



# Who Benefits from Expanding the EITC or CTC?

## Understanding the Intersection of the EITC and CTC at the Household Level

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**In the near term, the Tax Cuts and Jobs Act (TCJA) reduced taxes for most people.<sup>1</sup> The cuts for low- and moderate-income families were relatively modest and generally expire after 2025. But even among this group, benefits were uneven. Very low-income families with children and low-income workers without custodial children generally received very small or no benefits from TCJA changes.**

Two tax credits—the child tax credit (CTC) and the earned income tax credit (EITC)—provide substantial assistance to low- and middle-income families. Together, they lift more families out of poverty than any government program outside of Social Security (Fox 2017). The lion's share of benefits from both credits is directed at families with children, though about 2 percent of EITC benefits go to childless workers.<sup>2</sup>

The CTC could be redesigned so that families with young children and very low-income families are more likely to get the full credit for children under 17 that many middle- and high-income families already receive, rather than being limited to only \$1,400 of the \$2,000 credit. Families that have children and earn less than \$2,500 typically receive no benefit from the individual income tax provisions in the TCJA. Many with slightly higher incomes will receive an annual benefit of just \$75 (relative to prior law). This approach of providing little or no additional benefit to lower-income families runs contrary to a growing body of evidence showing that increasing incomes for families with disadvantaged children can result in a lifetime of benefits and that families with young children tend to face higher poverty rates than families with older children. Policymakers could consider further reforms to the CTC aimed at very low-income families and families with young children.

Low-income workers without custodial children, often called “childless” workers for income tax purposes, receive few new benefits from the TCJA and continue to be without any significant tax support.<sup>3</sup> Expanding the childless EITC to better align it with the credit available to families with children could be a step toward equalizing benefits for custodial and noncustodial families. The EITC is the most significant tax benefit for very low-income childless workers. Unlike the benefit available to workers with children, the EITC provides only modest benefits to childless workers. The maximum benefit is around \$500 and is unavailable once earnings reach about \$15,000 annually for single adults or \$21,000 for married couples. Childless workers remain the lone group that can be taxed into poverty by federal income taxes rather than lifted out of poverty. Both Republicans and Democrats have supported the idea of expanding the childless EITC. But the EITC was left largely unchanged in the TCJA, except for a new, more conservative measure of inflation used to index its parameters so that future benefits would grow more slowly.

This brief analyzes a proposed expansion to the CTC directed at very low-income families that would allow all earnings to count toward the refundable portion of the credit, allow the full value of the credit for children under 17 to be refundable, and phase the credit in more quickly for families with children ages 5 and under. This proposal was first explored by myself and three coauthors in Greenstein and colleagues (2018). A second proposal would increase the EITC for workers without qualifying children so that benefits accrue more quickly and are delivered to an income range more consistent with that of families with children. Rather than being limited to workers with incomes under about \$15,000 (\$21,000 if married), at least some benefit would apply to workers with incomes up to about \$25,000 (\$31,000 if married). Each of these proposals would reduce revenues by approximately \$100 billion over the 10-year budget window from fiscal year (FY) 2018 to FY 2027. Almost all of the benefits from both options would go to workers in the bottom two-fifths of the income distribution. The reforms are not mutually exclusive and could be enacted together if policymakers want to provide a benefit to both low-income families with children and childless workers.

As designed, the two policies affect distinct groups of taxpayers when measured at the tax unit level. A limited number of families could benefit from both policies. These would include, for example, a cohabiting couple where children are included on one partner’s tax return but not the other. An extended family living together could also have a parent with children benefiting from the CTC expansion and an aunt or uncle in the household benefiting from the childless EITC. These types of living situations have become more common in recent years. Even so, just 3 percent of all families who could benefit from either proposal would benefit from both. This analysis describes the two proposals, analyzes how their benefits would be distributed, and includes information on the small share of families that could benefit from both.

## Proposals to Increase the CTC and EITC

Together, the EITC and CTC lift more families out of poverty than any government program outside of Social Security (Fox 2017). The lion’s share of benefits from both credits is directed at families with children, though about 2 percent of EITC benefits go to childless workers.<sup>4</sup>

The policies described below are examples of what legislators could consider in future efforts aimed at directing resources to people who are particularly disadvantaged. Policymakers could opt to further expand the CTC, focusing new benefits on the lowest-income families and those with young children, a group for whom the benefits to reducing poverty have been well documented (Greenstein et al. 2018). Alternately, policymakers could focus on low-income workers without custodial children, who face unequal treatment in the tax code when it comes to benefits intended to reduce poverty.<sup>5</sup> Both groups receive only a modest benefit or no benefit from the TCJA.

## Child Tax Credit

### CURRENT LAW

The CTC provides a credit of up to \$2,000 per child under age 17 (up from \$1,000 before the TCJA). Families who qualify for a credit that exceeds their precredit income tax liability can receive up to \$1,400 of the CTC as a tax refund. This portion of the credit is calculated as 15 percent of wages in excess of \$2,500. Dependents who do not qualify for the \$2,000 credit can qualify for a credit of up to \$500 instead. None of the \$500 credit is refundable, so only people who owe federal income tax can benefit. Dependents who qualify for this portion of the CTC include 17- to 18-year-old children, 19- to 23-year-old students, and adult dependents (Maag 2018).

There are no special provisions in the CTC directed at families with young children, a group that consistently faces higher poverty rates than families with older children (Greenstein et al. 2018). Although the TCJA did expand the CTC significantly, low-income families that received less than the full \$1,000 per child tax credit available before the TCJA typically saw their CTC rise by just \$75, a result of allowing \$500 more in earnings to count toward calculating the CTC.

### PROPOSAL

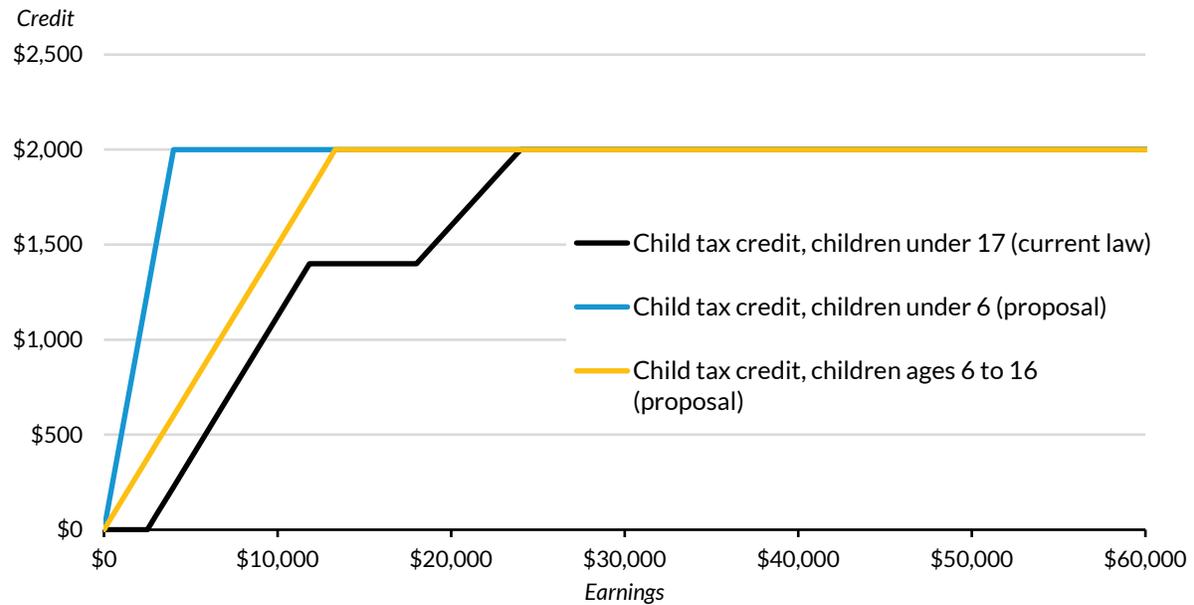
The proposal would change only the portion of the CTC designed for children under 17. It would

- phase the CTC in starting with the first dollar of a family's earnings, rather than waiting until after a family has more than \$2,500 in earnings;
- make the full credit refundable, rather than limiting the refundable portion to \$1,400 through 2025; and
- phase the credit in at a rate of 50 percent of all earnings, rather than 15 percent of earnings in excess of \$2,500. (Figure 1 compares current law to the proposal.)

Benefits from the proposal are targeted largely toward low-income tax units. It would reduce federal tax revenues by \$96.1 billion over the budget window that extends from FY 2018 to FY 2027. This proposal was developed for the US Partnership on Mobility from Poverty and is described in more detail in Greenstein and colleagues (2018).

FIGURE 1

Child Tax Credit, Current Law (2018) and Proposal



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Source: Calculations for current law based on the Tax Cuts and Jobs Act. Calculations for proposal based on author's calculations.

Note: Assumes all income is from earnings and that all children are citizens.

## Earned Income Tax Credit

### CURRENT LAW

The EITC provides substantial support to low- and moderate-income working parents but only limited support to workers without children in the tax unit. Workers receive a credit equal to a percentage of their earnings up to a maximum credit (\$6,431 in 2018 for families with at least three children and \$519 for childless workers). Both the credit rate and maximum credit vary by family size, with larger credits available to families with more children. After the credit reaches its maximum, it remains flat until earnings reach the phase-out point. Thereafter, it declines with each additional dollar of income until no credit is available. The EITC is refundable, which means that any credit a worker qualifies for beyond income taxes owed can be received as a tax refund.

The TCJA left the EITC largely unchanged, except for indexing future growth of the credit to a new, more conservative measure of inflation. Low-income workers without qualifying children, the lone group of people taxed *into* poverty rather than being lifted out of poverty by tax benefits, receive no significant new benefit (Marr and DaSilva 2016).

### PROPOSAL

This proposal would increase the EITC for childless workers. It would

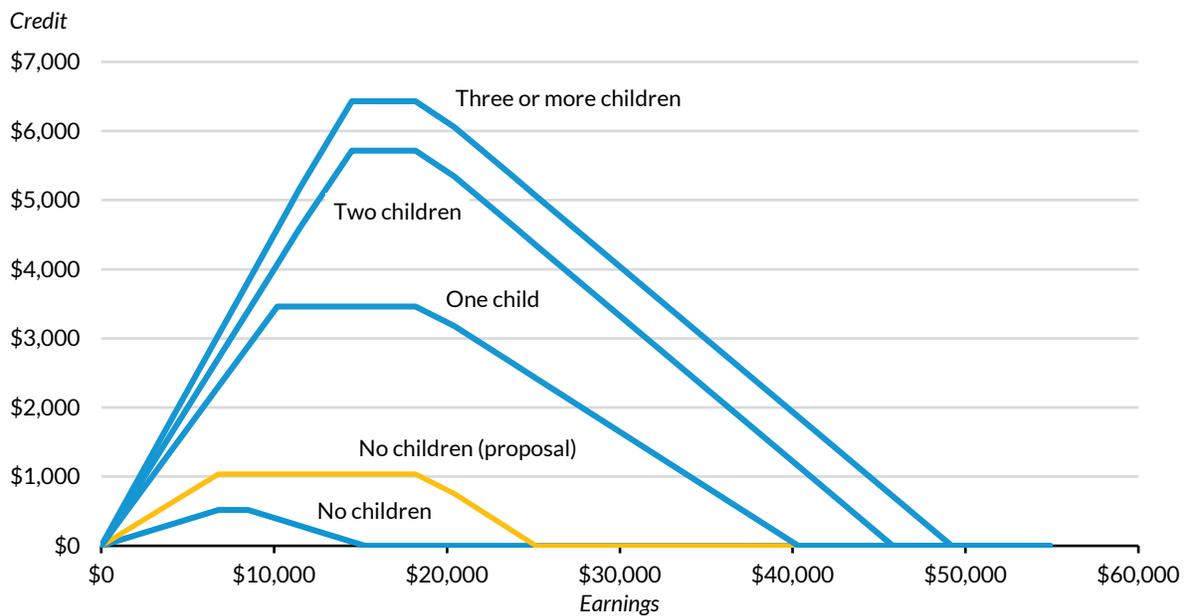
- double the phase-in and phase-out rates of the EITC for workers without custodial children (figure 2, yellow line), increasing the maximum benefit to \$1,037 in 2018;

- extend eligibility for the credit to workers as young as age 21 (compared to age 25 under current law); and
- begin to phase the credit out at the same point it begins to phase out for workers with one child.

Even after doubling the current-law credit for childless workers, it remains relatively small, compared with the credit available for families with children, and could be increased at additional cost.

The proposal would reduce federal tax revenues by \$95.3 billion over the budget window that extends from FY 2018 to FY 2027. Benefits would be roughly split between tax units in the two lowest income quintiles (an income quintile represents 20 percent of all taxpayers).

**FIGURE 2**  
**Earned Income Tax Credit, Current Law (2018) and Proposal**



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**Source:** Calculations based on “2018 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates,” Internal Revenue Service, last modified April 23, 2018, <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eitc-income-limits-maximum-credit-amounts-next-year>.

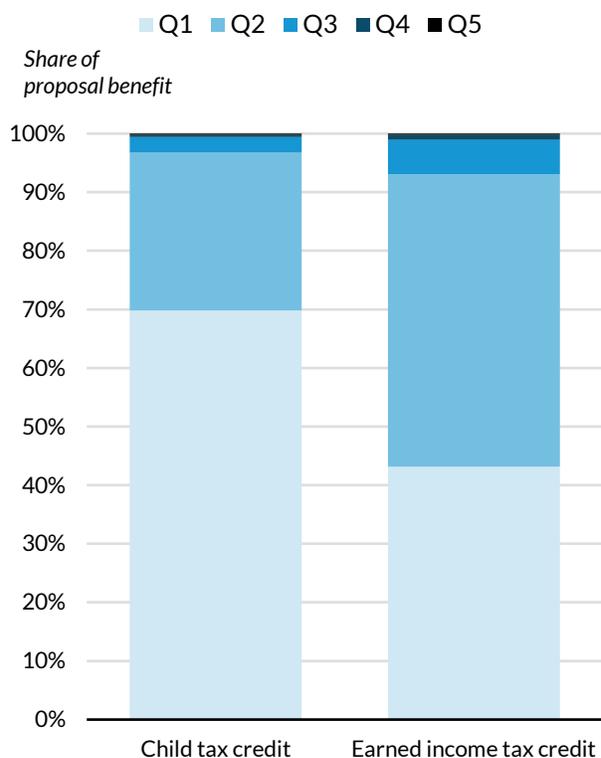
**Notes:** Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income \$5,690 higher than shown.

### Comparing the Two Options

Both the CTC and EITC proposals would direct a substantial share of their benefits toward very low-income taxpayers, with the CTC proposal being slightly more progressive (figure 3). Almost 70 percent of the benefits from the CTC proposal would go to the lowest income quintile, compared with 43 percent of the benefits from the EITC proposal. However, both proposals would direct over 90 percent of their benefits to the two lowest income quintiles.

**FIGURE 3**

**Distribution of Benefits from Proposals to Expand the Child Tax Credit and Earned Income Tax Credit**  
*By income quintile*



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**Source:** “T18-0038 - Option 2: Eliminate Cap on Additional Child Tax Credit, Set Earnings Threshold to \$0, and Increase Phase-in rate to 50% for Families with Children Under 6; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2018,” Tax Policy Center, April 11, 2018; <https://www.taxpolicycenter.org/model-estimates/options-expand-additional-child-tax-credit-april-2018/t18-0038-option-2-eliminate>; “T18-0056 - Expand the Earned Income Tax Credit (EITC) for Childless Workers; Baseline: Current Law; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2018,” Tax Policy Center, July 12, 2018, <https://www.taxpolicycenter.org/model-estimates/expanded-eitc-childless-workers-july-2018/t18-0056-expand-earned-income-tax-credit>.

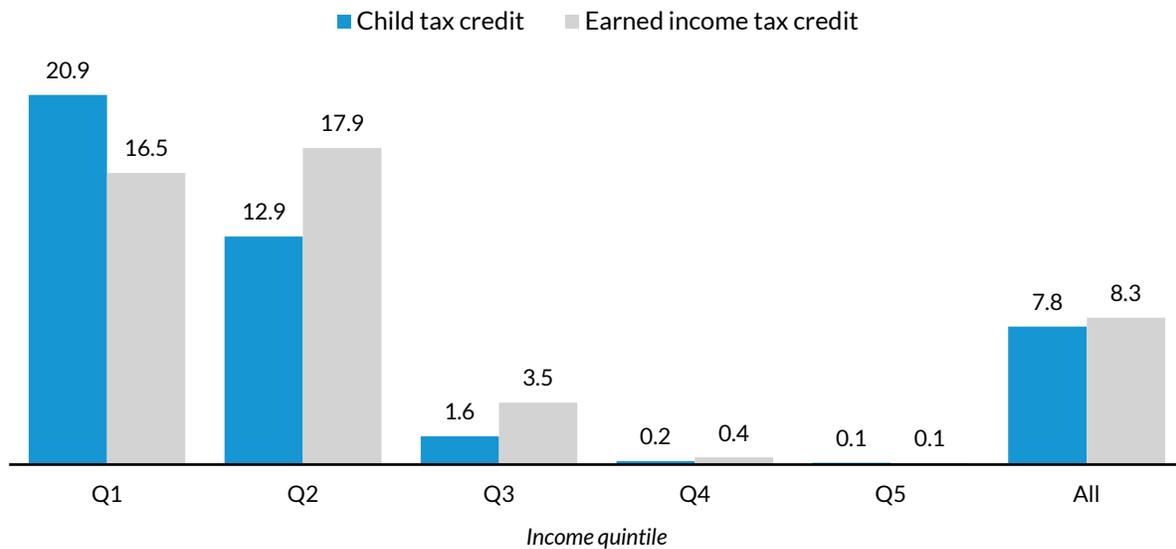
**Note:** Q1 = lowest income quintile, Q2 = second-lowest income quintile, and so on.

The proposals would each affect less than 10 percent of all tax units. The CTC proposal would deliver an average benefit of almost \$900 to the roughly 8 percent of tax units that would benefit (figures 4 and 5). The 21 percent of tax units in the lowest income quintile that benefit from the CTC proposal would receive average benefits of \$1,050. Almost 13 percent of tax units in the next income quintile would receive average benefits of roughly \$700. A small number of beneficiaries in the third income quintile would receive average benefits of about \$625. Almost no one in the top two income quintiles would benefit from the proposal.

The EITC proposal would deliver an average benefit of \$600 to the just over 8 percent of tax units that would benefit. Average benefits would be tilted slightly toward the second-lowest income quintile.

Almost 17 percent of tax units in the lowest income quintile would receive an average benefit of just over \$600. Eighteen percent of tax units in the second-lowest income quintile would receive average benefits of \$670. A small share of tax units in the third income quintile would receive average benefits of about \$570.

**FIGURE 4**  
**Share of Tax Units that Benefit from Child Tax Credit and Earned Income Tax Credit Proposals**  
*By income quintile*



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**Source:** “T18-0038 - Option 2: Eliminate Cap on Additional Child Tax Credit, Set Earnings Threshold to \$0, and Increase Phase-in rate to 50% for Families with Children Under 6; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2018,” Tax Policy Center, April 11, 2018; <https://www.taxpolicycenter.org/model-estimates/options-expand-additional-child-tax-credit-april-2018/t18-0038-option-2-eliminate>; “T18-0056 - Expand the Earned Income Tax Credit (EITC) for Childless Workers; Baseline: Current Law; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2018,” Tax Policy Center, July 12, 2018, <https://www.taxpolicycenter.org/model-estimates/expanded-eitc-childless-workers-july-2018/t18-0056-expand-earned-income-tax-credit>.

**Note:** Q1 = lowest income quintile, Q2 = second-lowest income quintile, and so on.

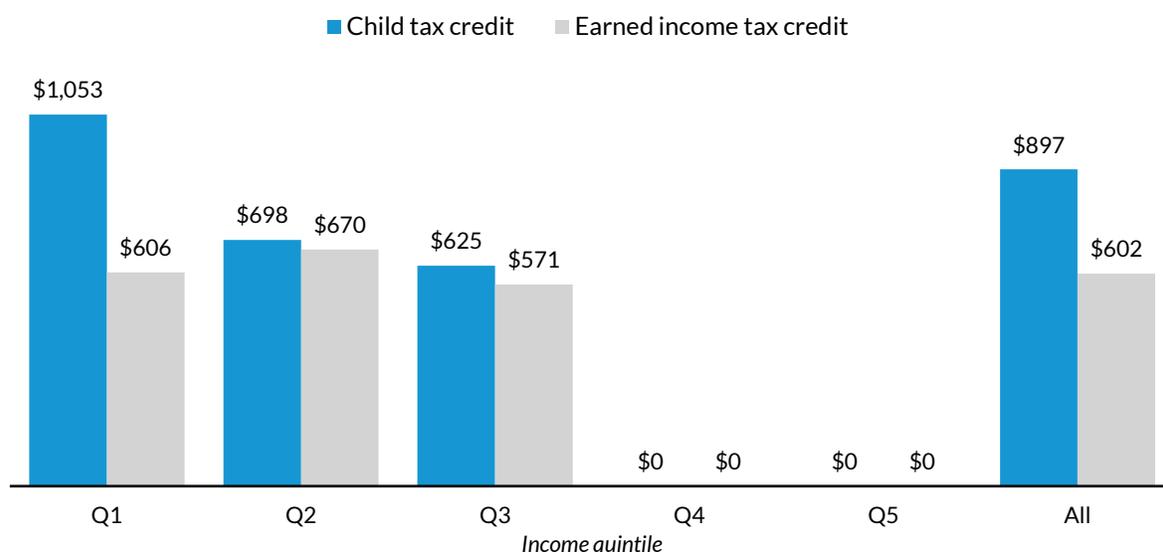
## Combined Effect on Poverty at the Household Level

Tax credits deliver benefits to a tax unit, which typically consists of individuals or married couples that file their taxes together, along with any children they support that earn below a given threshold. Taxes and tax credits are calculated based largely on the people in the tax unit, without regard to people in the household that are outside the tax unit. In contrast, measures of well-being, such as the Supplemental Poverty Measure, take a more holistic view and include other relatives living together, such as members of a three-generational household, aunts and uncles living with siblings, nieces and nephews, and working children who have returned home after college. A Supplemental Poverty Measure family also includes people likely to be sharing resources, such as a cohabiting partner.

Complex living arrangements such as multigenerational families, unmarried cohabiting partners, and nonbiologically related children living together are on the rise (Maag, Peters, and Edelstein 2016). Analysis of the Current Population Survey shows that over 20 million households contain more than one tax unit, largely a result of these complex families. About 40 percent of complex households benefit from either the EITC or CTC,<sup>6</sup> and most households that benefit from both credits are low- and moderate-income families with children.

**FIGURE 5**  
**Average Benefits of Child Tax Credit and Earned Income Tax Credit Proposals for Tax Units with a Positive Benefit**

*By income quintile*



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**Source:** “T18-0038 - Option 2: Eliminate Cap on Additional Child Tax Credit, Set Earnings Threshold to \$0, and Increase Phase-in rate to 50% for Families with Children Under 6; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2018,” Tax Policy Center, April 11, 2018; <https://www.taxpolicycenter.org/model-estimates/options-expand-additional-child-tax-credit-april-2018/t18-0038-option-2-eliminate>; “T18-0056 - Expand the Earned Income Tax Credit (EITC) for Childless Workers; Baseline: Current Law; Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2018,” Tax Policy Center, July 12, 2018, <https://www.taxpolicycenter.org/model-estimates/expanded-eitc-childless-workers-july-2018/t18-0056-expand-earned-income-tax-credit>.

**Note:** Q1 = lowest income quintile, Q2 = second income quintile, etc.

When examined at the household level, almost 10 percent of families that would benefit from the proposed CTC expansion also include an adult that would benefit from the proposed childless EITC expansion. Likewise, about 5 percent of workers benefiting from the childless EITC expansion live in households that would also benefit from the CTC expansion.

Both proposals can lift people out of poverty. Using the Supplemental Poverty Measure, which accounts for tax benefits such as the CTC and EITC unlike the standard poverty measure, about 1.2

million people would be lifted out of poverty by the CTC proposal. Increasing the childless EITC as described in this analysis would lift about 700,000 people out of poverty.

The household overlap of the two policies is relatively small, so both would need to be implemented to affect substantial numbers of very low-income families with children, particularly young children, or childless workers.

## Conclusion

The tax system is already a powerful antipoverty tool for working families with children. However, recent changes to the federal income tax, which were estimated at the time of the legislation's passage to reduce revenues by almost \$1.5 trillion from FY 2018 to FY 2027 (Urban-Brookings Tax Policy Center 2017), missed an opportunity to help low-income childless workers, who remain the lone group of people taxed into poverty by the federal income tax system. The legislation also failed to provide a substantial benefit to very low-income families with children or families with young children, despite research suggesting that investments in young children can provide a lifetime of benefits. Families with young children are also more likely to be living in poverty than families with older children.

Allowing families to count all of their earnings, rather than just those in excess of \$2,500, toward the CTC; allowing the full \$2,000 CTC available to children under 17 to be refundable; and phasing the CTC in at 50 cents for each dollar of earnings for families with children under 6, rather than the current 15 cents per dollar of earnings, would reduce federal tax revenues by about \$96.1 billion from FY 2018 to FY 2027. However, this plan would also lift 1.2 million people out of poverty, and almost all benefits from the plan would be distributed to people in the bottom two-fifths of the income distribution. A similarly sized plan for childless workers would phase the EITC in and out at 15.3 percent (rather than 7.65 percent), extend benefits to workers as young as age 21, and not begin to phase the EITC out until the point that it begins to phase out for families with children. This plan would be slightly less progressive than the CTC plan—it would still deliver almost all benefits to people in the bottom two-fifths of the income distribution but less to the bottom fifth than the CTC plan. The two plans affect different tax units, though a small share of complex families would benefit from both.

## Notes

- <sup>1</sup> The Tax Cuts and Jobs Act that was ultimately passed in December 2017 officially became law as Public Law 115-97, “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.”
- <sup>2</sup> “T17-0142 - Tax Benefit of the Earned Income Tax Credit, Baseline: Current Law, Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2017,” Urban-Brookings Tax Policy Center, April 18, 2017, <https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-april-2017/t17-0142-tax-benefit-earned-income-tax>.
- <sup>3</sup> Some recipients of the “childless EITC” do have children. These include parents of children too old to qualify as children for the EITC (e.g., those over 18 and not in school or all children over 23) as well as parents of children who are claimed for tax purposes by another parent.
- <sup>4</sup> “T17-0142 - Tax Benefit of the Earned Income Tax Credit, Baseline: Current Law, Distribution of Federal Tax Change by Expanded Cash Income Percentile, 2017,” Urban-Brookings Tax Policy Center, April 18, 2017, <https://www.taxpolicycenter.org/model-estimates/individual-income-tax-expenditures-april-2017/t17-0142-tax-benefit-earned-income-tax>.
- <sup>5</sup> Danny Vinik, “The U.S. Tax Code Drags Millions of Childless Workers into Poverty,” *New Republic*, April 15, 2014, <https://newrepublic.com/article/117378/earned-income-tax-credit-offers-few-benefits-childless-workers>.
- <sup>6</sup> These calculations were performed using baseline data representing 2015 in the Transfer Income Model, version 3 (TRIM3).

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