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Expanding Earned Income Tax Credits for Childless Workers

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The federal earned income tax credit (EITC) is a government policy bolstering the financial security of low-income workers and their families. It provides tax filers with a refundable tax credit against their federal income tax liability. The federal EITC supported 25 million tax filers with $61 billion in tax credits—$60 billion of which was refunded—in 2019 alone.

The federal EITC, however, is of little benefit to workers without qualifying children (such as childless adults or non-custodial parents). While roughly a quarter of tax filers claiming the federal EITC have no qualifying children, their filings account for only 3% of the credit's total value. Consequently, the average federal EITC received by tax filers without qualifying children is $291 compared to their counterparts with qualifying children: $2,400, $3,819 and $4,152 for one, two and three or more children, respectively. Additionally, workers ages 18 to 24 and older than 64 without qualifying children are ineligible for the federal credit altogether.

As a result, the federal EITC lifts few low-income workers without qualifying children out of poverty. Research also indicates that many of the social benefits realized by EITC recipients with qualifying children, such as improved long-term health, career and education outcomes, do not extend to recipients without qualifying children because they receive smaller tax credits.

Federal Action

The federal EITC, by design, provides enhanced support for workers with qualifying children. In 2019, tax filers with three or more qualifying children were eligible to receive a maximum credit of $6,557 compared to $529 for workers with no qualifying children. Similarly, the income threshold at which the credit is no longer available is set

much higher for workers with three or more children (if single, $50,162; if married, $55,952) than for workers without a qualifying child (if single, $15,570; if married, $21,370). There also is no age restriction for workers with qualifying children. The EITC has widespread bipartisan support as it relates to families, and interest in expanding its benefits for workers without qualifying children is gaining momentum.

Federal lawmakers in 2019 introduced several bills to expand the EITC for workers without qualifying children. For example, the Economic Mobility Act of 2019 (H.R. 3300) would have temporarily (for 2019 and 2020) expanded EITC eligibility to workers ages 19 to 24 and 65 (from 64) without qualifying children. It would also have temporarily increased the maximum credit amount for these workers from $529 to $1,464 as well as the income threshold at which the credit is no longer available. Finally, it would have adjusted the phase-in and phaseout percentages—the rate the credit amount increases or decreases depending on the tax filer's income.

Did You Know?

- IRS publication 596 contains a complete list of eligibility rules and instructions for determining the exact amount of an individual's federal EITC.
- New York and the District of Columbia provide tax credits to non-custodial parents, who are generally not eligible for the federal EITC.
- Young adults transitioning to adulthood are particularly vulnerable to long-term effects of poverty.

State Action

While efforts to expand the federal EITC for workers without qualifying children are being deliberated, at least four states and the District of Columbia have expanded their state EITCs to better support this population.

Twenty-nine states and the District of Columbia have their own EITCs, providing an additional benefit to what tax filers receive in federal credit. All but Washington apply the credit against workers' state income tax liability. Washington considered a sales tax exemption but its program has not been funded. Florida considered funding its EITC via state appropriations, but the measure was not enacted.

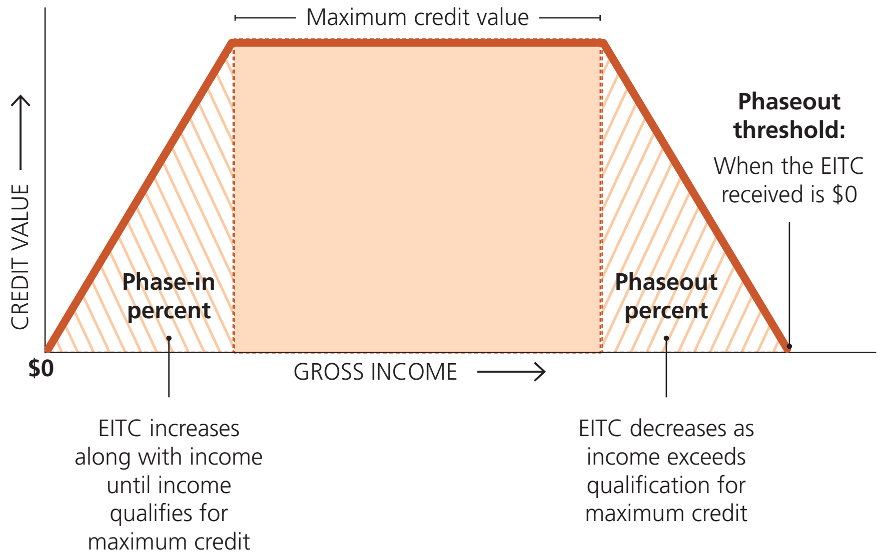
Many states base their EITCs' eligibility standards and credit amount on the federal credit. As a result, many of the federal limitations for workers without qualifying children extend to state credits. For example, 27 states determine tax filers' state EITC as a percentage of what they receive in federal credit. In addition, at least 23 states require that tax filers be eligible for (or in Colorado, Connecticut, Hawaii, Indiana and Kansas, have claimed) their federal EITC to claim the state credit. Unless the state law specifies otherwise, these standards automatically exclude 18- to 24-year-olds and those over 64 in the same manner as federal EITC.

The District of Columbia was the earliest jurisdiction to expand its EITC for workers without qualifying children, doing so with the 2015 tax year. More recently, four states—California, Maine, Maryland and Minnesota—made similar expansions. These enactments have altered or removed age restrictions, increased the maximum value of credits and adjusted phase-in and phaseout percentages and thresholds.

All four states broadened the qualifying age range for workers without qualifying children beyond federal limits. California applies its credit to everyone 18 and older, Maryland and Maine include 18- to 24-year-olds, and Minnesota includes 21- to 24-year-olds.

Maine and D.C. both increased their credit's maximum value for workers without qualifying children, using different methods. Maine is the only state that calculates its EITC as a percentage of the federal credit to offer a higher percentage to workers without qualifying children (25%) than workers with them (12%). D.C. switched its credit for workers without qualifying children from a percentage (40%) of the federal EITC to a calculation resulting in a significantly greater maximum credit, from $198 to $503 in the first year after the policy change.

How the Earned Income Tax Credit (EITC) Is Calculated



California, Minnesota and D.C. use their own phase-in and phaseout percentages and threshold levels to determine their credit values. Minnesota and D.C. set their phaseout thresholds higher than the federal EITC, meaning many tax filers qualify for their credits but earn too much to qualify for the federal credit. For example, 2019 Minnesota childless tax filers became ineligible for the state credit at higher income levels ($21,370 if single, $28,513 if married) than the federal credit. California does not differentiate between married and single childless tax filers, setting their childless phaseout threshold at $16,800. As a result, some married childless tax filers may be eligible for the federal credit, but not the California credit.

California and Minnesota set their phase-in percentages much higher than their phaseout percentages. Using this method, both states skew their EITC resources toward workers with the lowest incomes. For example, California, for the 2019 tax year, set its childless worker phase-in rate at 5.43% and its phaseout rate at .92%. This means California's EITC quickly reaches its maximum credit value in the first $3,551 of earned income and then slowly tapers off until the phaseout threshold ($16,800) is reached. D.C. changed its phase-in and phaseout percentages to 8.48%, resulting in a broader range of tax filers qualifying for the maximum credit. As a result, 50.7% of D.C.'s childless tax filers received the maximum credit value in 2015, compared to 12.8% in 2014.

Additional Resources

- NCSL's Tax Credits for Working Families
- The Earned Income Tax Credit for Childless Workers, Congressional Research Service
- The Expansion of the District of Columbia Earned Income Tax Credit for Childless Workers, February 2019, D.C. Office of Revenue Analysis
- The Working Family Credit and Federal Earned Income Credit, Minnesota House Research

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