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Harnessing the EITC and Other Tax Credits to Promote Financial Stability and Economic Mobility

By Rebecca Vallas, Melissa Boteach, and Rachel West October 2014

Introduction and summary

The Earned Income Tax Credit, or EITC, is one of the nation’s largest and most effective anti-poverty tools. It is a federal tax credit for low- and moderate-income workers that encourages work, boosts family income, and offsets federal payroll and income taxes. In 2012, it helped more than 6.5 million Americans—including 3.3 million children—avoid poverty.¹ The Child Tax Credit, or CTC, protected about 3 million people—1.6 million of them children—from poverty in the same year.² A growing body of research finds that these credits are effective tools for boosting economic mobility: Children whose families receive the EITC and other income supports have higher rates of high school completion and increased adult earnings.³ In addition to mitigating economic hardship, these tax credits serve as a powerful source of economic stimulus. For example, the EITC generates some \$1.50 to \$2.00 in economic activity for every \$1 that goes to working families.⁴

Both the EITC and CTC have enjoyed wide bipartisan support throughout their history. Presidents from both political parties have taken action to strengthen the EITC since its enactment in 1975, and more recently, Republicans and Democrats alike have joined in praising the program for its effectiveness as an anti-poverty tool.⁵ However, while the EITC effectively boosts economic security among families headed by low-wage workers, it is not a substitute for a living wage. Efforts to strengthen the EITC and CTC must go hand in hand with minimum-wage policies to ensure that no one who works full time has to live in poverty.⁶

Congress should act on several existing proposals to strengthen the EITC and CTC, such as making permanent the improvements enacted as part of the American Recovery and Reinvestment Act of 2009, or ARRA; enhancing the EITC for workers without qualifying children and lowering the minimum age for EITC eligibility, as recommended in the new Generation Progress report “A Ladder Up”; and making the CTC fully refundable and tying its value to inflation. In addition, this report offers a set of new policy solutions that harnesses the EITC as a tool for financial empowerment and upward economic mobility. These recommendations include:

The Center for American Progress’ Poverty to Prosperity team is exploring policy solutions that strengthen and modernize our nation’s safety net to reflect 21st century realities and to better facilitate economic mobility for families on the brink.

- Strengthening the EITC as an asset-building tool for families who wish to use their tax refunds to build savings
- Creating an early-access provision that allows workers to access a small portion of their EITC ahead of tax time so they do not have to rely on predatory lending products and can take advantage of mobility-enhancing opportunities
- Increasing access to higher education and training through categorical eligibility for the maximum Pell Grant for EITC recipients and reforms to strengthen the American Opportunity Tax Credit

Building on existing proposals to strengthen the EITC, these reforms would enhance the credit's effectiveness as a tool for promoting economic mobility.

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