

# EARNED INCOME TAX CREDIT (EITC)

Low-income workers.

Last edit February 23, 2022

Social-insurance Undergraduate  
Research Fellowship



EITC is a federal tax credit for low- and moderate-income working people. It rewards work as well as offsets federal payroll and income taxes based on number of qualifying children, relationship, age, residency, and tax filing status requirements.

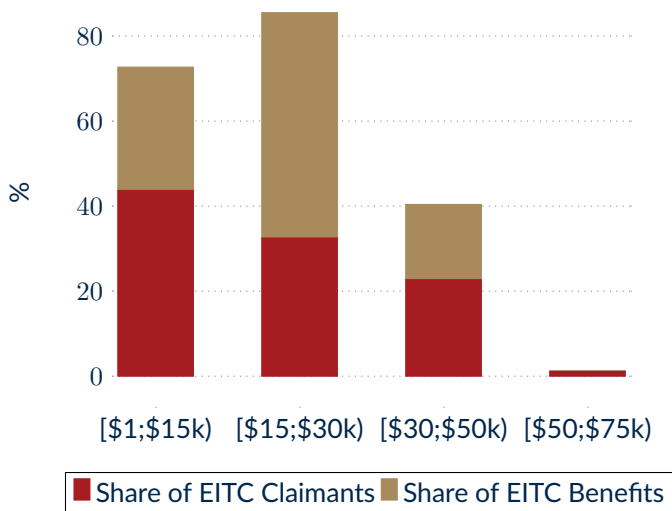
## ELIGIBILITY

- When filing taxes for 2021 (due in April 2022), working families with children that have annual incomes below about \$42,158 to \$57,414 (depending on marital status and the number of dependent children) may be eligible for the federal EITC.
- Working-poor people who have no children and have incomes below \$21,427 (\$27,386 for a married couple) can receive a very small EITC.

## BENEFICIARIES

In the 2019 tax year, over 26.5 million working families and individuals received EITC totaling \$64.4 million.

The EITC is concentrated among the lowest earners: 44% of claimants earn less than \$15,000 per year and more than half of the benefits go to those with a gross income between \$15,000 and \$30,000.



## BENEFITS

- The amount of EITC depends on a recipient's gross income, marital status, and number of children.
- The EITC begins with the first dollar of earned income. It rises with earned income: it is calculated at a set percentage of earnings called the "phase-in rate," which depends on marital status and number of children. The phase-in ends when the EITC reaches its maximum amount, stays constant, and then begins to phase out at higher income levels by a "phase-out rate" until the EITC is reduced to zero (see the graph).
- The EITC is refundable: if it exceeds income tax liability, the IRS refunds the balance.

## HISTORY

- The federal EITC has been in place since 1975. Over time some states have established their own EITCs to supplement the federal credit.
- Act of 1990: EITC expansion to families with 2+ children
- Act of 1993: EITC expansion to childless individuals + More generous EITC parameters
- Act of 2009: EITC expansion to families with 3+ children

## EXPENDITURES

•

# EFFECTIVENESS

## Labor Force

- The EITC encourages single parents and primary earners in married couples to work (Eissa and Liebman QJE 1996; Meyer and Rosenbaum NTJ 2000).
- The EITC has little effect on the number of hours people work once they are employed (Meyer AER 2002).

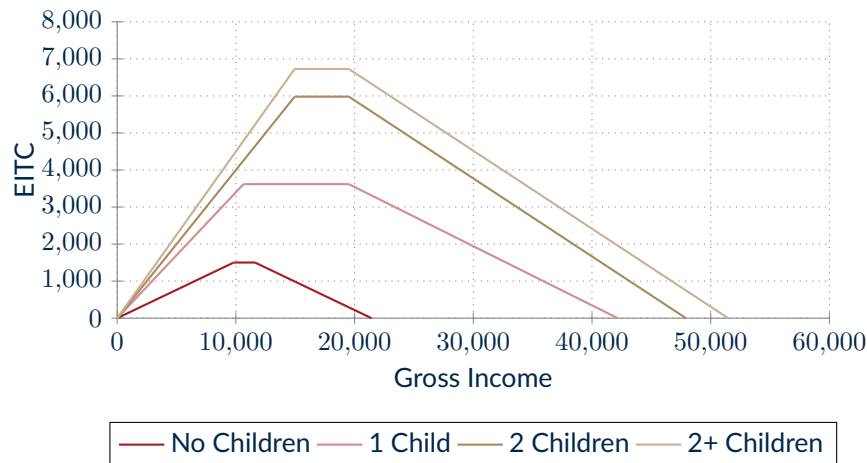
## Standard of Living and Other

- The EITC lifts people out of poverty (Hoynes and Patel JHR 2015).
- The EITC improves a child's immediate well-being, education outcomes, and adulthood earnings (Bastian and Michelemore JLE 2018).

# POLICY QUESTIONS

- What is the effect of EITC on generational welfare participation?

# BENEFITS AND INCOME



EITC Parameters in 2021

Family Size	Phase-in Rate (%)	Phase-in Ends (\$)	Maximum Credit (\$)	Phase-out Begins	Phase-out Rate (%)	Phase-out Ends
Childless	15.3	9,820	1,502	11,610	15.3	21,427
1 Child	34	10,640	3,618	19,520	15.98	42,158
2 Children	40	14,950	5,980	19,520	21.06	47,915
2+ Children	45	14,950	6,728	19,520	21.06	51,464