Overview of the EITC

ABA Tax Section Midyear Meeting
Boca Raton, FL

Margot Crandall-Hollick
Specialist in Public Finance
What is the EITC?
And why are we talking about it today?

• Refundable tax credit available to eligible workers with relatively low earnings.

• 97% of benefit dollars go to low-wage workers with children.

• The amount of and eligibility for the EITC is largely based on income and qualifying children.

• In 2017, 27 million taxpayers (≈ 20% of all taxpayers) received more than $66 billion from the EITC (≈ $2,500 per return).

Source: IRS Statistics of Income (SOI), Individual Statistical Tables by Size of Adjusted Gross Income, Table 3.3
What is the EITC?

EITC amount by income, 2020

Source: IRS Revenue Procedure 2019-44
How has the EITC changed over time?
Number of EITC claimants and total EITC dollars claimed from 1975-2017

Source: IRS Statistics of Income (SOI), Individual Statistical Tables by Size of Adjusted Gross Income, Table 3.3
What is the impact of the credit?

How does it affect low-income taxpayers?

• Research indicates the EITC encourages work and reduces poverty.

• More recent analyses suggest the credit improves health and education outcomes.

• But the complexity of the credit—especially qualifying child rules—makes the credit difficult for the IRS to administer and difficult for taxpayers to comply with—a leading factor in the high improper payment rate.
What is the impact of the credit? (cont.)

What is the improper payment rate and audit rate of EITC claimants?

- EITC improper payment rate historically \( \approx 20\% - 25\% \)
- EITC audit rate historically greater than overall audit rate

Source: IRS SOI Examination Coverage Table 9a
What lies ahead?
What changes to the EITC and refundable tax credits more generally are policymakers considering?

- **Larger/per-worker credit**: Expanding the EITC, including the “childless” EITC, or making a per-worker “worker credit.”

- **Per-child benefit**: Creating a “child allowance” (i.e., a “fully refundable” child tax credit).

- **Frequency**: Providing the credit on a monthly or quarterly basis.

- **Eligibility**: Modifying the credit—including eligibility rules—to improve administration, reduce taxpayer burden, and reduce improper payments.
Where can I find out more?

CRS reports are now public.

- For access to CRS reports, please go to: https://crsreports.congress.gov/
  - You can search based on topic, author, or report number.

- **CRS Report R43805**, The Earned Income Tax Credit: An Overview
- **CRS Report R44825**, The Earned Income Tax Credit (EITC): A Brief Legislative History
- **CRS Report R43873**, The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges
- **CRS Report R44057**, The Earned Income Tax Credit (EITC): An Economic Analysis
- **CRS Report R44327**, Need-Tested Benefits: Estimated Eligibility and Benefit Receipt by Families and Individuals