \$29,000.**

- Nicole and David would be eligible for an EITC worth \$4,081 and a \$2,000 CTC.

In addition, women who benefited from EITC expansions during the 1990s also experienced higher wage growth in later years than similarly situated women.<sup>5</sup>

- Moreover, by encouraging employment among working-age women, the EITC has the additional effect of boosting their Social Security retirement benefits, which are critical to lowering women's poverty in old age.<sup>6</sup>

### The additional resources provided by refundable tax credits improve health and education outcomes for children.

- Research reviewed by the Center on Budget and Policy Priorities also shows that the financial

boost provided by refundable tax credits such as the EITC and the CTC improve outcomes for young children in low-income households.

- o The school performance of low-income children whose families received the EITC and CTC improved on a variety of measures, including test scores.<sup>7</sup>
- o Low-income children whose families receive refundable tax credits are more likely to attend college and have higher earnings.<sup>8</sup>
- o EITC improvements have been linked to improved infant well-being and health.<sup>9</sup>
- o Children in households that receive the EITC appear likelier to avoid early disabilities and illnesses linked to child poverty, which may also increase their earning capacity as adults.<sup>10</sup>

## The EITC provides targeted benefits to families who need help making ends meet.

- If workers' income declines because of periods of unemployment or unpaid leave in a particular year, the EITC can help soften the financial impact of these economic "shocks."
- About 61 percent of those who received the EITC between 1989 and 2006 did so for only a year or two at a time.<sup>11</sup>

## Refundable tax credits like the CTC and the EITC have been repeatedly proven effective in keeping women and their families out of poverty, encouraging paid work, and improving low-income families' economic well-being.

- Particularly when combined with antipoverty policies like increases to the minimum wage, refundable tax credits play an important role in increasing the economic security of women and their families.<sup>12</sup>

### What Are the Earned Income Tax Credit and Child Tax Credit?

The **Earned Income Tax Credit (EITC)** is a refundable federal tax credit for low- and moderate-income workers. It is designed to encourage and reward work and strengthen families by helping hard-working parents lift their families out of poverty.

The amount of the EITC depends on income, number of children, and marital status. In 2013, the EITC is worth a maximum of \$6,044.

The **Child Tax Credit (CTC)** is a federal tax credit, worth up to \$1,000 per child, designed to help working parents meet the costs of raising children. It is partially refundable, so that parents with low or moderate earnings who pay other taxes but have little or no federal income tax liability also can benefit from the credit.

Parents must have earnings to receive the CTC as a refund. They can receive 15 percent of their earnings above \$3,000 as a refund, up to the \$1,000 per child limit. A single mother with three children earning \$14,500 in a full-time minimum wage job is eligible for a credit of \$1,725 (15% x \$11,500 [\$14,500 - \$3,000]) in 2013.

1 National Women's Law Center calculations based on U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement (using CPS Table Creator), <http://www.census.gov/cps/data/cpstablecreator.html> (last visited Jan. 23, 2014).

2 Thomas Hungerford & Rebecca Thiess, *The Earned Income Tax Credit and the Child Tax Credit: History, Purpose, Goals, and Effectiveness* 8, ECON. POLICY INST. (September 25, 2013) (based on authors' analysis of 2012 Current Population Survey data), <http://www.epi.org/files/2013/The-Earned-Income-Tax-Credit.pdf>.

3 See Chuck Marr, Jimmy Charite & Chye-Ching Huang, *Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds* 3 & n.9, CTR. ON BUDGET & POLICY PRIORITIES, (April 2013), <http://www.cbpp.org/files/6-26-12tax.pdf>.

4 See *id.* at 3-4 & n.10.

5 See *id.* at 4 & n.11.

6 See *id.* at 4 & n.12.

7 See *id.* at 6 & nn.22-23.

8 See *id.* at 7 & n.26.

9 See *id.* at 5 & nn.17-19.

10 See *id.* at 7-8 & n.29.

11 See *id.* at 10-11 & fig. 4.

12 See, e.g., National Women's Law Center, *The Minimum Wage and the EITC: Complementary Strategies Helping Women Lift Their Families Out of Poverty* (July 2013), <http://www.nwlc.org/sites/default/files/pdfs/minimumwageandeitc-2.pdf>.