Expanding Refundable Tax Credits In Response to COVID-19

The spread of COVID-19 has unleashed a health and economic crisis of unprecedented scope. Women, and especially women of color, have borne the brunt of the economic impact. Though the overall unemployment rate has dropped in recent months, nearly 1 in ten Black women (9.2 percent) and Latinas (9 percent) remained unemployed in October. And millions of women and families have lost employment income, face food insufficiency, and are behind on their rent or mortgage payments since the onset of the pandemic. Boosting their incomes will be critically important to ensure their well-being, enable them to meet basic needs, and stabilize the economy. In addition to increasing nutrition assistance, housing assistance, unemployment insurance, and other income supports, lawmakers must expand refundable tax credits to help mitigate the economic devastation of COVID-19 and ensure an equitable recovery.

Refundable Tax Credits Increase Well-Being and Reduce Poverty for Women and Families

Economic insecurity is a common experience for the vast majority of American families. Many women cannot provide for their families on their paychecks alone. While financial precarity is a common story, it is felt unevenly, with women – especially women of color, women with disabilities, older women, LGBTQ individuals, and immigrant women – disproportionately likely to experience poverty and hardship.

Refundable federal income tax credits like the EITC and CTC are an important tool to help families make ends meet and reduce the harsh effects of gender and racial inequity in our economy.

- If counted in the official poverty measure, the EITC would have lifted the incomes of more than 4.5 million people above the federal poverty level in 2017. This includes more than 1.2 million women 18 and older, more than 2 in 3 of whom were women of color, and nearly 2.5 million children, nearly 3 in 4 of whom were children of color.
- If counted in the official poverty measure, the CTC would have lifted approximately 4.3 million people out of poverty in 2018, including about 2.3 million children.
- The boost in income provided by refundable tax credits like the EITC and CTC improves health and educational outcomes for women and their children. Research shows that the added income from tax credits makes the biggest difference to the youngest and poorest children.
- Because women of color make up a disproportionate share of poorly paid workers, the EITC and CTC especially benefit women of color.
Refundable Tax Credits Are Effective Anti-Recessionary Measures

In general, when people with low incomes receive tax refunds, they spend them quickly because they need to pay bills, rent, or for other necessities. For example, even when the economy is not in crisis, families (and especially families with lower incomes) receiving tax refunds increase their spending and reduce their credit card debt. When people’s paychecks shrink or disappear during economic crises, they need additional income to make ends meet even more.

During the Great Recession, Congress expanded the EITC and CTC as part of the American Recovery and Reinvestment Act (ARRA) of 2009. The Congressional Budget Office (CBO) estimated that ARRA’s expansions of these and similar tax credits generated between 60 cents and $1.50 in economic activity per dollar of cost. Along with direct payments and other benefits (such as unemployment insurance and food assistance), refundable tax credits had a demonstrated positive impact on women and families.

- In particular, it has been estimated that, if counted in the official poverty measure, the expansions to the EITC and CTC in ARRA would have lifted 1.6 million people above the poverty line in 2009.
- A 2014 report showed that the tax and other direct assistance, along with increased benefits, provided by ARRA offset much of the loss in low- and moderate-income families’ market-based income.

Long-Overdue Improvements to the EITC and CTC Would Help Those Hardest-Hit by the Recession

While the EITC and CTC have helped increase the economic security and well-being of millions of families, improvements to these credits are long overdue. For example:

- **The EITC for workers not claiming children should be expanded.** Under current law, working people with very low incomes who don’t have children or whose children don’t live with them are only eligible to claim an extremely small EITC. For tax year 2020, the maximum EITC for these workers was about $540. And working people under age 25 and over 64 are ineligible to claim the credit. Policymakers should:
  - Increase the amount of the credit;
  - Increase the income limits for eligibility to claim the credit; and
  - Expand the age range for eligible workers, from 25-64 to 21-67.

- **The EITC expansions in the HEROES Act would especially benefit women of color.** The House of Representatives passed COVID relief legislation in May (and again in October) that expanded the EITC for workers not claiming children. These expansions would especially benefit younger workers (who have seen much higher unemployment rates) and essential workers. In addition, these expansions are estimated to help women of color, including:
  - 330,000 Asian women;
  - 1,374,000 Black women; and
  - 1,493,000 Latina women.

- **The CTC needs to be improved so that all low- and moderate-income families benefit.** The 2017 tax law left more than 27 million children in low- and moderate-income working families with less than the full $1,000 per-child increase. This is both because the 2017 law capped the refundable portion to the CTC (at $1,400 in 2019) and because families cannot receive a refund until they have $2,500 in earned income. Black and Hispanic children, and especially very young children are disproportionately likely to not receive the full credit amount. In addition, the 2017 tax law requires a Social Security Number (SSN) for children claimed for the CTC. This precludes about 1 million children, overwhelmingly “dreamers,” from receiving the credit. Policymakers should:
  - Remove the cap on the refundable CTC amount;
  - Make the CTC fully refundable by eliminating the earned income requirement;
  - Eliminate the requirement that children claimed for the CTC have an SSN; and
  - Increase the amount of the CTC for young children.
• The CTC expansions in the HEROES Act would especially benefit children of color and women of color. Estimates show that the HEROES Act expansions would dramatically reduce the child poverty rate, especially for Black children. In addition, just making the CTC fully refundable, as the HEROES Act would do, would benefit roughly 6 million women of color, including:
  o Over 1.9 million Black women;
  o Over 3.3 million Latinas; and
  o Over 390,000 Asian women.

Other tax credits for families, like the Child and Dependent Care Tax Credit, should be made refundable, since they are otherwise unavailable to families with low incomes. And the EITC and CTC should be increased for Puerto Rican families. (Puerto Rican families with one or two children are ineligible for a CTC and Puerto Rican families that do receive the CTC often receive a far smaller amount than families with children on the mainland. Furthermore, Puerto Rican families are ineligible for the federal EITC. Puerto Rico recently instituted its own Commonwealth-funded EITC, but the maximum value for a family with two children is currently $1,500, compared to $5,830 for the federal EITC.) The HEROES Act also includes these critical improvements.

Policymakers Should Expand Refundable Tax Credits In the Next COVID Relief Package

Congress must expand refundable tax credits to ensure an equitable recovery. As we head into a difficult winter with COVID case surges and additional closures predicted, it is likely that the country will still be experiencing the economic impacts of this crisis into next year. Improving these tax credits would provide women and families with critical support when they file their taxes in early 2021.

For too long, Congress and the administration have failed to build on the success of refundable tax credits, despite clear evidence that they help struggling women and families make ends meet. The COVID-19 crisis and its devastating impact on women and families should be a wake-up call to immediately improve refundable tax credits both to address the current crisis and put people on a sounder footing when it ends.

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