Center for American Progress

The Earned Income Tax Credit and Child Tax Credit 101

What is the Earned Income Tax Credit?

The Earned Income Tax Credit is a refundable federal income tax credit for low-income working individuals and families. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. The Earned Income Tax Credit was responsible for significant declines in poverty and economic gains during the 1990s, but it can still be strengthened to improve its effectiveness.

The Center for American Progress has proposed four ways to improve the existing EITC so that poor families can better help themselves rise out of poverty while stimulating consumer spending and economic growth.

CURRENT CREDIT: Under the current law, the fact that the income of both spouses is fully counted in the EITC benefit calculation means that an EITC benefit may be reduced or lost if two low-earning individuals married. In addition, the rules may discourage both spouses from increasing their hours of work.

CAP IMPROVEMENT: Half of the earnings of the lower-earning spouse should be excluded if doing so would result in a larger EITC for the family.

RESULT: An increased credit would provide greater incentive for both partners to join the labor force, especially full-time, leading to increased employment and pulling families out of poverty, and would reduce the potential marriage disincentive that operates in the current structure.

CURRENT CREDIT: Families with three or more children receive the same EITC benefit—40 percent of initial earnings—as families with two children.

CAP IMPROVEMENT: The EITC benefit for these families should be increased from 40 percent to 45 percent of initial earnings.

RESULT: About 3 million low-income families would be eligible to receive a maximum credit of $5,310, instead of a previous maximum credit of $4,716.

CURRENT CREDIT: Childless workers are not eligible for the EITC until they are 25 years old.

CAP IMPROVEMENT: The EITC should be extended to childless workers ages 18 to 24 who are not full-time students.

RESULT: 1.6 million poor childless workers would receive the EITC, encouraging them to increase their employment, increasing their spending power, and pumping money into the national economy.

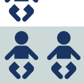
CURRENT CREDIT: Poor, non-resident fathers are underemployed, with only 50 percent employed and 8 percent working year round with median earnings of $5,000.

CAP IMPROVEMENT: Increase EITC benefits for childless workers from 7.6 percent to 20 percent of initial earnings, almost triple the current level.

RESULT: The EITC increase will provide increased incentives for employment among poor adults, increasing their spending power and benefiting the economy.

Expanding the Earned Income Tax Credit

A broader-based EITC can help the poor and their children fight poverty and boost consumer spending

Children	Current Max EITC	Max EITC w/ CAP proposals	$/Household Increase
Zero	$428	$1,119	$691
	$2,853	$2,853	$0
	$4,716	$4,716	$0
 +	$4,716 (same as 2 children)	$5,310	$594

What is the Child Tax Credit?

The Child Tax Credit is available to taxpayers who have a qualifying child. The per-child amount was originally set at $400 in 1998 and has since increased to $1000 through tax-year 2010. Under the current tax code, families with incomes up to $110,000 a year can claim the Child Tax Credit, but those families earning under $11,300 a year are ineligible for federal help.

Expanding and strengthening the Child Tax Credit in the following two ways is a progressive and pragmatic way to boost our nation's economic prosperity.

CURRENT CREDIT: Only families with earnings above a specified threshold are eligible to receive the Child Tax Credit, which provides up to $1,000 per child for up to three children. The poorest families are excluded under current rules.

CAP IMPROVEMENT: The federal Child Tax Credit should be made fully refundable so that all low-income children can benefit from the credit.

RESULT: Currently, the poorest 10 million children receive no help from the credit and another 10 million receive only a partial credit because of low family earnings. Expanding the Child Tax Credit will provide for the well-being of children and the money spent by their families will flow back into the economy.

CURRENT CREDIT: The Child Tax Credit is not currently adjusted for inflation.

CAP IMPROVEMENT: Adjust for inflation so that it retains value over time.

RESULT: Increased money flowing back into economy and greater benefit to poor families in terms of increased spending power.

The EITC and the Child Tax Credit are two very effective economic stimulus tools in policymakers' tool chest. They are also incredibly effective at providing the poorest Americans and their children with the means to combat poverty and help themselves climb into the broader middle class. One proposal currently in Congress would lower the earnings threshold for the Child Tax Credit, which would significantly help many Americans.

If there ever was a time to take these steps, then now—with 37 million Americans living below the official poverty line—is that time.