



Earned Income Tax Credit Fact Sheet

What is the Earned Income Tax Credit and why does it matter?

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The Earned Income Tax Credit is one of the single most important ways to make work pay. The EITC is a refundable federal income tax credit for low-wage working individuals and families. Refundable means that if a worker's credit exceeds the amount of taxes owed, they can receive the difference in the form of a tax refund. Congress originally approved this program in 1975 in part to offset the burden of payroll taxes and to provide an incentive to work. Today, the EITC remains essential to promote economic security and allow low-income workers maintain a decent standard of living.

The EITC is a public policy that reflects basic values—at its core is the belief that individuals who work full time at minimum wage simply should not be forced to raise families below the poverty line. The EITC helps these Americans earn a sufficient amount so that work pays more than welfare. Parents who earn \$10,000 to \$20,000 each year are eligible under EITC for the highest credit, and the credit amount decreases as annual earnings increase.

How was the EITC improved in 2009?

Congress improved the EITC last year so that it would work better for low-income families with three or more children. Before the change, EITC provided the same amount to families with three or more children as it did to families with fewer children, putting larger low-income families at a greater risk of falling into poverty.

Congress's critical 2009 EITC improvements changed EITC eligibility so that families with three or more children can receive up to \$600 more annually. This important public policy reform better accounts for the increased costs of raising a larger family and helps to make sure that work pays more than welfare for hard-working, low-wage families of all sizes. These reforms also lessened the so-called "marriage penalty," which had previously unfairly penalized low-income workers because it meant that two low-income workers

who married could lose some or all of their EITC benefits. According to the Center on Budget and Policy Priorities, together, these two improvements helped over 7 million people, and kept 3 million people out of poverty.

The 2009 EITC changes helped to bring this important public policy more in line with basic values by making work pay and allowing hard-working individuals and families to stay out of poverty.

Congressional action needed

The 2009 changes to the Earned Income Tax Credit are set to expire at the end of 2010. Eligibility for this program will revert to the pre-2009 status quo if Congress does not act to make these improvements permanent. This would mean an increase in the “marriage penalty” and a decrease in eligibility for a number of low-income working parents. Low-income working families with three or more children would be among the hardest hit.

Ensuring that hard work pays off is a vital step toward strengthening our families, our economy, and our country. Congress needs to make the current provisions of the EITC permanent to make work pay for low- and moderate-income workers and families.