

# TAX & BUDGET

## FACT SHEET

# The EITC and the Refundable Child Tax Credit Are Extremely Important to Women's Economic Security

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*Refundable tax credits for low- and moderate-income working families, including the federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), provide a significant economic boost to women and their families.*

### Refundable tax credits keep women and their families out of poverty.

- In 2013, the EITC, which helps low- and moderate-income workers and their families, together with the CTC, which helps families meet some of the costs of raising children, lifted the incomes of 9.4 million people above the poverty line, including 5.0 million children.<sup>1</sup>

### These tax credits provide highly effective work incentives.

- Refunds from the EITC and CTC are only available to people who earn income from work. They offset the other taxes that families pay and boost the wages of hard-working parents.
- Considerable research has demonstrated the EITC's effectiveness at encouraging work, especially among low-income single mothers.<sup>2</sup>
  - o Research highlighted by the Center on Budget and Policy Priorities shows that the EITC expansions enacted in the 1990s contributed more to the increases in work among single mothers than the welfare reforms enacted in that period.<sup>3</sup> Women who were eligible to benefit

### The EITC and the CTC put money in the pockets of women supporting their families on low wages.

**Jessica, a single mom with three kids, makes \$14,500 per year working full time in a child care center.**

- Jessica would be eligible for an EITC worth \$6,242 and a \$1,725 CTC.

**Nicole and David, a married couple who both work full time at minimum wage jobs, support their two children with their combined annual income of \$29,000.**

- Nicole and David would be eligible for an EITC worth \$4,417 and a \$2,000 CTC.

the most from EITC expansions of the 1990s also experienced higher wage growth in later years than other similarly situated women.<sup>4</sup>

- o Moreover, by encouraging employment among working-age women, the EITC has the additional effect of boosting their Social Security retirement benefits, which are critical to lowering women's poverty in old age.<sup>5</sup>

### The additional resources provided by refundable tax credits improve health and education outcomes for children.

- Research reviewed by the Center on Budget and Policy Priorities also shows that that the financial

boost provided by refundable tax credits such as the EITC and the CTC improve outcomes for young children in low-income households.

- o Income-boosting policies like the EITC and CTC are linked to improved school performance for low-income children on a variety of measures, including test scores.<sup>6</sup>
- o Low-income children whose families receive refundable tax credits are more likely to attend college and have higher earnings.<sup>7</sup>
- o EITC increases have been linked to improved infant well-being and health.<sup>8</sup>
- o Children in households that receive the EITC appear likelier to avoid early disabilities and illnesses linked to child poverty, which may also increase their earning capacity as adults.<sup>9</sup>

## The EITC provides targeted benefits to families who need help making ends meet.

- If workers' income declines because of periods of unemployment or unpaid leave in a particular year, the EITC can help soften the financial impact of these economic "shocks."
- About 61 percent of those who received the EITC between 1989 and 2006 did so for only a year or two at a time.<sup>10</sup>

## Refundable tax credits like the CTC and the EITC have been repeatedly proven effective in keeping women and their families out of poverty, encouraging paid work, and improving low-income families' economic well-being.

- Particularly when combined with antipoverty policies like increases to the minimum wage, refundable tax credits play an important role in increasing the economic security of women and their families.<sup>11</sup>

### What Are the Earned Income Tax Credit and Child Tax Credit?

The **Earned Income Tax Credit (EITC)** is a refundable federal tax credit for low- and moderate-income workers. It is designed to encourage and reward work and strengthen families by helping hard-working parents lift their families out of poverty.

The amount of the EITC depends on income, number of children, and marital status. In 2015, the EITC is worth a maximum of \$6,242.

The **Child Tax Credit (CTC)** is a federal tax credit, worth up to \$1,000 per child, designed to help working parents meet the costs of raising children. It is partially refundable, so that parents with low or moderate earnings who pay other taxes but have little or no federal income tax liability also can benefit from the credit.

Parents must have earnings to receive the CTC as a refund. They can receive 15 percent of their earnings above \$3,000 as a refund, up to the \$1,000 per child limit. A single mother with three children earning \$14,500 in a full-time minimum wage job is eligible for a credit of \$1,725 (15% x \$11,500 [\$14,500 - \$3,000]) in 2014.

1 Bryann DaSilva, Ctr. on Budget & Policy Priorities, *New Poverty Figures Show Impact of Working-Family Tax Credits*, (Oct. 2014), available at <http://www.offthechartsblog.org/new-poverty-figures-show-impact-of-working-family-tax-credits/>.

2 Chuck Marr, Chye-Ching Huang, Arloc Sherman & Brandon DeBot, Ctr. on Budget & Policy Priorities, *EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development*, Research Finds, at 5 (April 2015), available at <http://www.cbpp.org/research/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens-development>.

3 *Id.* at 5-6.

4 *Id.* at 6.

5 *Id.*

6 *Id.* at 8-9.

7 *Id.* at 8-10.

8 *Id.* at 7-8.

9 *Id.* at 10-11.

10 *Id.* at 13.

11 See, e.g., NWLC, *The Minimum Wage and the EITC: Complementary Strategies Helping Women Lift Their Families Out of Poverty* (July 2013), available at <http://www.nwlc.org/sites/default/files/pdfs/minimumwageandeitc-2.pdf>.