



TAX & BUDGET

THE EARNED INCOME TAX CREDIT AND THE REFUNDABLE CHILD TAX CREDIT ARE CRITICAL TO WOMEN'S ECONOMIC SECURITY

AMY MATSUI & NASHAWN JOHNSON

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 2015, the EITC, together with the CTC, lifted the income of 9.8 million people above the poverty line, including 5.1 million children.¹
- These credits keep millions of women out of poverty – the EITC alone lifted more than 1.4 million women above the poverty line in 2015.²

These tax credits provide highly effective work incentives, especially for women.

- 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.³
 - Research highlighted by the Center on Budget and Policy Priorities shows that the EITC expansions enacted in the 1990s contributed more to the increases in work among single mothers than the welfare reforms enacted in the period.⁴
 - In addition, research shows that women who were eligible to benefit the most from EITC expansions of the 1990s also experienced higher wage growth in later years than other similarly situated women did.⁵

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 2016, the EITC was worth a maximum of \$6,269.

The **Child Tax Credit (CTC)** is a federal tax credit, worth up to \$1,000 per child, designed to help working parents with 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.

- The EITC and CTC are especially important for women of color, who make up a disproportionately large share of the low-wage workforce.⁶
- 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.⁷



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 improves outcomes for young children in low-income households. For example:
 - o Income-boosting policies like the EITC and CTC are linked to improved school performance for low-income children on a variety of measures, including test scores.⁸
 - o Low-income children whose families receive refundable tax credits are more likely to attend college and have higher earnings.⁹
 - o EITC increases have been linked to improved infant well-being and health.¹⁰

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.¹¹

Because refundable tax credits like the CTC and the EITC keep women and their families out of poverty, encourage paid work, and improve low-income families' economic well-being, policymakers should consider expanding refundable tax credits for families, including by making the Child and Dependent Care Tax Credit (CDCTC) refundable.

As policymakers consider changes to the federal tax code, they should seriously contemplate improving family tax credits—including the EITC, CTC and CDCTC—by:

- Increasing the CTC's benefits to reflect the increased costs of raising very young children and lowering the earned income threshold for the refundable credit;
- Expanding the EITC for childless workers, as well as making the expanded credit available to younger and older workers than under current law.
- Improving the CDCTC, which helps families cover child or dependent-related care expenses needed to work, by making it refundable and expanding its benefits for lower- and moderate-income families. If made refundable, the CDCTC would provide critical tax assistance to one million additional families.¹²

However, any improvements to family tax credits must be evaluated in the context of the larger tax reform package in which they are proposed. Even the most generous improvements would be insufficient to counterbalance the harm that a tax reform proposal whose benefits overwhelmingly inure to the wealthy and corporations would cause to working families.

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

- Jessica, a single mom with three kids, makes \$14,500 per year working full time in a child care center. She would be eligible for an EITC worth \$6,269 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. They would be eligible for an EITC worth \$4,417 and a \$2,000 CTC.

The refundable CTC is calculated as 15 percent of parents' earnings above \$3,000, up to the \$1,000 per child limit. In the example above, Jessica would be eligible for a credit of \$1,725 (15% x \$11,500 [\$14,500 - \$3,000]) in 2016, which she could receive as a refund.



- ¹ Emily Horton, *EITC, CTC Together Lifted 9.8 Million out of Poverty in 2015*, CTR. ON BUDGET & POL'Y PRIORITIES BLOG, (Oct. 19, 2016) <https://www.cbpp.org/blog/eitc-ctc-together-lifted-98-million-out-of-poverty-in-2015>.
- ² NWLC calculations based on U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement 2016 (using CPS Table Creator), available at <http://www.census.gov/cps/data/cpstablecreator.html>.
- ³ CHUCK MARR, CHYE-CHING HUANG, ARLOC SHERMAN, & BRANDON DEBOT, CTR. ON BUDGET & POL'Y PRIORITIES, *EITC AND CHILD TAX CREDIT PROMOTE WORK, REDUCE POVERTY, AND SUPPORT CHILDREN'S DEVELOPMENT, RESEARCH FINDS 5* (2015), available at <http://www.cbpp.org/research/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens-development>.
- ⁴ *Id.* at 5-6.
- ⁵ *Id.* at 6.
- ⁶ For example, women of color make up 33 percent of the low-wage jobs projected to have the largest job growth over the next decade, though they only make up 17 percent of the overall workforce. KATHERINE GALLAGHER ROBBINS & JULIE VOGTMAN, NAT'L WOMEN'S LAW CTR., *LOW-WAGE JOBS HELD PRIMARILY BY WOMEN WILL GROW THE MOST OVER THE NEXT DECADE 2* (2016), available at <https://nwlc.org/wp-content/uploads/2016/04/Low-Wage-Jobs-Held-Primarily-by-Women-Will-Grow-the-Most-Over-the-Next-Decade.pdf>.
- ⁷ CTR. ON BUDGET & POL'Y PRIORITIES, *supra* note 3, at 7.
- ⁸ *Id.* at 8-9.
- ⁹ *Id.* at 9-11.
- ¹⁰ *Id.* at 7-8.
- ¹¹ *Id.* at 16.
- ¹² JEFFREY ROHALY, TAX POL'Y CTR., *REFORMING THE CHILD AND DEPENDENT CARE TAX CREDIT 2* (2007), available at <http://www.taxpolicycenter.org/publications/reforming-child-and-dependent-care-tax-credit/full>.

