



November 30, 2018

The Earned Income Tax Credit Boosts Work, Reduces Poverty, and Provides Other Benefits for Working Americans

The Earned Income Tax Credit (EITC) not only encourages work and boosts incomes, but also improves health and educational outcomes of its beneficiaries and their families at every stage of life. In addition, research shows the EITC provides a host of short-term and long-term benefits to its recipients and their communities.

EITC Significantly Reduces Poverty Among Families with Children

Independent studies estimate the EITC lifted 4.1 to 5.8 million people out of poverty in 2016, including up to 3 million children. The EITC reduced the severity of poverty for another 18.7 million people in 2016, including 6.9 million children. According to the Census Bureau's Supplemental Poverty Measure, the EITC and the refundable portion of the child tax credit together lifted 8.3 million people out of poverty in 2017, including 4.5 million children. A recent economic analysis of the EITC by the Congressional Research Service (CRS), summarized in Figure 1 below, shows that the EITC reduces the proportion of *unmarried* households with three or more children in poverty by one-fifth, and it reduces the proportion of *married* households with three or more children in poverty by nearly one-third. The analysis also shows the EITC has a much smaller impact on reducing poverty among childless workers, because the benefit is likely to be too small to push them over the poverty threshold.

Figure 1. Summary of CRS's Analysis of the EITC's Impact on Reducing Poverty
(CRS used most recently available 2016 Census data)

	Percent of Households in Poverty (without the EITC)	Percent of Households the EITC Lifts Out of Poverty	Number of Households the EITC Lifts Out of Poverty
Total Population	15.8%	11.4%	4,146,507
Unmarried with No Children	19.9%	1.5%	227,638
Unmarried with 1 Child	25.6%	14.1%	580,781
Unmarried with 2 Children	30.2%	20.2%	715,033
Unmarried with 3+ Children	40.5%	20.2%	469,728
Married with No Children	8.8%	1.1%	85,227
Married with 1 Child	10.1%	13.9%	435,248
Married with 2 Children	9.9%	24.2%	797,576
Married with 3+ Children	14.9%	31.5%	835,275

Source: Calculations using data from figures 3 and 4 (pp. 16-18) of CRS's August 13, 2018 report at <https://fas.org/sgp/crs/misc/R44057.pdf>.

Studies also find the EITC addresses the shifting geography of poverty. Over the last few decades, the concentration of poverty has shifted from primarily urban and rural areas to suburban areas. Consequently, programs like the EITC that directly help families regardless of where they live are more effective today than traditional anti-poverty programs that invest in places.

EITC Encourages and Rewards Work

Research studies indicate the EITC increased the labor force participation of single mothers and reduced Temporary Assistance for Needy Families (TANF) caseloads. Most research focuses on workforce participation of single mothers, because they were the original target population of this program and remain the majority of EITC recipients. Research studies examining the labor force participation of single mothers generally investigate how legislative expansions of the EITC influenced single mothers' decisions to enter the workforce. The results show that the creation of a larger credit for unmarried individuals with two or more children in the early-1990s resulted in a sharp increase in employment among single mothers; 34 percent of the increase in employment among single mothers between 1993 and 1999 was due to legislative expansions of the EITC; and 60 percent of the 8.7 percentage point increase in annual employment of single mothers between 1984 and 1996 is attributable to the expansion of EITC. Research examining the interaction between social policy and the EITC in the 1990s found that the EITC reduced new entries into TANF and its precursor, indicating many single mothers chose to work and earn the EITC, rather than apply for these other programs. While there is research on the workforce participation of married workers, these findings are less conclusive.

EITC Helps Workers Needing Temporary Assistance

The EITC provides ongoing income support for some low-wage workers but helps even more workers meet a temporary need. Many workers only claim the credit for short periods during shocks to income or family structure, such as a child's birth or one spouse's loss of income. About 61 percent of those who received the EITC between 1989 and 2006 did so for only a year or two at a time. Another 19 percent received the credit for less than five years during this 18-year period. About half of all taxpayers with children used the EITC at least once during this period. This data shows the EITC supports low-wage workers while also providing critical short-term assistance for working families that face temporary hardship or must care for young children.

EITC Improves Infant and Maternal Health

Research shows the EITC likely improves the health outcomes of its recipients. Decades of research has linked poverty to poorer health outcomes among infants and children, suggesting that antipoverty programs like the EITC could improve certain health outcomes. Several recent studies suggest that the EITC is associated with increases in birth weight and a reduction in the

incidence of low birth weight (LBW), a widely used indicator of infant health and a strong indicator of good health later in life. For example, one study found that when Congress approved an increase in the EITC benefit in 1993, being eligible for \$1,000 more in the benefit was associated with a reduction in the incidence of LBW by approximately 3 percent, and an increase in mean birth weight. Another study found that the EITC was associated with improvements in maternal health, where EITC-eligible mothers were less likely to have risky levels of high blood pressure or other indicators associated with cardiovascular disease and inflammation. A recent study also found that improvements in birth weight grow with the generosity of state EITCs, reinforcing earlier research findings that the EITC is associated with improvements in infant health. Studies of the EITC's impact on the health of the working-age population show there could be a positive outcome but are less conclusive.

EITC Improves Children's Education Outcomes

Studies looking at the test scores of children found that children in families that receive larger EITC benefits tended to score higher on English and math tests. Other studies evaluating the impact of legislative expansions to the EITC in the 1990s found that the children in families that received the largest increase in the credit tended to score higher on math and reading tests. While researchers have not been able to figure out how the EITC may improve student achievement, these studies indicate that the EITC benefit may improve academic achievement among low-income children. Research has also found the EITC improves the college attendance rates of low-income high school students. One recent study found that a \$1,000 increase in the earned EITC amount increases low-income high school seniors' chances of enrolling in college by 1.3 percentage points. CRS notes that according to researchers, "there is robust evidence of quite large effects of the EITC on children's academic achievement and attainment, with potentially important consequences for later-life outcomes." Research also shows the education and skill gains associated with the EITC provide long-term benefits through higher earnings and employment.

EITC Improves Life Expectancy Among Low-Income Americans

Evidence suggests the EITC may reverse declines in life expectancy among low-income Americans. One study looked at the impact of the credit on a recipients' quality-adjusted life-years (QALYs), a common measure of lifespan taking into account the quality and quantity of an individual's remaining years, and found that those living in states that provide their own EITC on top of the federal EITC lived on average 2.2 more QALYs than those living in states without one. The study also found the increase in QALYs grew with the size of the EITC benefit. The researchers concluded, "relatively small investments in EITC might not only reduce poverty but be a much more cost-effective preventive intervention than treatment of hypertension, high cholesterol, or even HIV screening and treatment in high risk populations." In short, because

poverty is linked to health, and the EITC reduces poverty, the EITC can help address the recent trend toward declining health and longevity of low income, working Americans.

EITC Increases Lifetime Earnings Potential of Its Recipients

The EITC improves the lifetime earnings trajectories of unmarried women with kids. One recent study found that if a single mother with two children at age 20 gets 10 more cents from the EITC for every additional dollar she earned, she would increase her earnings by 3.4 percent and her hourly wages by 1.6 percent at age 40, likely due to several months of additional work experience translating into higher wages and income in the longer run. The study findings demonstrate that work incentives lead to the accumulation of skills, resulting in higher earnings later. The findings suggest the EITC helps its recipients improve skills and advance in the labor market, leading to rising earnings over their lifetime.

EITC Supports Local Jobs and Businesses

The EITC benefits not only the families that receive the credit, but also the communities in which they live. Research shows the EITC benefits local economies through several mechanisms. The local economic impact of EITC refunds includes direct effects (EITC recipients spending their refunds), indirect effects (business spending in response to EITC recipient spending), and induced effects (changes in household income and spending patterns caused by direct and indirect effects), which together create the local “multiplier” effect. One study found that for California counties, the EITC creates local economic impacts equivalent to *at least twice* the amount of EITC dollars received in many cases. Furthermore, consumer surveys show that low-income families spend a large share of their income on groceries and other necessities, which tend to be purchased locally, supporting local businesses and jobs.

Sources

Candall-Hollick, Margot L. and Joseph S. Hughes. “The Earned Income Tax Credit (EITC): An Economic Analysis.” Congressional Research Service, August 13, 2018.

<https://fas.org/sgp/crs/misc/R44057.pdf>

Center on Budget and Policy Priorities. “Policy Basics: The Earned Income Tax Credit.” Updated April 19, 2018. <https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>

Columbia University's Mailman School of Public Health. "Earned income tax credit program is a boon for health, report suggests: EITC is more cost effective than many other health interventions, may reverse declines in life expectancy among low-income Americans."

ScienceDaily, September 7, 2016.

<https://www.sciencedaily.com/releases/2016/09/160907095442.htm>

Holmes, Natalie and Alan Berube. "The Earned Income Tax Credit and Community Economic Stability." The Brookings Institution, November 20, 2015.

<https://www.brookings.edu/articles/the-earned-income-tax-credit-and-community-economic-stability/>

Lowrey, Annie. "The Great, Overlooked Tax Policy for Getting People to Work: Yet more evidence piles up for effectiveness of the Earned Income Tax Credit." The Atlantic, January 2, 2018. <https://www.theatlantic.com/business/archive/2018/01/eitc-getting-people-to-work/549416/>

Markowitz, Sara, et al. "Effects of State-Level Earned Income Tax Credit Laws in the U.S. on Maternal Health Behaviors and Infant Health Outcomes." NBER Working Paper Series, August 2017. <https://www.nber.org/papers/w23714.pdf>

Marr, Chuck, et al. "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds." Center on Budget and Policy Priorities, Updated October 1, 2015. <https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens?fa=view&id=3793>

Schoder, Diana. "From tax credits to college credits: Tax refunds can boost college enrollment among low-income families." American Economic Association, May 9, 2018. <https://www.aeaweb.org/research/cash-on-hand-college-enrollment-eitc-tax-credit>

Skochdopole, Kate. "EITC Linked to Increases in Life Expectancy Among Low-Income Americans." Tax Credits for Workers and Their Families, September 9, 2016. <http://www.taxcreditsforworkersandfamilies.org/news/eitc-linked-increases-life-expectancy-among-low-income-americans/>