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Projected Distribution of EITC Claims in 2003

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Enacted in 1975, and adjusted or expanded in the following years, the earned income tax credit costs more than the Temporary Assistance of Needy Families (TANF) program and almost as much as Food Stamps. But who benefits and by how much?

The EITC is a refundable tax credit designed to reward work. The EITC first pays a family's actual income tax liability, if any, and the remaining sums are paid out to that family as a tax refund. There are three "phases" to the EITC: a phase-in, a plateau, and a phaseout. For example, for a head of household with two children in tax year 2003, the EITC 40 cents per dollar for the first \$10,510 for a maximum of \$4,204. The credit remains at its maximum in the plateau range of \$10,510 to \$13,730. Above \$13,730, the \$4,204 credit amount phases out, declining 21 cents for every additional dollar earned, reaching zero at an income of \$33,692.

The table below provides data on the number of tax returns receiving the EITC, the aggregate cost by type of tax filer, and the average award. Notably, nearly 13 million of 21 million (62 percent) EITC filers are single-parent families with children. They receive \$28 billion of the total \$38 billion in annual EITC awards.

Additionally, the distribution of EITC filers reveals the following:

- Most filers (11.7 million) are in the phaseout range of the credit, meaning most people who receive the credit also face its steep marginal effective tax rates for each additional dollar earned (although the phase-in of the refundable child credit lessens the net rate for some).
- 15 million of 21 million returns (72 percent) claiming the EITC earn \$20,000 or less.
- Married EITC claimants number only 4.5 million and receive just 24 percent (\$9 billion) of the credit's total benefits.
- About 3.3 million filers without children receive less than \$1 billion in EITC benefits. While the average award for all families with children is \$2,135, the average award for these filers is \$220.

Projected Distribution of EITC Filers, Tax Year 2003			
	No. of Returns (In millions)	Aggregate Cost (In \$billions)	Average Award (In \$)
Totals	20.72	37.95	1,832
By Phase			
Phase-in	6.28	11.08	1,765
Plateau	2.74	7.80	2,844
Phaseout	11.70	19.07	1,630
By Income			
\$0 - \$10,000	7.54	10.28	1,363
\$10,000 - \$20,000	7.47	20.47	2,740
\$20,000 - \$30,000	4.88	6.84	1,401
\$30,000 - \$40,000	0.82	0.36	434
By Type of Filer			
No Children	3.28	0.72	220
Head of Household	12.96	28.19	2,175
Married	4.48	9.04	2,018

Source: Urban-Brookings Tax Policy Microsimulation Model, July 2004.



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