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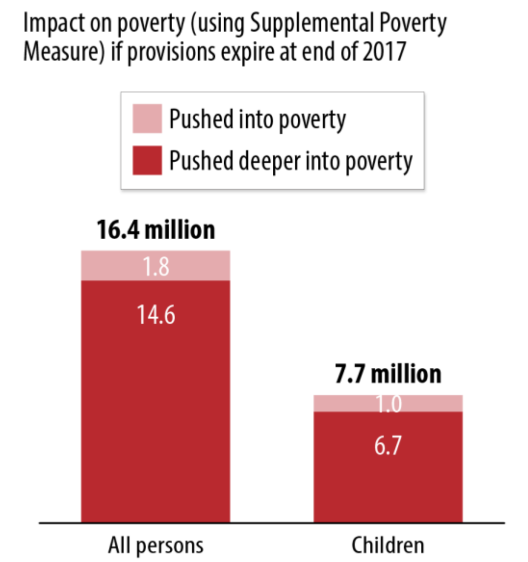
Letting Key Provisions of Working-Family Tax Credits Expire Would Push 16 Million People Into or Deeper Into Poverty

Some 50 Million Americans Face Cut

By Chuck Marr, Bryann DaSilva, and Arloc Sherman

More than 16 million people in low- and modest-income working families, including 8 million children, would fall into — or deeper into — poverty in 2018 if policymakers fail to make permanent key provisions of two important tax credits (see Figure 1). Some 50 million Americans, including 25 million children, would lose part or all of their Child Tax Credit (CTC) or Earned Income Tax Credit (EITC).[1] The appendix provides state-by-state data.

Figure 1
Letting Key EITC and CTC Provisions Expire Would Push Millions Into or Deeper Into Poverty



Source: CBPP analysis of Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

The EITC and CTC encourage and reward work, and there is growing evidence that income from these credits leads to improved school performance, higher college enrollment, and increased work effort and earnings in adulthood.[2] Both credits have enjoyed bipartisan support, and their underlying provisions are permanent parts of the tax code. But several key features of the credits — a lower CTC earnings exclusion (which expands the credit for millions of working families and means fewer working-poor families are shut out of the credit entirely), EITC "marriage-penalty" relief, and a larger EITC for families raising more than two children — are set to expire at the end of 2017.

Making these features permanent should be a priority for policymakers and deserves bipartisan support. The stakes are high. For example, a single mother with two children working full time in a nursing home for

[1] Citizens for Tax Justice, "Making the EITC and CTC Expansions Permanent Would Benefit 13 Million Working Families," February 20, 2015, http://ctj.org/pdf/ctceitcreport2015.pdf.

[2] Chuck Marr, Chye-Ching Huang, and Arloc Sherman, "Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds," Center on Budget and Policy Priorities, revised April 15, 2014, http://www.cbpp.org/cms/?fa=view&id=3793.

the minimum wage and earning $14,500 would lose her *entire* CTC of $1,725 if the CTC provision expires. This is because the CTC phases in with earnings, but if the provisions expire, not one penny of her first $14,700 in earnings would count toward the credit. Millions of other workers in low-wage jobs — from child care workers to custodians to health care workers — face similar stakes.

Some 65 percent of the families that would lose part or all of their credits include at least one full-time, year-round worker. About 450,000 veteran and armed forces families with children would lose all or part of their CTC in 2018; a similar number of veteran and armed forces families would lose all or part of their EITC.[3] Also, 15 percent of the families that would lose all or part of their credits include at least one member with a disability.[4]

Background

Policymakers created the Child Tax Credit in 1997 to help families meet the costs of raising children. The original credit was generally not refundable, meaning that working families with incomes too low to owe federal income tax — who often have the most difficulty covering child-related costs — could not receive the credit.

The 2001 Bush tax cuts doubled the maximum CTC from $500 to $1,000 per child and made the credit partially refundable, thereby enabling many working-poor families to qualify for the credit for the first time. Like the EITC, the CTC phases in with family earnings, and the Bush tax cuts made a family eligible for a refundable CTC of 15 cents for every dollar it earns, up to the full $1,000 per child. However, the first $10,000 of family earnings did *not* count in determining whether a family was eligible for the CTC and, if so, for what size credit; as a result, millions of working-poor families received only a partial credit or were shut out entirely. This $10,000 earnings exclusion was adjusted upward for inflation each year, so by 2007, families needed to earn close to $12,000 before qualifying for *any* CTC, and workers with earnings modestly above this threshold received only a very small credit.

Recognizing the challenges that child-rearing costs create for working-poor families, policymakers took important steps — in 2008 under President Bush and in 2009 under President Obama — to lower the CTC's earnings exclusion, which now stands at $3,000. The change means that all but the first $3,000 in earnings counts when determining a family's CTC, allowing millions of low-income working families to get a larger credit and millions more to qualify for a partial credit for the first time. This change has meant that parents who are out of work now have a *more powerful incentive to look for and take even very low-paying or part-time jobs*, if that is all they can find. It also encourages poor parents who are already employed to try to secure more hours of work and raise their earnings.

The 2009 legislation also strengthened the EITC by reducing its "marriage penalties" (the loss of some EITC for certain couples when they marry) and by boosting the EITC for families with more than two children to help them cover the higher costs they face in raising at least three children in their home. (The poverty rate is 15.3 percent for families with one or two children but 18.7 percent for families with more than two children. Similarly, 36 percent of all children live in families with

[3] CBPP analysis of the Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file, and Tax Policy Center estimates.

[4] CBPP analysis of the Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

more than two children, but 50 percent of poor children do. This reflects the fact that costs rise with family size but wages do not.[5])

At the end of 2010, policymakers extended these key CTC and EITC features through 2012 in compromise legislation, where this extension was paired with a measure that shrank the estate tax both by allowing wealthy filers to leave up to $10 million per couple tax free to their heirs (compared to $7 million under 2009 law) and by lowering the tax rate applied to the portion of large estates that remained taxable. Policymakers largely extended both sets of changes again in the 2012 "fiscal cliff" legislation — but not for the same duration: they made most of the estate tax cuts *permanent,* while extending the CTC and EITC provisions only through 2017. President Obama and key members of the House and Senate have since proposed to make these tax-credit provisions permanent.

The Consequences if Congress Doesn't Act

Unless Congress takes action, the three 2009 provisions — a lower CTC earnings exclusion, EITC marriage-penalty relief, and a larger EITC for bigger families — will expire at the end of 2017.[6] If that happens:

1. **Not one penny of the earnings of a full-time, minimum-wage worker would count toward the CTC, because the credit's earnings exclusion (the amount of earnings ignored in determining a family's eligibility for the CTC) would nearly quintuple from $3,000 to $14,700.** A single mother with two children working full time at the minimum wage and earning $14,500 would thus lose her entire $1,725 CTC. Moreover, not only would the earnings a parent needed to qualify for even a tiny CTC jump to $14,700, but the earnings needed to qualify for the *full* CTC (of $1,000 per child) would rise to more than $28,000 for a married couple with two children — up sharply from $16,330 under current policy. As a result, many low-income working families that would still qualify for the CTC after 2017 would see their credit cut dramatically. For example, a family with two children earning $20,000 would see its CTC cut from $2,000 to $795.
2. **Many married couples would face higher marriage penalties, due to a cut in their EITC.** Currently, to reduce marriage penalties, the income level at which the EITC begins to phase out is set $5,000 higher for married couples than for single filers. After 2017, it would be set $3,000 higher, which would shrink the EITC for many low-income married filers and increase the marriage penalty for many two-earner families.

[5] CBPP analysis of the Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

[6] The American Opportunity Tax Credit (which is not the subject of this paper), a partially refundable credit that helps defray college costs, is also set to expire at the end of 2017 and should be made permanent. If it expires, it will be replaced by the non-refundable Hope Credit, which has a lower maximum value ($1,800 instead of $2,500) and is available for fewer years of study (up to two years instead of four). If the AOTC expires, about 11 million mostly middle-class families will lose some or all of the tax credits they would otherwise receive to help offset college costs.

3. **Larger families would face a cut in their EITC.** After 2017, the maximum EITC for families with *more than* two children would be cut more than $700, by lowering it to the level of the maximum EITC for families with two children.[7]

The millions of low-income working families affected by the expiration of these three CTC and EITC provisions would lose an average of about $840 a year, Citizens for Tax Justice (CTJ) has estimated.[8]

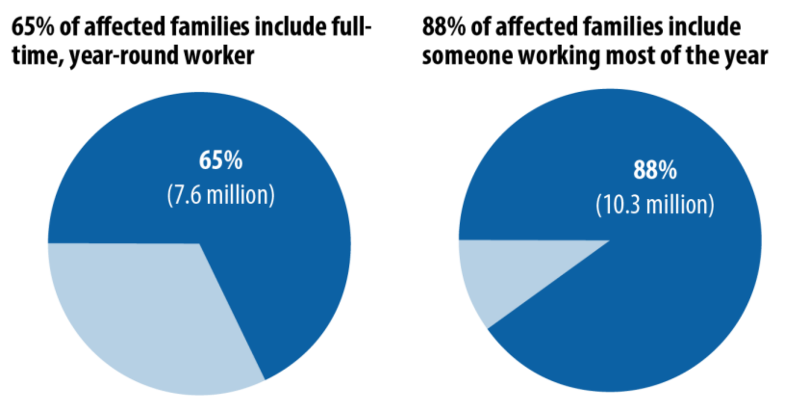
Millions of Americans in Working Families Would Face Cut

The CTJ estimates, using the Institute for Taxation and Economic Policy's state-by-state tax model, show that if the provisions expire:

- About 13 million families, including 25 million children, will lose all or part of their credits.[9]
- About 3.6 million families — including 5.0 million children — will lose their entire CTC, while an additional 5.6 million families — including 10.2 million children — will lose part of their CTC.[10]
- About 6.3 million families, including 14.7 million

Figure 2

Most Families Facing Cut in Child Tax Credit and/or Earned Income Tax Credit Have Full-Time, Year-Round Worker



"Full-time, year-round" worked at least 50 weeks in 2013, usually for at least 35 hours per week.

"Working most of the year" means worked more than 1,000 hours in 2013, based on weeks worked multiplied by usual hours worked per week.

Source: CBPP analysis of Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

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7 Currently, the maximum EITC for families raising more than two children is $683 larger than the maximum EITC for families with two children. These maximum credit amounts are indexed for inflation, so the nominal dollar difference will widen modestly between now and 2017.

8 Citizens for Tax Justice, "Making the EITC and CTC Expansions Permanent Would Benefit 13 Million Working Families," February 20, 2015, http://ctj.org/pdf/ctceitcreport2015.pdf. See also Chye-Ching Huang, "What Would Congress's Inaction Cost Working Families?" *Off the Charts* blog, October 8, 2014, http://www.offthechartsblog.org/what-would-congress-inaction-cost-working-families-find-out/ for an interactive calculator of the impact if the provisions expire.

9 Citizens for Tax Justice.

10 CBPP analysis of data from Citizens for Tax Justice, using totals from "Making the EITC and CTC Expansions Permanent Would Benefit 13 Million Working Families," February 20, 2015, http://ctj.org/pdf/ctceitcreport2015.pdf and the proportion of families and children losing the CTC from "The Debate over Tax Cuts: It's not Just About the Rich," July 19, 2012, http://ctj.org/pdf/refundablecredits2012.pdf.

children, will lose part or all of their EITC.[11]

Analysis of these estimates and other data indicates that a total of approximately 50 million people in low- and modest-income working families would lose all or part of their CTC or EITC.[12] The vast majority of the affected families include people who work all or the majority of the year, as Figure 2 shows.

Workers in a wide range of low-wage occupations would be adversely affected. For example:[13]

- Roughly 1.6 million custodians, building cleaners, maids, and housekeepers would lose an average of $900.
- Roughly 1.5 million construction trade workers would lose an average of $870.
- Roughly 1.3 million cooks, waiters, servers, dining room attendants, and bartenders would lose an average of $860.
- Roughly 1.0 million cashiers would lose an average of $850.
- Roughly 800,000 nursing home and other health care workers would lose an average of $950.
- Roughly 600,000 child care providers, teaching assistants, and preschool workers would lose an average of $860.

Other affected groups include families of veterans and active-duty armed forces and families with one or more people with a disability.[14] Some 450,000 families of veterans and armed forces with children would lose all or part of their CTC in 2018; a similar number of families of veterans and armed forces would lose all or part of their EITC.[15] In addition, 15 percent of all families that would lose some or all of their EITC or CTC — more than one in every seven — include one or more people with a disability.[16]

Most starkly, the loss of the EITC and CTC provisions would push millions of people and children into or deeper into poverty (see appendix).

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[11] Citizens for Tax Justice.

[12] CBPP analysis of Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file, and Tax Policy Center and CTJ estimates of numbers of filing units affected.

[13] CBPP analysis of the Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

[14] *Ibid.*

[15] The estimates are derived by first using Census survey data to calculate the share of affected filers in 2013 who are veterans or active-duty military (filers or spouses) and then applying these shares to the total number of affected filers projected by the Tax Policy Center. The veterans' shares are from a CBPP analysis of the March 2013 Current Population Survey. The Tax Policy Center figures are calculated from their tables 14-0010, 14-0015, and 14-0033 and are projections for 2018 (2020 in the case of the combined CTC and EITC estimate).

[16] CBPP analysis of the Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

Appendix

State-by-State Impact if EITC and CTC Provisions Expire at End of 2017

State	Families affected	Children affected	People pushed into poverty or made poorer	Children pushed into poverty or made poorer
United States	13,031,000	24,815,000	16,399,000	7,717,000
Alabama	280,000	480,000	184,000	90,000
Alaska	22,000	41,000	31,000	17,000
Arizona	283,000	644,000	488,000	254,000
Arkansas	159,000	298,000	130,000	67,000
California	1,488,000	3,018,000	3,786,000	1,684,000
Colorado	183,000	318,000	264,000	129,000
Connecticut	72,000	141,000	146,000	63,000
Delaware	34,000	55,000	41,000	20,000
District of Columbia	21,000	45,000	27,000	13,000
Florida	1,007,000	1,757,000	1,212,000	537,000
Georgia	639,000	1,197,000	626,000	302,000
Hawaii	52,000	100,000	89,000	41,000
Idaho	67,000	117,000	73,000	37,000
Illinois	445,000	904,000	668,000	322,000
Indiana	256,000	485,000	256,000	125,000
Iowa	84,000	179,000	84,000	41,000
Kansas	96,000	191,000	117,000	66,000
Kentucky	180,000	323,000	157,000	77,000
Louisiana	251,000	433,000	224,000	118,000
Maine	37,000	64,000	34,000	16,000
Maryland	158,000	315,000	243,000	114,000
Massachusetts	169,000	305,000	251,000	108,000
Michigan	415,000	727,000	357,000	176,000
Minnesota	111,000	244,000	173,000	90,000
Mississippi	201,000	363,000	132,000	67,000
Missouri	256,000	478,000	246,000	129,000
Montana	34,000	59,000	28,000	14,000
Nebraska	56,000	100,000	65,000	32,000
Nevada	107,000	223,000	215,000	107,000
New Hampshire	25,000	38,000	37,000	17,000
New Jersey	219,000	435,000	480,000	213,000
New Mexico	124,000	225,000	94,000	45,000
New York	755,000	1,445,000	1,132,000	506,000
North Carolina	523,000	1,079,000	429,000	206,000
North Dakota	16,000	24,000	15,000	7,000
Ohio	407,000	778,000	356,000	172,000
Oklahoma	200,000	351,000	162,000	83,000
Oregon	125,000	238,000	164,000	80,000
Pennsylvania	381,000	750,000	398,000	179,000
Rhode Island	31,000	56,000	39,000	18,000
South Carolina	279,000	510,000	183,000	86,000
South Dakota	27,000	59,000	24,000	12,000
Tennessee	351,000	610,000	337,000	156,000
Texas	1,498,000	2,925,000	1,830,000	915,000
Utah	115,000	258,000	143,000	74,000
Vermont	16,000	25,000	14,000	6,000
Virginia	284,000	486,000	304,000	148,000
Washington	242,000	458,000	271,000	129,000
West Virginia	81,000	131,000	40,000	18,000
Wisconsin	158,000	301,000	175,000	89,000
Wyoming	15,000	28,000	14,000	7,000

Numbers of families and children affected are from Citizens for Tax Justice, "Making the EITC and CTC Expansions Permanent Would Benefit 13 Million Working Families," February 20, 2015, http://ctj.org/pdf/ctceitcreport2015.pdf. State figures on poverty reduction are from CBPP analysis of the Census Bureau's March 2010-March 2014 Current Population Surveys and Supplemental Poverty Measure public use files for 2009-2013. (We averaged several years of data to improve the reliability of the state estimates.) National figures on poverty reduction are from CBPP analysis of the Census Bureau's March 2014 Current Population Survey and Supplemental Poverty Measure public use files for 2013, the latest data available.