The Earned Income Tax Credit: A Time-Tested Two-Generation Strategy for Poverty

The Earned Income Tax Credit is a federal tax credit for low- and moderate income families that encourages and rewards work. The credit was created in 1975 under President Ford. Because of its remarkable ability to reduce poverty and promote family health and self-sufficiency, it has been expanded since then by President Reagan and all subsequent presidents.

Only families that earn income through work qualify for the EITC. By offsetting federal income and payroll taxes these families pay, the EITC lifts over 6 million Americans (and over 70,000 Utahns) out of poverty every year.

Since its creation in 1975, the EITC has been among the most studied federal anti-poverty initiaitves. Dozens of academic studies looking at recipients across the nation and over time have found enormous beneficial effects for both parents and their children.

For parents, the EITC's empirically demonstrated effects include:

- increased employment
- increased earnings from work
- reduced maternal smoking
- increased retirement security in later years, especially for single mothers

For children, the EITC's benefits include:

- Improved child and maternal health
- better K-12 school achievement
- increased future earnings when these children grow up and enter the workforce
- increased intergenerational social mobility

For the entire family, the EITC's impacts include:

- reduced poverty
- lower rates of public health insurance
- higher rates of private health insurance

A list of academic studies and their findings is available from Voices for Utah Children.

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STATE EITCs OFFSET REGRESSIVE EFFECTS OF INCOME, SALES AND PROPERTY TAXES

Twenty-four states have created state EITCs to supplement and enhance the impact of the federal program. State EITCs work similarly to and leverage the federal EITC. States rely heavily on taxes like sales, gas and property taxes, which hit lower-income families harder (as a share of income) than wealthier ones. State EITCs reduce the taxes paid by these working families, allowing them to keep more of what they earn.

24 STATES HAVE A STATE EITC

(Percentage of federal EITC)

CT - 10%	ME - 5%	OH -5%
CO - 10%	MD - up to 50%	OK - 5%
DE - 20%	MA - 15%	OR - 6%
IL - 10%	MI - 6%	RI - 25%
IN - 9%	MN - 33%	VT - 32%
IA - 14%	NE - 10%	VA - 20%
KS - 17%	NJ - 20%	WI - 1 child 4%,
LA - 3.5%	NM - 10%	2 children 11%
	NY - 30%	3 children 34%

Working families with children earning up to $39,000 to $52,000 (depending on marital status and the number of children) generally can qualify for a state EITC, but the largest benefits go to families with annual incomes between about $10,000 and $23,000.

AN INNOVATIVE PROPOSAL: Using a State EITC to Promote College Savings and Incent Post-Secondary Education in Utah

An innovative proposal under discussion for Utah combines two key elements proven to reduce intergenerational poverty:

- Tax credit equal to 5% of the federal EITC, which means a maximum credit of about $300
- State match up to $100 for filers who deposit their credit into the Utah Educational Savings Plan.

STATE EITCs WORK

Several studies have focused specifically on the effects of state-level EITCs and have found the following benefits attributable just to the state match:

- improvements in child health
- increased birth weights
- reduced maternal smoking
- lower rates of public health insurance
- higher rates of private health insurance
- greater upward mobility

One study cited by the Aspen Institute documents that low- and moderate-income children with dedicated college savings as small as $1-$499 are three times more likely to attend college and four times more likely to graduate from college than those without.[2] Such a hybrid program could allow Utah to benefit from the combined effects of these two ideas that have proven so effective when applied separately.

EITC'S HISTORY OF SUPPORT ACROSS THE POLITICAL SPECTRUM

1975: Signed into law by President Gerald R. Ford.

1986: Expanded at the initiative of President Ronald Reagan as part of his historic Tax Reform Act. At the bill signing on October 22, 1986, President Reagan called it "the best anti-poverty bill, the best pro-family measure and the best job-creation program ever to come out of the Congress of the United States."

1990: President George H.W. Bush increased the size of the EITC and added a supplemental credit amount for families with two or more children.[3]

1993: President Bill Clinton increased the size of the tax credit and also expanded eligibility to childless workers.[4]

2001: President George W. Bush expanded eligibility for low-income working taxpayers and especially for military personnel, and increased benefits for married families with children.

2009: President Barack Obama expanded the EITC for married couples and families with three or more children.

2014: House Budget Committee Chair Paul Ryan proposed expansion of the EITC in a speech at the American Enterprise Institute, saying: "This is one of the few programs that have shown results. It encourages people to work by increasing the rewards of work."[5]

STRONG CONSERVATIVE SUPPORT FOR THE EITC

- Glenn Hubbard, Dean of Columbia Business School and Chairman of the Council of Economic Advisers under President George W. Bush: "EITC truly is our best option for supporting work."[6]

- Michael Strain, Resident Scholar at the American Enterprise Institute: "Conservativism places a uniquely strong emphasis on working, on earned success and rewarding those who contribute to the broader society through their work. The EITC does exactly that."[7]

- Prof. David Neumark, director of the Center for Economics and Public Policy at UC-Irvine and a leading academic researcher on the minimum wage, wrote in the Wall Street Journal on July 6, 2014 arguing that expanding the EITC would more effectively help families in need than increasing the minimum wage.[8]

- The Hoover Institution writes that "the EITC is probably the most cost-effective anti-poverty program the federal government operates."[9]

FEDERAL EITC FACTS FOR UTAH

The federal Earned Income Tax Credit was created under President Ford and expanded under Presidents Reagan, Bush, and all subsequent presidents.

- 193,551 Utah households received the federal EITC for 2013, about 18% of tax filers.[10]
- Utah's EITC households include 218,500 workers and 291,000 children.[11]
- The EITC brought about $450 million into Utah's economy in 2013.[12]
- Thousands of veterans and military families are helped.[13]
- Were it not for the EITC, an additional 70,828 Utahns would fall below the poverty line, including 31,835 children.[14]

Additional data about the EITC's effects in Utah is available for each county, city, and legislative district at the following websites:

- http://www.eitc.irs.gov/EITC-Central/eitcstats
- http://www.brookings.edu/research/interactives/eitc

Endnotes

[1] IRS: http://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit/States-and-Local-Governments-with-Earned-Income-Tax-Credit
[2] Aspen Institute Study http://ascend.aspeninstitute.org/pages/childrens-savings-accounts
[3] http://taxpolicycenter.org/publications/url.cfm?ID=1000524
[4] http://www.nber.org/papers/w8078
[5] American Enterprise Institute: http://www.aei.org/publication/expanding-opportunity-in-america-paul-ryans-new-policy-reforms-for-reducing-poverty/
[6] Ideas from the Right: Conservative Approaches to Tax Credits for Working Families: http://www.taxcreditsforworkingfamilies.org/ideas-from-the-right/
[7] Ibid
[8] Wall Street Journal: http://www.wsj.com/articles/who-really-gets-the-minimum-wage-1404683348
[9] www.hoover.org/research/mother-all-tax-credits
[10] http://www.brookings.edu/research/interactives/eitc
[11] Brookings Institution
[12] http://www.brookings.edu/research/interactives/eitc
[13] www.cbpp.org/cms/index.cfm?fa=view&id=4097
[14] Voices for Utah Children calculations based on Supplemental Poverty Measure data

Voices for Utah Children is proud to be a part of the Aspen Institute Ascend Network. The goal of the Aspen Institute Ascend Network is to mobilize empowered two-generation organizations and leaders to influence policy and practice changes that increase economic security, educational success, social capital, and health and well-being for children, parents, and their families.

Learn more at http://ascend.aspeninstitute.org/network

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