The Earned Income Tax Credit: A Time-Tested Two-Generation Strategy for

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Written by: Matthew Weinstein

The Earned Income Tax Credit is a federal tax credit for low- and moderate income families that encourages and rewards work. The credit was created in 1975 under President Ford. Because of its remarkable ability to reduce poverty and promote family health and self-sufficiency, it has been expanded since then by President Reagan and all subsequent presidents.

Only families that earn income through work qualify for the EITC. By off setting federal income and payroll taxes these families pay, the EITC lifts over 6 million Americans (and over 70,000 Utahns)

out of poverty every year. Since its creation in 1975, the EITC has been among the most studied federal anti-poverty initiatives. Dozens of academic studies looking at recipients across the nation and over time have found enormous beneficial effects for both parents and their children.



For parents, the EITC's empirically demonstrated effects include:

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• increased employment

• increased earnings from work

• reduced maternal smoking

• increased retirement security in later years, especially for single mothers

For children, the EITC's benefits include:

• improved child and maternal health

• better K-12 school achievement

• increased future earnings when these children grow up and enter the workforce

• increased intergenerational social mobility

For the entire family, the EITC's impacts include:

• reduced poverty

• lower rates of public health insurance

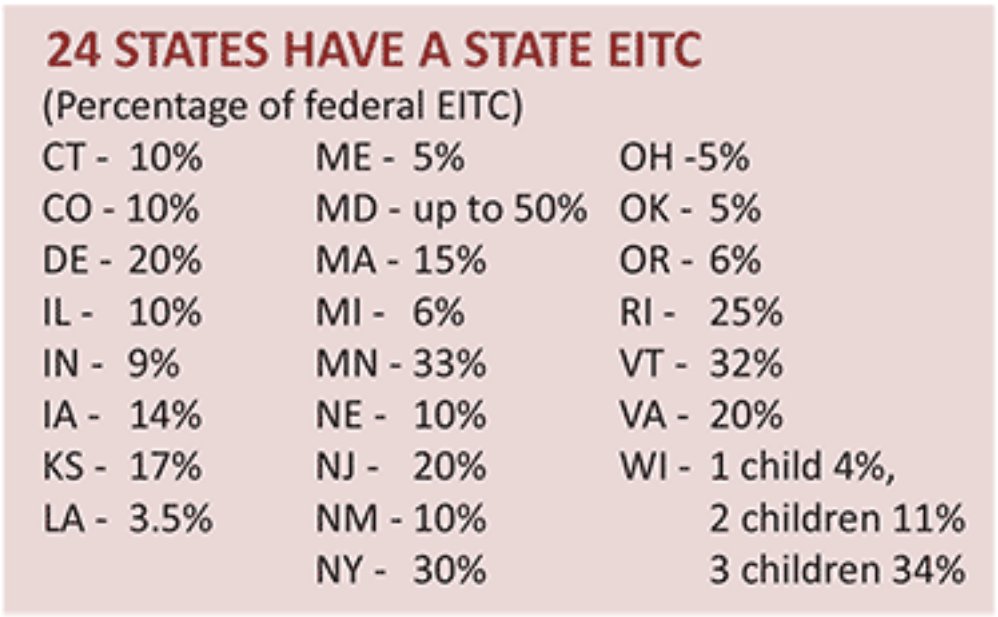
• higher rates of private health insurance

A list of academic studies and their findings is available from Voices for Utah Children.

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State EITCs Offset Regressive Effects of Income, Sales and Property Taxes



Twenty-four states have created state EITCs to supplement and enhance the impact of the federal program. State EITCs work similarly to and leverage the federal EITC. States rely

heavily on taxes like sales, gas and property taxes, which hit lower-income families harder (as a share of income) than wealthier ones. State EITCs reduce the taxes paid by these

working families, allowing them to keep more of what they earn.

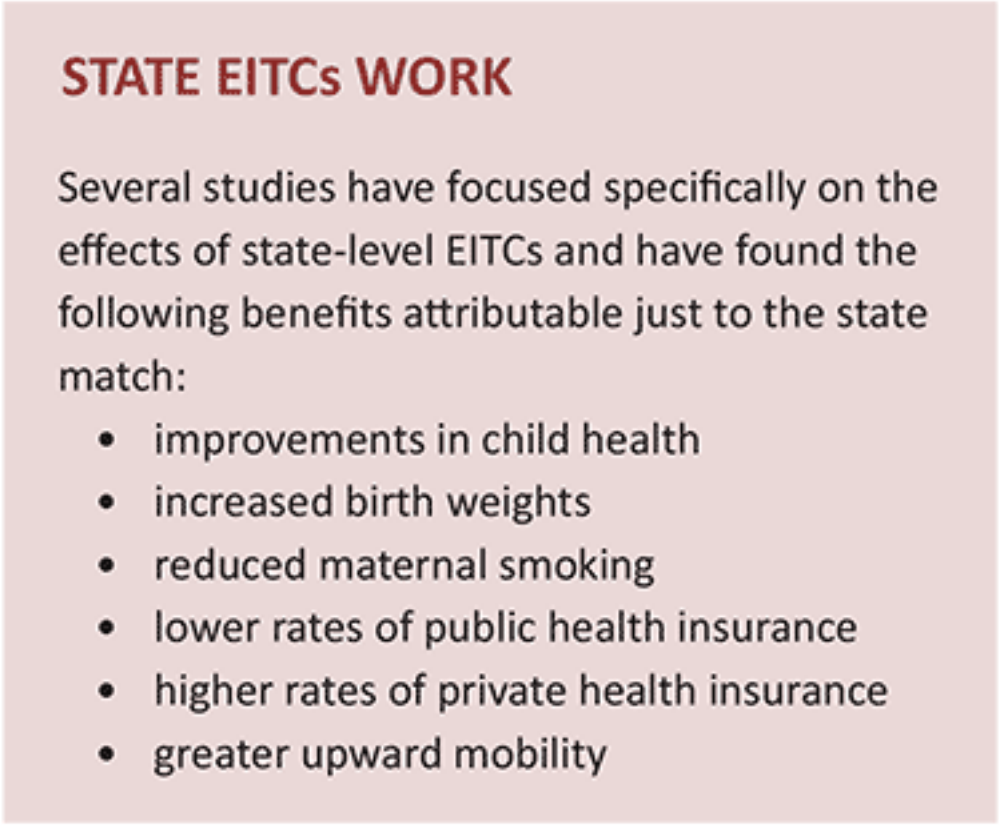
Working families with children earning up to $39,000 to $52,000 (depending on marital status and the number of children) generally can qualify for a state EITC, but the largest benefits go to families with annual incomes between about $10,000 and $23,000.

An Innovative Proposal: Using a State EITC to Promote College

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Savings and Incent Post-Secondary Education in Utah



An innovative proposal under discussion for Utah combines two key elements proven to reduce intergenerational poverty:

• Tax credit equal to 5% of the federal EITC, which means a maximum credit of about $300

• State match up to $100 for filers who deposit their credit into the Utah Educational Savings Plan.

One study cited by the Aspen Institute documents that low- and moderate-income children with dedicated college savings as small as $1-$499 are three times more likely to attend college and four

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times more likely to graduate from college than those without.2 Such a hybrid program could allow Utah to benefit from the combined effects of these two ideas that have proven so effective when applied separately.



The EITC Has Bipartisan Support

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EITC'S HISTORY OF SUPPORT ACROSS THE POLITICAL SPECTRUM



1975: Signed into law by President Gerald R. Ford.

1986: Expanded at the initiative of President Ronald Reagan as part of his historic Tax Reform Act. At the bill signing on October 22, 1986, President Reagan called it "the best anti-poverty bill, the best pro-family measure and the best job-creation program ever to come out of the Congress of the United States."



1990: President George H.W. Bush increased the size of the EITC and added a supplemental credit amount for families with two or more children.[3]

1993: President Bill Clinton increased the size of the tax credit and also expanded eligibility to childless workers.[4]



2009: President Barack Obama expanded the EITC for married couples and families with three or more children.

2014: House Budget Committee Chair Paul Ryan proposed expansion of the EITC in a speech at the American Enterprise Institute, saying: "This is one of the few programs that have shown results. It encourages people to work by increasing the rewards of work."[5]









STRONG CONSERVATIVE SUPPORT FOR THE EITC

- Glenn Hubbard, Dean of Columbia Business School and Chairman of the Council of Economic Advisers under President George W. Bush: "EITC truly is our best option for supporting work."[6]
- Michael Strain, Resident Scholar at the American Enterprise Institute: "Conservativism places a uniquely strong emphasis on working, on earned success and rewarding those who contribute to the broader society through their work. The EITC does exactly that."[7]
- Prof. David Neumark, director of the Center for Economics and Public Policy at UC-Irvine and a leading academic researcher on the minimum wage, wrote in the Wall Street Journal on July 6, 2014 arguing that expanding the EITC would more effectively help families in need than increasing the minimum wage.[8]
- The Hoover Institution writes that "the EITC is probably the most cost-effective anti-poverty program the federal government operates."[9]

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Federal EITC Facts for Utah

The federal Earned Income Tax Credit was created under President Ford and expanded under Presidents Reagan, Bush, and all subsequent presidents.

• 193,551 Utah households received the federal EITC for 2013, about 18% of tax filers.

• Utah's EITC households include 218,500 workers and 291,000 children.

• The EITC brought about $450 million into Utah's economy in 2013.

• Thousands of veterans and military families are helped.

• Were it not for the EITC, an additional 70,828 Utahns would fall below the poverty line, including 31,835 children.

Additional data about the EITC's effects in Utah is available for each county, city, and legislative district at the following websites:

• http://www.eitc.irs.gov/EITC-Central/eitcstats

• http://www.brookings.edu/research/interactives/eitc

Access a printer-friendly version of the report:

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[Read other issues briefs about two-generation strategies here.]

Voices for Utah Children is proud to be a part of the Aspen Institute Ascend Network. The goal of the Aspen Institute Ascend Network is to mobilize empowered two-generation organizations and leaders to influence policy and practice changes that increase economic security, educational success, social capital, and health and well-being for children, parents, and their families. Learn more at http://ascend.aspeninstitute.org/network

For 30 years now, Voices for Utah Children has called on our state, federal and local leaders to put children's needs first. But the work is not done. The children of 30 years ago now have children of their own. Too many of these children are growing up in poverty, without access to healthcare or quality educational opportunities.

How can you be involved?

Make a tax-deductible donation to Voices for Utah Children—or join our Network with a monthly donation of $20 or more. Network membership includes complimentary admission to Network events with food, socializing, and opportunity to meet child advocacy experts. And don't forget to join our listserv to stay informed!

We look forward to the future of Voices for Utah Children and we hope you will be a part of our next 30 years.

Special thanks to American Express for sponsoring our 30th Anniversary Year.



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