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Working Families’ Tax Credits: Earned Income Tax Credits and Child Tax Credits

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How federal tax policy supports low-income households:
• Helps low-income working families by increasing their spending power.
• Draws new workers to the labor market.
• Both have measurable economic benefits to the local areas.

Why this is especially true for tax year 2021.
• How state tax policy can further support low-income households.
Introduction to the Federal EITC and CTC
If a **refundable tax credit** exceeds a taxpayer’s income tax liability, the taxpayer receives the excess amount as a payment.

For example, a filer with children earning $15,000 does not owe tax because the standard deduction eliminates their tax liability. They can get a sizeable tax rebate if they are eligible for **refundable tax credits**.

In contrast, a **nonrefundable** credit can only offset income tax liability. The filer with $15,000 would not benefit from a nonrefundable tax credit.
• Refundable tax credit based on earned income (i.e., wages) and family size (i.e., families with multiple children get larger credits).

• Income eligibility:
  • Available to households with children earning up to $51,000.
  • Available to those without children earning up to roughly $21,000.

• Key eligibility constraint: tax filer must have earned income.

• Child eligibility: Child must be claimed on filer’s return (i.e., if parents are not married, only one can claim) and be younger than 19 (unless student, then younger than 24).

• All people on the tax return must have a Social Security number (i.e., no ITINs).

• Credit amount: Goes up and down with filer’s income until phasing out at maximum income levels. Maximum credits in tax year 2021 are $1,502 for childless filer, $3,618 for filer with one child, $5,980 for filer with two children, and $6,728 for filer with three or more children.
Overview: Earned Income Tax Credit (EITC)

- Credit varies with filer’s earnings: 3 ranges
  - Credit amount goes up at first with filer’s earnings.
    - As a result, draws people into employment.
  - Maximum credit over a range of earnings.
  - Phases out above certain level.

- Maximum credits in TY 2021:
  - $3,618 for filer with one child.
  - $5,980 for filer with two children.
  - $6,728 for filer with three or more children.
  - $1,502 for filer with no children.

- 1 in 6 tax returns claimed EITC
  - $66.4B in tax credits.

- Average credit, unmarried parents: $2,400. Paid once/year.
Overview: Child Tax Credit (CTC)

- The CTC is a partially refundable tax credit based mostly on the number of children on the filer’s return.
- The rules for tax year 2021 were very different from the rules in 2020 and 2022.
- Income eligibility: filer must earn $3,000 to get the refundable credit.
- Child eligibility: Child must be claimed on filer’s return (i.e., if parents are not married, only one can claim) and be younger than 17 (older children are eligible for a nonrefundable credit).
  - There is no cap on the number of children a filer can claim.
- Children must have a Social Security number (i.e., parents can have ITIN).
EITC + CTC lift more people out of poverty than any program other than Social Security.

AND

EITC + CTC lifts more kids out of poverty than any other program.
Benefits

- Increases employment among those targeted. (Schanzenbach & Strain, 2020)
- Most/all benefits to those with children and improves their outcomes:
  - Born with higher birthweight, better health (EITC). (Hoynes, Miller & Simon, 2015)
  - Improves school test achievement (EITC). (Dahl & Lochner, 2012)
  - Increases spending on kids’ goods (EITC + CTC). (Pilkauskas & Conney 2021; Barrow & McGranahan, 2008)
  - Reduces material hardship (EITC + CTC). (Parolin, Ananat, Collyer, Currin & Wimer, 2021; Fox, 2020)
- Economic benefits to state as whole. (Edelberg & Sheiner, 2020)
What did EITCs and CTCs look like with ARP expansion?
More workers without children received EITC in 2021

- For tax year 2021, workers who do not claim a child can get a maximum EITC of $1,502 and can earn up to roughly $21,000 (if single) and still get the credit.

- Before the ARP changes, these workers could only receive a maximum credit of $543, and it phased out at roughly $15,000.

- Workers ages 19 to 24 (unless a student) and workers older than age 65 were also made eligible for the EITC for 2021 only.

- In tax year 2022, the maximum credit, income eligibility, and age eligible revert to the pre-ARP rules.
Difference in “refundability”

Temporary reforms:

- Higher benefits to all
- More to lowest income
- Payments to those without income
- Monthly payments

Adapted from https://www.taxpolicycenter.org/briefing-book/what-child-tax-credit (labels updated)
ARP Child Tax Credit expansion reduced poverty and material hardship

- Refundable Child Tax Credit in 2021 estimated to reduce child poverty by 40%. (Acs & Werner, 2021)
  - 4.3 million fewer children in poverty.
  - Impact varies by state: 47% decline in Oklahoma; 38% decline in Colorado.
- Food insufficiency declined 25% in low-income families with children. (Parolin, Ananat, Collyer, Currin & Wimer, 2021)
State EITCs and CTCs
State EITCs

33 states, the District of Columbia, Guam, Puerto Rico and some municipalities have EITCs
State CTCs
12 states have CTCs

Child Tax Credit Overview, NCSL
States have options to boost a filer’s EITC rebate

- State credits are typically a percentage of the federal credit.
  - State credits vary in size and by family structure.
- ND and WA both have a flat rate.
  - ND has a temporary credit for tax years 2021 and 2022.
  - WA has a state-level credit, but not state income tax.
- MD and DE both have a refundable and nonrefundable option taxpayers can choose from, but they can only choose one credit.
- IA, OK, TX and VA appropriate funds or implement measures to help state and federal EITC-eligible families prepare their tax filings.
- CA, CO, MD and WA expand credits to ITIN filers.
NCSL Resources

- Child Tax Credit Overview
- Earned Income Tax Credit Overview
- 2021 Economic Mobility Legislative Summary
- Economic Mobility Enacted Legislation Database
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