The Earned Income Tax Credit

EITC and Benefits Law: Conceptualizing, Understanding (and Navigating) the Interplay of EITC and Benefits Law

American Bar Association Tax Meeting: May 9, 2019
Overview

- Poverty Context
- Disproportionate Outcomes
- The EITC as an Antipoverty tool
- Challenges and Benefits
Poverty Measures

Two Dimensions

• Relative
• Absolute

US Poverty Measurement

– Official Poverty Measure (OPM)
– Supplemental Poverty Measure (SPM)

From the University of Wisconsin-Madison, Institute for Research on Poverty
But what does it mean?

Single parent with two kids:

- Federal Poverty Level:
  - $20,780 annually / $1,731 monthly

- Self sufficiency standard
  Logan County, CO 2015:
  - $37,115 annually / $3,092 monthly
Racial Disparities

Official U.S. poverty rates in 1968, 1990, and 2016 show variation by age and racial/ethnic group and over time.
Family income is a strong indicator of a wide range of child outcomes but the racial wealth gap has limited the transfer of family resources within and across generations, negatively impacting intergenerational mobility.

- Systemic Racism
- Stifled wealth building
- Racial wealth gap
- Limited generational wealth transfer
- Lower wage work, greater debt
- Less successful outcomes
Racial Income Gap

Relative to Their Share of the Taxpayers, Communities of Color Are Overrepresented Among the Bottom Income-Earning Households

Share of Overall Returns by Race

Distribution of Racial Groups Through Income Groups

Poorest 20% of Households

<table>
<thead>
<tr>
<th>Race</th>
<th>White</th>
<th>Latino</th>
<th>Black</th>
<th>Asian</th>
</tr>
</thead>
<tbody>
<tr>
<td>4%</td>
<td>12%</td>
<td>10%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>67%</td>
<td>25%</td>
<td>33%</td>
<td>28%</td>
<td>19%</td>
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</tbody>
</table>

Bottom 60% of Households

<table>
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<tr>
<td>43%</td>
<td>76%</td>
<td>74%</td>
<td>73%</td>
<td>56%</td>
</tr>
</tbody>
</table>

SOURCE: Institute on Taxation and Economic Policy’s microsimulation model

CLASP | clasp.org
The majority of tax savings through exclusions, deductions, and preferential rates for capital gains and dividends accrue to the wealthiest 20 percent of households

- 79% white
- 6 percent black
- 7 percent were Latino
- 7 percent were Asian/Pacific Islander
- 0 percent Native American/Alaskan Native.

One study showed that 76 percent of refundable tax credits went to households making less than $60,000

- 72 percent of African Americans
- 69 percent of Latinos
- 44 percent of Asian/Pacific Islanders fell into that income category.
The EITC as an Antipoverty Tool

- In 2016, the EITC lifted about 5.8 million people out of poverty, including about 3 million children.
- The EITC reduced poverty for another 18.7 million people, including 6.9 million children.
- Combined the EITC and CTC have an even greater anti-poverty effect.

<table>
<thead>
<tr>
<th>Major Tax Credits and Need-Based Programs</th>
<th>Millions of People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned Income Tax Credit &amp; Child Tax Credit</td>
<td>9.9 All ages, 5.1 Under 18</td>
</tr>
<tr>
<td>SNAP</td>
<td>8.4 All ages, 3.8 Under 18</td>
</tr>
<tr>
<td>Housing Assistance</td>
<td>4.0 All ages, 1.3 Under 18</td>
</tr>
<tr>
<td>Supplemental Security Income</td>
<td>5.3 All ages, 1.3 Under 18</td>
</tr>
<tr>
<td>Temporary Assistance for Needy Families</td>
<td>1.2 All ages, 0.7 Under 18</td>
</tr>
</tbody>
</table>

Note: Figures are for 2015 and use the federal government's Supplemental Poverty Measure (SPM).
Challenges with the EITC

• Childless adult gap
• Once a year
• Increasing audit rates

Since 2011, Audit Rates for the Wealthy Have Dropped More Steeply Than for EITC Recipients

The median EITC recipient has annual income under $20,000. Here's the percentage drop in audit rates by annual income, from 2011 to 2017.

-52% $10M and up
-62% $5M to $10M
-70% $1M to $5M
-71% $500K to $1M
-74% $200K to $500K
-36% EITC Recipients

Source: ProPublica analysis of IRS data.
Benefits of the EITC

- Supports work and economic growth
- Improves health outcomes
- Improves educational outcomes
- Reduces racial disparities
Questions?

You may contact me at cwelton@clasp.org for follow up or citations.