

CREDIT WHERE CREDIT IS DUE:

The EITC and CTC — two proven tools to keep low-paid workers out of poverty and how to make them better

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Despite the vast wealth in Massachusetts, many families are left behind.

The economy has continued to grow but many low- and moderate-income families struggle to get by in the face of housing and childcare costs that are some of the highest in the nation.¹

One of the most successful ways to lift people out of poverty is through tax credits targeted to low- and moderate-income families. Families use these credits to reduce their income taxes or receive a refund check. The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are two widely successful tax credit programs for improving family economic security and well-being — combined, the credits lift more people out of poverty than any other federal program except Social Security.² Nonetheless, there are opportunities to make these programs even better.

How these tools help families

The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) have been shown to:

- **Keep people out of poverty.** The EITC benefits about 400,000 Massachusetts families and the CTC benefits about 230,000 families.³ About 150,000 people in Massachusetts were kept out of poverty each year by the EITC and CTC.⁴ Multiple studies show that the EITC and CTC help families reduce stress by enabling them to better manage household finances, use the money for necessary expenses, and build their savings.⁵
- **Boost health.** Studies show these tax credits tend to improve the well-being of infants, mothers, and entire neighborhoods. The extra boost from the EITC has also been linked to other predictors of health outcomes, such as better access to prenatal care, improved ability to purchase nutritious foods, and reduction of financial stress.⁶
- **Improve educational outcomes.** Extensive research has linked these tax credits with improved educational achievement. For instance, the EITC has been linked to improved test scores as well as higher high school graduation rates and college enrollment. Better educational outcomes can, in turn, improve health and economic mobility.⁷
- **Encourage people to work.** One study found that EITC expansions were the most important reason that employment rose among single mothers with children during the 1990s. The EITC had a larger impact in increasing work than the strong economy or policy changes in cash assistance programs.⁸

How these tools can be even better

While the EITC and CTC are two of the most effective programs to help families stay afloat, both credits still don't reach some of the workers and families who need them the most.

Legislation currently before Congress could increase the federal EITC and CTC and extend these credits to some of the workers and families who currently cannot benefit. Proposals would, for instance, enable young, low-wage adults entering the workforce and older adults nearing retirement to claim the EITC. Likewise, very low-paid parents, who currently are ineligible for the CTC, could be included in its benefits.

The Legislation could also give a greater boost to workers not claiming children. These workers can currently claim the EITC, but their credit is so small that they are the only group often taxed into poverty.⁹

About the Earned Income Tax Credit (EITC)

What is the EITC?

The EITC is a refundable tax credit for lower-income workers – especially those with children.

How does the federal EITC work?

When eligible workers file their annual income taxes, they can subtract their credit amount from the total taxes they owe the federal government.

The credit is also “refundable” which means that, if the credit is more than the amount a taxpayer owes, the taxpayer can receive a refund for the difference.

When workers file their 2019 taxes, working families with children who earned up to about \$41,100 to \$56,000 (depending on marital status and number of dependent children) may be eligible for the EITC.

Does Massachusetts offer a state match?

Yes – Massachusetts provides its own state EITC that is 30 percent of the value of the federal credit. It operates largely under the same eligibility rules as the federal EITC – a tax filer's eligibility and the value of their credit depend on marital status, how much income the tax filer earned that tax year, and how many dependent children the tax filer has at home.

What is the EITC's impact in MA?

In Massachusetts, about 400,000 tax filers claim the state EITC yearly.¹⁰ This means \$840.8 million in federal dollars helped give Massachusetts workers a boost.¹¹

How does the EITC help advance racial equity?

The persistent effects of systemic racism have barred many workers of color from economic opportunity, meaning workers of color tend to have lower pay. A larger percent of families of color are lifted out of poverty by the EITC than white families.¹² Nonetheless, families of color still are more likely to remain in poverty even after they receive the EITC.¹³

Of those eligible for the EITC in Massachusetts, more than half are White, about 19 percent are Hispanic, 13 percent are Black, and 7 percent are Asian or Pacific Islander.¹⁴

What are the credit amounts in the 2019 tax year?

The maximum amount of credit for a married couple jointly filing taxes for the 2019 tax year is:¹⁵

- \$6,557 for families with three or more qualifying children
- \$5,828 for families with two qualifying children
- \$3,526 for families with one qualifying child
- \$529 for families with no qualifying children

What are some limitations?

Currently, workers who are younger than 25 cannot claim the EITC unless they are claiming children. A newly graduated 23-year-old getting a foothold in the workforce, for instance, cannot claim the EITC even if they are paid too little to cover the cost of living or pay back student loans.

For other workers not claiming children, the EITC benefit is so low that many of them are taxed into poverty.¹⁶

Tax filers older than 64 also cannot claim the EITC. With the full retirement age for receiving Social Security rising to age 67 (by 2022), many older adults with little retirement security may work more years but still struggle to get by in a high-cost-of-living state like Massachusetts.

About the Child Tax Credit (CTC)

What is the CTC?

When families with children file their annual income taxes, if they owe taxes to the federal government, they can use the Child Tax Credit to reduce the amount they owe. This helps them meet their children's basic needs.

How does the CTC work?

The CTC is worth up to \$2,000 per eligible child for a tax year. Consider a couple with two qualifying children who would owe \$4,600 in taxes without the credit. With the credit, they can reduce their tax bill by \$2,000 per child and would instead owe \$600.

The credit is typically worth less for lower-income families. Those families paid less than \$2,500 are completely ineligible for the CTC. The CTC is worth 15 percent of each dollar in earnings above this \$2,500 threshold rising to the full credit for those paid \$200,000 (or couples paid \$400,000). The credit phases out completely for those paid more than \$280,000 (or couples paid more than \$480,000).¹⁷

For example, a single parent who is paid \$3,000 can only claim a \$75 credit, while a couple with two children who is paid \$400,000 can together claim a \$4,000 credit.

The CTC ramps down for higher-income households that need less help with the costs of raising children.

Unlike the EITC, this credit is only partially "refundable," meaning if the credit is more than what the taxpayer owes the federal government, the taxpayer can receive a refund for the difference. The taxpayer can claim a refund no larger than \$1,400 per child.

The CTC also includes a \$500 credit for families with eligible dependents older than 17. This credit is non-refundable.

Does Massachusetts offer a state match?

No, Massachusetts does not offer a state CTC. Two states — New York and Oklahoma — offer credits directly tied to the federal CTC. A handful of other states offer dependent credits.¹⁸

What is the CTC's impact in Massachusetts?

In Massachusetts, 401,140 tax filers claimed the federal CTC, according to the most recently available data from 2016. This brings \$473.9 million in federal dollars into the pockets of Massachusetts working families.¹⁹

How does the CTC help advance racial equity?

Like the EITC, systemic barriers to opportunity mean children of color are more likely to be in families with less income. The federal CTC helps reduce poverty among families, but its effect differs by race and ethnicity. Across the nation, the CTC lifts 20 percent of White, non-Hispanic children out of poverty, 18 percent of Hispanic children, and only 13 percent of Black, non-Hispanic children.²⁰

Expanding the federal credit and combining it with a state match could move more children out of poverty and even out the different impacts between racial and ethnic groups.

What are some limitations?

While the CTC is effective at keeping many working families out of poverty, the credit excludes some of the lowest earners.

As discussed earlier, a family that earns less than \$2,500 after other deductions is ineligible for a credit and a single parent with two children earning between \$2,500 and \$30,000 only receives partial credit. Across the nation, about 26 million children live in families facing extreme poverty who aren't paid enough to qualify for the full CTC.²¹ These are families that may most need the full credit.

Further, because the CTC is only partially refundable, families with smaller tax bills are unable to make full use of the credit they are eligible for.

Finally, while the CTC is helpful for families with children of all ages, the credit may not go very far for parents with very young children. This can be a challenge, particularly in Massachusetts — one of the least affordable states for child care.²² In Massachusetts, infant child care can cost anywhere from \$12,800 to \$20,415 per year depending on the type of child care. Currently, the maximum CTC would only help offset about a sixth to a tenth of these costs.

Ways to make tax credits work better for workers and families

The EITC and CTC are some of the most effective tools for keeping families out of poverty, but there are several ways to expand both programs so they can support the families who need them most. One proposal before Congress — the Working Families Tax Relief Act — could make these expansions.

How can the EITC work better?

- **The EITC could be increased to better support families and workers in Massachusetts.** The EITC has been proven to keep millions of Americans out of poverty, but it often does not go far enough in an expensive state like Massachusetts — where a worker receiving the minimum wage would have to work 91 hours a week to afford an average, one-bedroom rental home.²³

- **The EITC could better support workers not raising children.** Currently, workers not claiming children are often taxed into poverty. Even if they are eligible for the EITC, the amount is so low that it does not help keep them out of poverty.²⁴
- **The EITC could include some other working people who could most use a boost.** These include young adults early in their careers without children at home and older adults nearing retirement age.

How can the CTC work better?

The CTC is a powerful tool for families to ensure they can give their children the best shot at a bright future. But – like the EITC – it currently doesn’t reach some who could use it most.

- **The CTC could include low-paid families and single parents.** The full credit could be expanded to support families who are paid very little and single parents with low pay, both of whom either cannot claim the credit or can only claim part of it.
- **The CTC could be made fully-refundable.** Families at present only can receive part of their refund if the credit is worth more than what they owe in taxes. In Massachusetts, a fully-refundable \$2,000 federal CTC could lift 22,000 children (40,000 people total) out of poverty.²⁵
- **The CTC could give the youngest children an additional boost.** In a state with some of the most expensive child care in the country,²⁶ those with very young children may be hard pressed to find good, affordable child care that allows them to go to work worry-free. The CTC can give an extra boost to those with children younger than school age.

Who would benefit from these improvements?

Expanding both the federal EITC and CTC could help give about 1.9 million Massachusetts residents a boost.²⁷ With these expansions, a quarter of Massachusetts taxpayers could see some combination of tax cuts or refunds averaging \$1,820 in 2020.²⁸

Of those in Massachusetts who would benefit, 32,200 are veteran or active-duty military households.²⁹

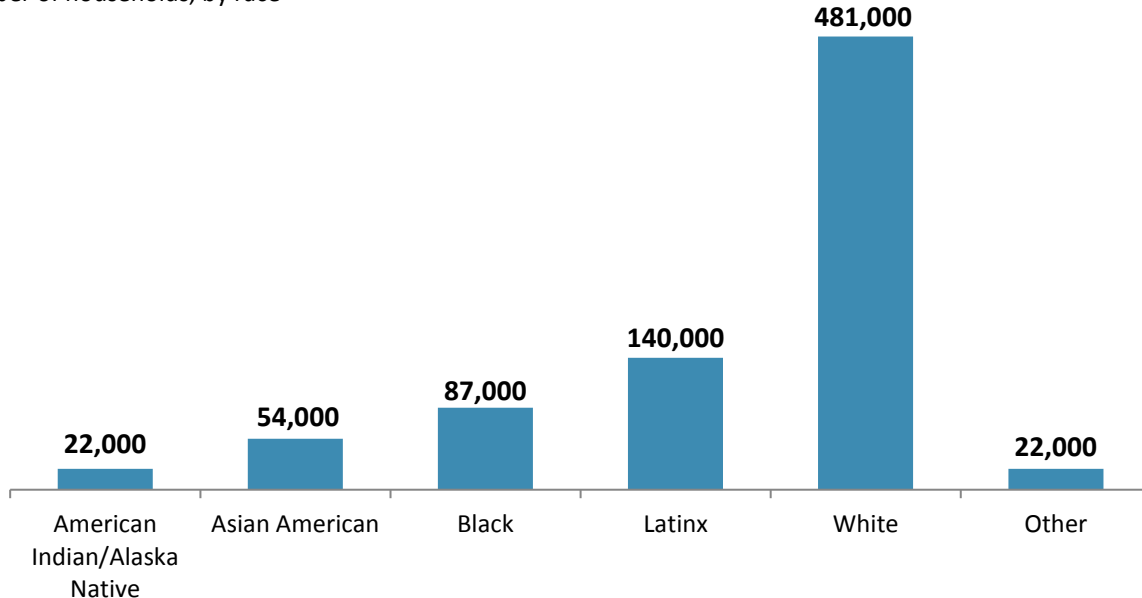
Table 3: Top Massachusetts workers who will benefit from expansion of federal EITC and CTC

Cashiers	32,400
Nursing, psychiatric, home health aides	27,300
Retail salespersons	22,600
Cooks	21,800
Janitors and building cleaners	21,200
Waitstaff	20,000

Source: Center on Budget and Policy Priorities.

Chart 1: MA households who would benefit from federal EITC and CTC expansion

Number of households, by race



Source: Center on Budget and Policy Priorities.

Expanding these programs could help give a boost to more than a quarter of the entire Massachusetts population. Expanding these credits can be one modest step towards advancing racial equity – by helping workers of color make ends meet. This expansion could also have far-reaching effects in improving their long-term health, giving children the best shot at school success, and enabling workers to support their families.

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² Robert Greenstein et al., “Improving the Child Tax Credit for Very Low-Income Families,” Center on Budget and Policy Priorities (April 2018), pp.2 & 4-5, https://www.cbpp.org/sites/default/files/atoms/files/urban_ctc_paper.pdf

³ Center on Budget and Policy Priorities, “The Earned Income Tax Credit: A Critical Tool to Fight Poverty and Reward Work in Massachusetts,” (2019) https://www.cbpp-multimedia.org/1-25-19tax/1-25-19tax_eitc_massachusetts_statewide.pdf ; Center on Budget and Policy Priorities, “The Child Tax Credit: A Tool for Fighting Child Poverty in Massachusetts,” (2019) https://www.cbpp-multimedia.org/1-25-19tax/1-25-19tax_actc_massachusetts_statewide.pdf

⁴ Nancy Wagman, “Obstacles on the Road to Opportunity,” MassBudget (May 9, 2018), p.33, <http://massbudget.org/reports/pdf/Obstacles-on-the-Road-to-Opportunity-funder-update.pdf>

⁵ Robert Greenstein et al., “Improving the Child Tax Credit for Very Low-Income Families,” Center on Budget and Policy Priorities (April 2018), https://www.cbpp.org/sites/default/files/atoms/files/urban_ctc_paper.pdf

⁶ Phineas Baxandall and Monique Ching, “A Credit to Health: The Health Effects of the Earned Income Tax Credit,” MassBudget (May 3, 2018), http://massbudget.org/report_window.php?loc=A-Credit-to-Health.html

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- ⁷ Phineas Baxandall and Monique Ching, “A Credit to Health: The Health Effects of the Earned Income Tax Credit,” MassBudget (May 3, 2018), http://massbudget.org/report_window.php?loc=A-Credit-to-Health.html
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- ⁹ Chuck Marr and Yixuan Huang, “Childless Adults Are Lone Group Taxed Into Poverty,” Center on Budget and Policy Priorities (June 10, 2019), <https://www.cbpp.org/research/federal-tax/childless-adults-are-lone-group-taxed-into-poverty>
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