



### The Earned Income Tax Credit and Child Tax Credit

The Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) help working families make ends meet by both rewarding work and recognizing the additional expenses of raising children. These tax credits have a strong history of bipartisan support and have been praised and expanded by Republican and Democratic administrations alike. In 2009, Congress significantly improved the EITC and CTC by:

- Making the CTC “refundable” at lower income levels so that more working families with incomes below the poverty line are eligible
- Substantially reducing the “marriage penalty” that some couples faced under the EITC
- Expanding the EITC for families with more than two children, since such families have greater expenses and a higher poverty rate than smaller families

In the *American Taxpayer Relief Act of 2012* the improved EITC and CTC provisions were extended through 2017. While a positive step for working families, these important enhancements were not made permanent despite the incredibly beneficial impact they have for children, families and the economy.

### EITC and CTC Help Pennsylvania Families

- **The combined value of the EITC and CTC to Pennsylvania families and economy was over \$3.6 billion**
- Nearly 900,000 Pennsylvania families benefitted from the EITC (16% of PA tax returns filed)
- The average EITC per Pennsylvania family was \$2,024
- Almost 1.5 million Pennsylvania families benefitted from the CTC (26% of PA tax returns filed)
- The average CTC per Pennsylvania family was \$1,237
- **From 2009-11 the EITC and CTC lifted 116,000 Pennsylvania children out of poverty each year\***

#### In Pennsylvania's 1<sup>st</sup> Congressional District:

- More than **88,000** families received the EITC, on average receiving \$2,327
- Nearly **111,000** families received the CTC, with an average benefit of \$1,098
- More families received the EITC in the 1<sup>st</sup> district than anywhere else in the state
- **Combined the EITC and CTC brought \$327,707,359 to the district's families and local economy**

#### 1st Congressional District - Top Five Areas for EITC Received

Area	Zip Code	Returns	Total EITC Received
Port Richmond	19134	10,533	\$28,394,406
Elmwood/Paschall	19142	6,045	\$15,019,343
Frankford	19124	5,792	\$14,597,279
Upper Darby	19082	5,774	\$13,295,182
Chester	19013	5,131	\$12,701,278

Data source: 2010 IRS, Brookings Institution, Metropolitan Policy Program: <http://www.brookings.edu/research/interactives/eitc>

\*Data Source: Brookings Institution analysis of Supplemental Poverty Measure Public Use Data

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### **The EITC and CTC Reduce Child Poverty and Promote Work**

Nationwide, in 2011 the EITC and CTC lifted nearly 5 million children — and a total of more than 9 million people — out of poverty. **The 2009 improvements alone lifted 800,000 children (1.5 million people) out of poverty.** To benefit from the EITC and CTC, *a family must be working.* Research has shown that EITC increases employment and reduces poverty among families with children, particularly single-mother families.

### **Reducing these Credits, or Limiting Refundability, Will Increase Poverty and Hurt the Economy**

Changing the credits will hit working families with children hard. For instance:

- A mom with two children working full time at minimum wage (\$14,500/year) would see the value of her family CTC drop from \$1,725 to \$165 if Congress acts to alter or eliminate refundability. This is a drastic reduction that would make it even more difficult for her to afford basics — rent, food, child care and transportation so she can work.

### **The EITC and CTC provide high “bang for the buck” support for the still-struggling economy**

In an analysis of tax provisions due to expire in 2012, the Congressional Budget Office (CBO) confirmed that the provisions affecting low- and middle-income families were much more effective in supporting the struggling economy than those for high-income families. Reducing these credits would decrease consumer spending, hurt business and potentially lead to job losses.

### **Families receiving the EITC and CTC pay a host of other federal, state, and local taxes**

Low-income families pay substantial federal, state and local taxes. In fact, they pay a much larger percentage of their income in these other taxes than high-income people. A CBO analysis shows: in 2009, on average, the 20 percent of households with the lowest incomes paid nearly 11 percent of their income in payroll, excise, and other federal taxes. State and local taxes consumed another 12 percent of these households' incomes.

### **Reducing child poverty is an investment in our nation's competitiveness and future prosperity**

Today's low-income children are tomorrow's labor force. Studies have found that boosting the incomes of the poorest families through measures such as these credits raises children's school performance and is associated with increased employment when children reach adulthood. The EITC in particular is an effective and efficient means of targeting federal dollars to children who most need and benefit from this investment.

### **Conclusion**

As Congress works to develop and agree upon a broad range of tax and spending changes to achieve deficit reduction, we urge that the EITC and CTC remain protected as they currently stand. Deficit reduction should not exacerbate poverty or stifle economic opportunity for those struggling to get into the middle class. The EITC and CTC meet important national priorities of encouraging work, helping working families make ends meet, and promoting better school performance among poor children. The tremendous value of these credits is widely acknowledged, as both the Bowles-Simpson and Gang of Six deficit reduction plans maintained the current iterations of EITC and CTC. The federal investment in children, families, and the economy through the EITC and CTC are too important to be altered in any way in order to offset the costs of other spending that reaches far fewer families and is far less impactful.