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Earned Income Tax Credit

“You can’t pay your phone bill with food stamps or WIC – you need cash. And if you’re a family that’s working really hard, and you’re doing the best you can, and for whatever reason the jobs that you have aren’t getting you to the bigger salary, at least you have the EITC as a resource. You are working consistently, and you are valuable to your community because you contribute every day.” Regina Howard, New York City, NY.

What is it: The Earned Income Tax Credit (EITC) is an anti-poverty program that supplements the wages of low-income workers.

History: Enacted by President Gerald Ford in 1975, the EITC was designed to bridge the gap between low-wage earnings and the cost of meeting basic needs. Ronald Reagan called the EITC “the best anti-poverty program ever created.” It has been expanded four times—in 1986, 1990, 1993, and 2001 (and temporarily in the 2009 American Recovery and Reinvestment Act)—under both Democratic and Republican administrations.

How it Works: The EITC is a refundable tax credit. The more wages people earn, the more benefits their families receive until reaching a certain income threshold. At that point, families see a decrease in their credit but not a complete loss. Yet, even as wages increase and benefits decline, each additional dollar makes a difference. At its highest point, the EITC provides a 40 percent boost in earnings.

What’s at Stake: Legislation in 2001 and 2009 expanding the EITC sunsets at the end of 2010. Congress must extend these provisions to prevent low-income workers from losing these crucial benefits. The EITC expansions did two things.

First, the expansions provided marriage penalty relief. Before the expansions, a married couple could be ineligible or get a smaller credit because they were married and combined their earnings. The EITC expansions in 2001 and 2009 reduced this marriage penalty.

Second, the 2009 EITC expansions allow families with three or more children to receive a larger credit.

7 million low-income people could lose benefits if these provisions expire.

Fast Facts:

- The EITC is America’s largest anti-poverty program. In 2009, it is estimated the EITC lifted 6.6 million people, including 3.3 million children, above the poverty line (\$21,834 for a family of four in 2008).
- The average credit for families with children is \$2,500.
- In 2007, 25 million working families and individuals received the EITC.

Take Aways:

- The EITC is essential to help low-wage workers meet the costs of basic needs; these costs have risen while wages remained largely stagnant.
- By providing a larger credit for higher earnings (up to a certain threshold), the EITC creates a strong incentive to work and increase earnings.