

National Opportunities to Expand and Protect the EITC

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Did you know...?

The Earned Income Credit (EIC)

- Represents up to a 40% pay increase for some workers
- Can turn a \$6 per hour job into an \$8 per hour job
- In 2005, raised 4.1 million individuals — including 2.2 million children — above the poverty line
- Is the largest benefit program providing support to working families



Why is outreach needed?

- As many as 15-20% of eligible workers don't claim the EIC
- Up to **\$8 billion** in EIC refunds went unclaimed in 2007

Efforts are needed to ensure eligible workers know how to claim the EIC and other tax credits.

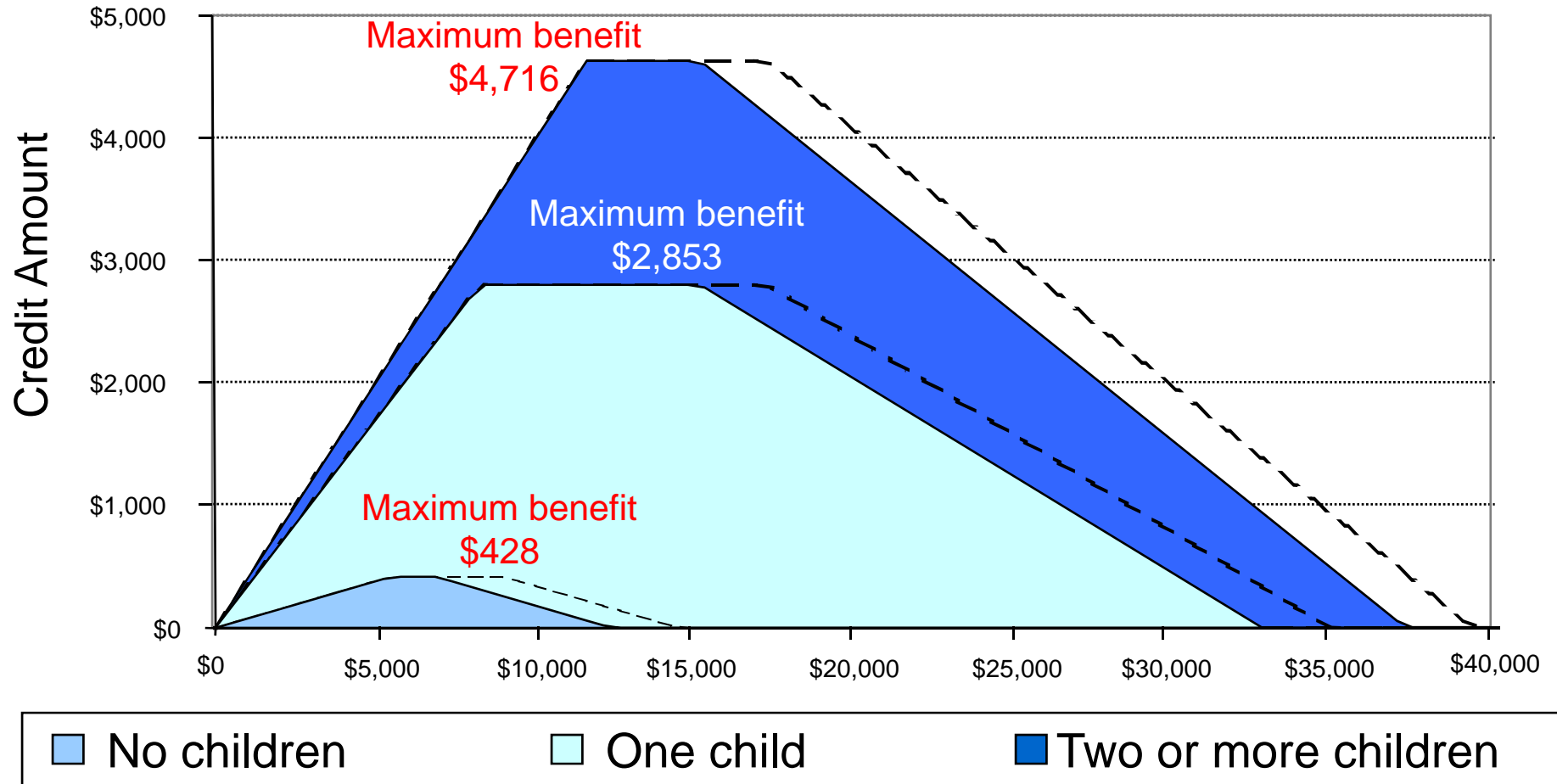


About the Earned Income Credit (EIC) and the Child Tax Credit (CTC) —

- Federal tax benefits for lower-income working families and individuals
- **Purpose:**
 - offset income and payroll taxes
 - reduce tax burdens for workers in or near poverty
 - supplement wages
- **Key Features:**
 - Provide a work incentive
 - Even if workers don't owe income taxes, they do pay payroll tax and may be eligible for the EIC and CTC



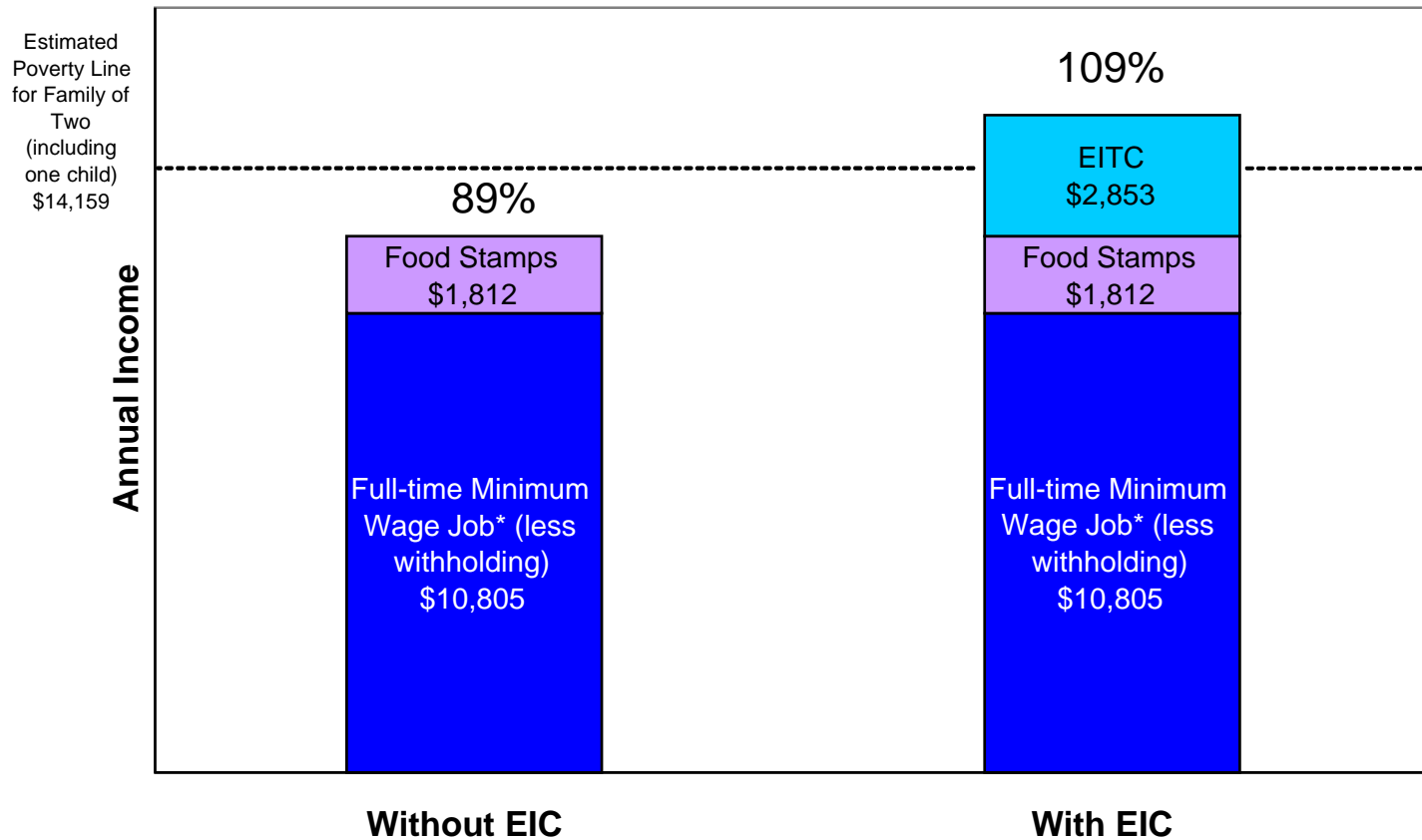
The Federal Earned Income Tax Credit in Tax Year 2007



Note: Married couples with income in the phaseout range qualify for a higher credit than single parents — shown by dashed lines.

The EIC: Making a Difference

Helping working families out of poverty, 2007



Improved Climate for the EITC

- Rep. Charles Rangel, Chair of House Ways & Means, told reporters Sept. 10 that expansion of the EITC and CTC will move with legislation to reform the alternative minimum tax.
- Sen. Baucus, "...we should consider expanding refundable tax relief, like the Earned Income Tax Credit." May 10



More Work for the EITC

- The poverty rate for children in families with 3+ kids is 26%, more than twice the poverty rate for families with 1 or 2 kids.
- Childless adults do not have the incentives the EITC provides parents to join the paid workforce.
- EITC marriage penalties are more severe than the marriage penalties facing middle-class taxpayers



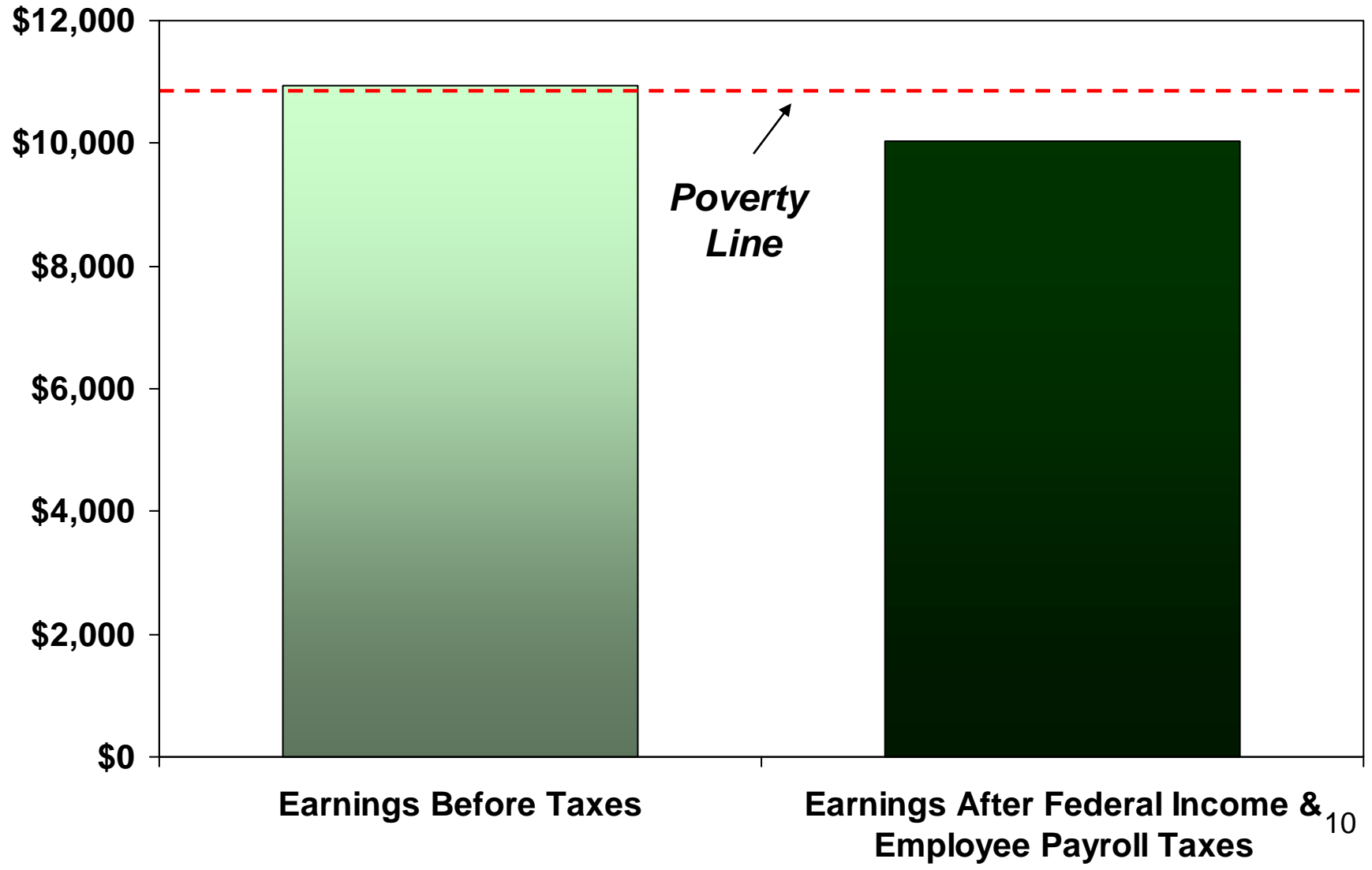
EITC Expansion Bills

- **“Strengthen the Earned Income Tax Credit Act of 2007”** S. 1333, HR 2222
- Expand the EITC for workers not raising children (also HR 2951)
- Expand the EITC for workers raising 3+ children
- Increase “marriage penalty” relief



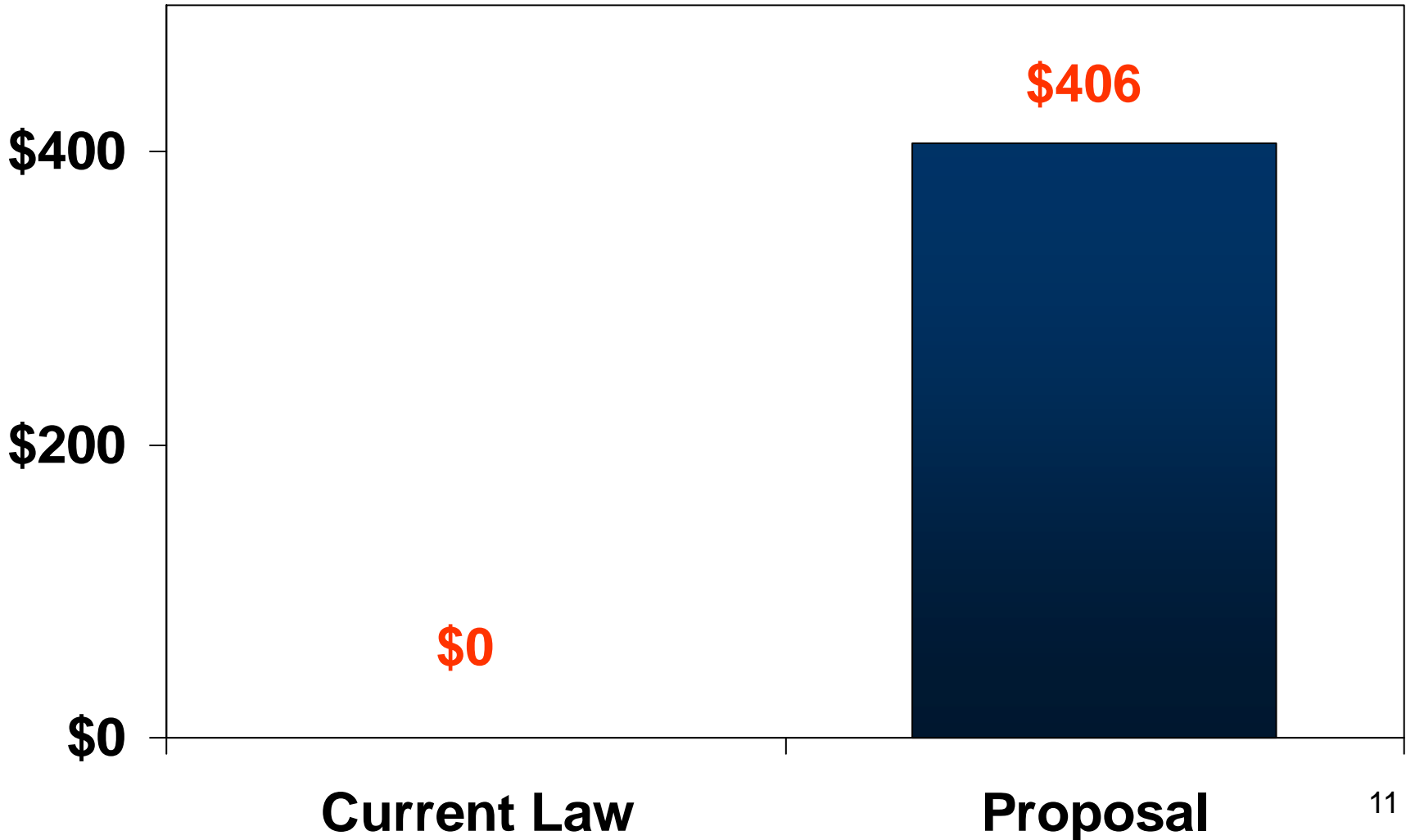
Under Current Law, Childless Workers Are Taxed Into Poverty

Single Worker Without Children With Income at the Poverty Line, 2008



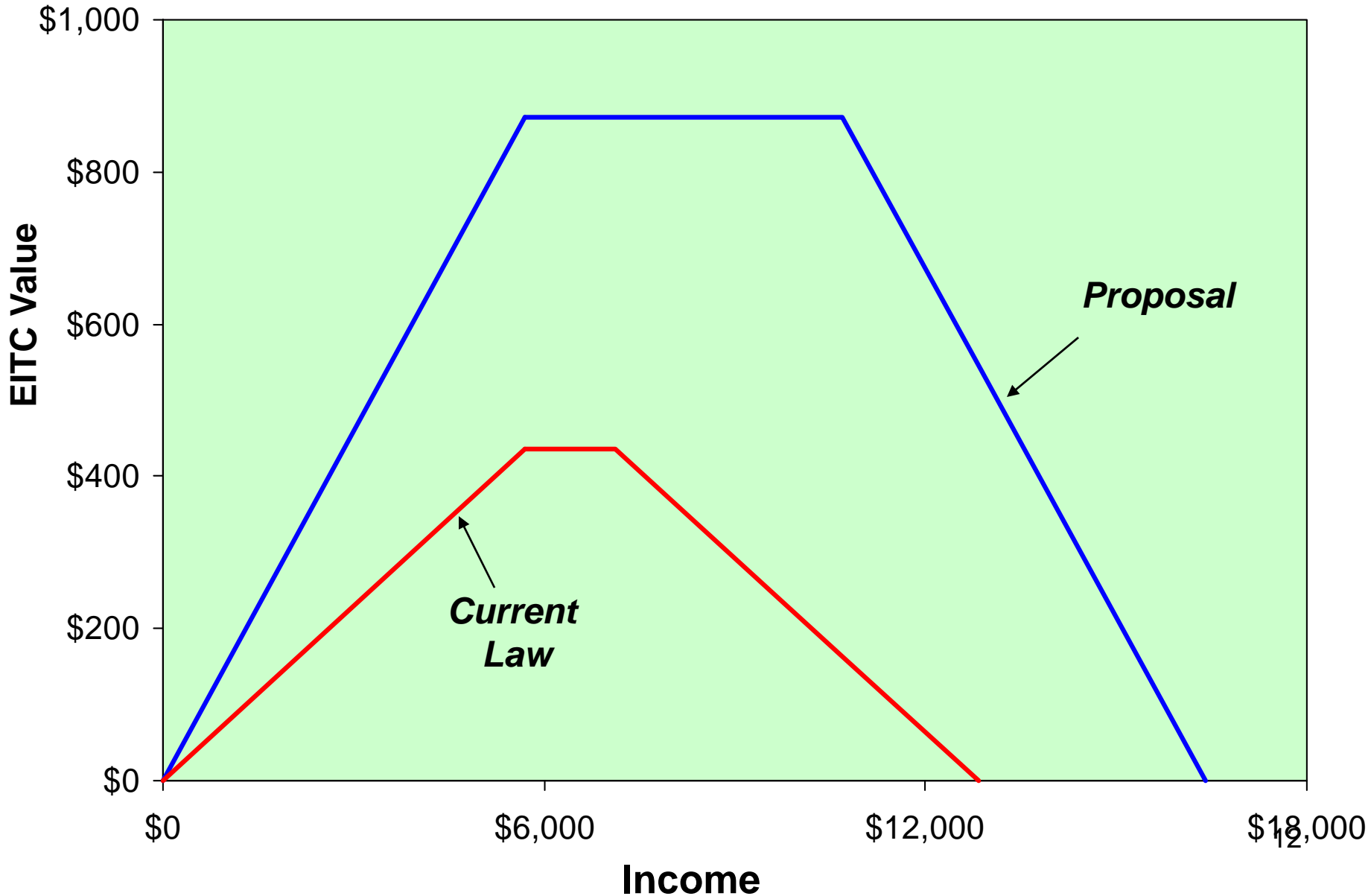
Under Current Law, A Full-Time Minimum Wage Worker Will Be Ineligible for the EITC Once \$7.25 Minimum Wage Takes Effect

EITC for a Single Worker Without Children Working Full-Time at the Minimum Wage in 2010 (First Full Year With \$7.25 an Hour Minimum Wage in Effect)



Yarmouth/Ellison Childless Workers' EITC Expansion

Effects Shown Are for Single Workers in 2008



Other Prospects

- Some early discussion of lowering the age limit to receive the EITC for workers not raising children
- Support for lowering the income threshold amount for the CTC refund from \$11,750 to \$10,000



Refund Anticipation Loans

- Legislation to prevent IRS from issuing the Deposit Indicator when a return is e-filed. Preparers use to determine if a RAL is too risky.
- Require competency testing and IRS registration of commercial preparers.



EITC Error Issues



Earned Income Tax Credit ... simplification

- Treasury Dept. proposals in President's 2008 Budget — Congress must initiate
 1. Abandoned spouse — allow to claim EITC as unmarried, rather than require Head of Household status to claim child
 2. Worker who lives with, but does not claim, a qualifying child — now ineligible for smaller EITC



EITC Pre-Certification?

- 2003 IRS proposed requiring advance documentation of residency of a qualifying child — “pre-certify“ eligibility to claim — would affect several million filers
- IRS has completed three small-sample pilot tests
- Final report next year — early indications are the procedure deters error, but costs too much, and is a barrier to eligible claims



EITC and Immigration Reform

- Senate and House proposals allowed undocumented immigrants to obtain authorization to work legally
- These newly legal immigrants then must follow a 10-year path to earn Legal Permanent Residency status.
- They must pay taxes to obtain LPR status.
- LPR status required to apply for citizenship
- Authorization to work enables eligible workers to claim the EITC — spouse and children would also be legalized



Challenges to Immigrant EITC Eligibility

- Senate bill required legalizing workers to resolve unpaid back tax liability
- Sen. Ensign — don't allow claims for credits or any refunds when filing back taxes
- Results in huge back tax liability for many, plus interest and penalties



Immigrants and EITC

- Sen. Sessions #1 — deny EITC until LPR status granted (about 10 years)
- Sen Sessions #2 — deny EITC until holding LPR status over 5 years
 - Also denies EITC to some currently legal immigrants



CBPP Papers on EITC

- Tax Reform and Poverty
www.cbpp.org/4-10-06tax.htm
- EITC: Boosting Employment, Aiding the Working Poor
www.cbpp.org/7-19-05eic.htm
- Sessions EITC Amendment
www.cbpp.org/6-5-07imm.htm

