



U.S. HOUSE OF REPRESENTATIVES

# COMMITTEE ON THE BUDGET

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## Opportunities to Improve the Earned Income Tax Credit

While the evidence is clear that the Earned Income Tax Credit (EITC) is a major positive force for low-income working families in this country, it is not perfect. Opportunities exist to make this program work even more effectively and help more struggling low-wage workers. Numerous proposals have been introduced by both Democratic and Republican lawmakers and various think tanks to enhance the EITC and its benefits to working Americans.

### Improve EITC Participation Among Eligible Taxpayers Through More Targeted Outreach

Lack of participation by eligible workers who deserve this benefit is a significant concern. The IRS estimates about 21 percent of all taxpayers eligible for the EITC do not claim the credit they have earned. While the IRS provides promotional materials and marketing tools online to inform about the EITC, additional outreach efforts would help increase the EITC participation rate. Research shows eligible taxpayers less likely to claim the credit include those who live in rural areas, are self-employed, do not have qualifying children, do not speak English well, are grandparents, or recently changed their filing status. Research also shows EITC participation is lower in communities with moderately sized immigrant populations, due perhaps to less robust social networks or other factors that may limit awareness of the credit. On the other hand, EITC participation is higher in areas with more tax preparers, who may promote greater local awareness of the credit. Providing federal grants to non-profits to conduct EITC outreach programs targeting these groups of eligible taxpayers would increase the program participation rate. In recent years, Iowa and Virginia have provided state grants to local non-profits to reach out to eligible workers about claiming the EITC.

### Expand the EITC Benefit Broadly

Given the EITC's proven positive outcomes, both Democrats and Republicans have proposed expanding this benefit for all household types. Under current law, the maximum credit amounts range from \$519 for a childless household to \$6,431 for a household with three or more children in 2018. Maximum income thresholds range from \$15,270 for an unmarried childless household to \$54,884 for a married household with three or more children in 2018. Ideas for improvement include increasing the maximum credit amounts and the eligibility income thresholds for all household types by varying levels. For example, a proposal by Senator Sherrod Brown and Representative Ro Khanna ([S. 1849](#) and [H.R. 3757](#)) would increase the

credit's value for all household types and substantially strengthen the EITC for childless workers. Their proposal would nearly double the maximum credit for workers with children and raise the maximum credit for childless workers to \$3,000, benefitting 47 million households. The main goal of these proposals is to boost the incomes of working-class Americans, which have largely stagnated over the past three decades, and magnify the program's proven benefits to improve the lives of working Americans who need help.

## **Strengthen the EITC Benefit for Childless Workers**

The EITC as currently structured leaves behind workers with no children. Unlike the EITC for families with children, the EITC for childless workers has effectively remained unchanged from its 1993 formula, except for annual inflation adjustments, providing little or no benefit to low-income childless workers. For example, a single childless worker working full time at a job paying \$8.57 an hour (average state minimum wage rate) would earn a \$487 credit in 2018. The credit becomes zero for single childless full-time workers earning more than \$14.68 an hour. The lack of a meaningful EITC benefit for childless workers has worsened inequity in the tax code: childless workers are the sole group that the federal tax system taxes deeper into poverty. One study in 2016 estimated about 7.5 million low-income childless adults are taxed into or deeper into poverty by federal taxes. There has been bipartisan support to strengthen the EITC for childless workers by making it available to more single childless workers and increasing the benefit amount.

The Brookings Institution estimates that doubling the size of the credit for childless workers and the pace at which the credit phases in and out, combined with lowering the eligibility age to 21, would boost the value of the credit for 8 million filers and extend eligibility to 6.4 million more taxpayers. Experts recommend focusing on improving the credit phase-in rate and maximum value, because these are the key features that most likely affect an individual's decision to enter the labor force. Strengthening the EITC for childless workers and lowering the eligibility age (discussed further below) would have several important benefits beyond raising these workers' incomes. Leading experts believe that an expanded credit would help address some of the challenges that less-educated young people (particularly young African-American men) face, including low and falling labor-force participation rates, low marriage rates, and high incarceration rates.

## **Help People at the Beginning and at the End of Their Working Lives**

The EITC is not available to childless workers under age 25 and over age 64, leaving out a significant portion of younger and older workers struggling to make ends meet. When Congress established the EITC for childless workers in 1993, it set the minimum eligibility age at 25 to avoid giving benefit to college and graduate students who depend primarily on their parents for support. As a result, many low-income workers under age 25 who cannot rely on their parents

for support are denied benefits. Lowering the eligibility age to 21 would provide the program's proven benefits, including promoting work, alleviating poverty, and improving health outcomes, to low-income young people just starting out. Workers over age 64 are disadvantaged by an inconsistency in the rules between the EITC and Social Security. When the EITC for childless workers was established, the retirement age for receiving a full Social Security benefit was 65. The full retirement age is now 66, and it will rise to 67 by 2027. Raising the EITC eligibility age to 67 would increase protection against financial hardship for older low-income workers who are not yet eligible for a full Social Security benefit. It would benefit about additional 362,000 workers. There has been bipartisan support for lowering the age floor to 21 and raising the age ceiling to 67. Some have proposed eliminating the age tests and making the EITC benefit available to all income-eligible non-dependent workers who are not full-time students.

### **Provide Periodic Payment of the EITC Benefit**

Providing an option to receive the EITC benefit periodically throughout the year would increase earnings for working-class families and help them avoid falling behind without spending a lot more public money. A focus group conducted by the Institute for Family Studies in 2016 found that working-class individuals in southern Ohio, who worked in occupations such as child care, warehousing, food service, and health care administration, would prefer to have higher paychecks during the entire year rather than a single adjustment at tax season. These individuals stated receiving large tax refunds didn't address their earnings gap, because they have trouble making ends meet financially and the refunds just catch up later to pay prior expenses. Many other countries, including France, Australia, Ireland, and the United Kingdom, have successfully implemented periodic payments of similar credits. A recent pilot project in Chicago showed that providing half of expected EITC in four payments ahead of tax time greatly improved the financial stability of its participants.

### **Make the EITC Easier for Taxpayers to Understand and the IRS to Administer**

The EITC rules and formulas are complex, which make it difficult for taxpayers to comply with them and the IRS to administer the program. Most EITC errors by taxpayers relate to incorrectly claiming children for the credit, and this often stems from confusion about residency rules. Simplifying the program rules and formulas would reduce erroneous claims and address compliance concerns. Bipartisan solutions to simplify the program include proposals that would make qualifying child rules easier to understand for families where parents are separated or divorced, as well as for those living in multigenerational households. For example, after enactment of a first round of EITC simplifications in 2001 led to a 13 percent drop in overpayments, the George W. Bush Administration proposed to further simplify the complicated rules governing how separated parents can claim the EITC in the mid-2000s. Most other proposals to simplify the program emphasize two key strategies: (1) consolidating the

EITC and Child Tax Credit, along with the tax code’s litany of other exceptions, into a smaller number of simple credits, and (2) distinguishing credits based on children from credits related to work by, for example, creating a simpler and more generous refundable credit related to earnings. Congress could further help reduce EITC errors by giving the IRS the needed legislative authority and funding to accomplish this goal. Specifically, the IRS needs Congressional approval to strengthen its oversight of commercial tax preparers (the majority of EITC errors occur on commercially prepared returns). In addition, providing adequate funding for the IRS would help the IRS enforce compliance with the EITC rules and other areas of the tax code. IRS funding has eroded by 18 percent since 2010, adjusted for inflation. Other EITC error-reduction proposals include giving Treasury “correctable error” authority to enable the IRS to automatically correct erroneous claims detected through reliable data sources.

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