Next Steps in Reforming the EITC and CTC

Implications of Legislative Options

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Why is anyone talking about this?

• Growing income inequality (Congressional Budget Office, 2019)
• Multiple hardships at low end of distribution
  – Food insecurity
  – Missed or delayed health care
  – Inability to meet basic needs
  – Childcare problems
• Longterm poor outcomes
  – Education and health,
Role of the tax system in providing cash

- Long history of redistributing income

- Growing emphasis on tax cuts versus spending programs
  - e.g. refundable credits

- Largest anti-poverty program for working age families is in the tax system
Work Credit Proposals, 2019
Impact on EITC by filing status or number of children

Current law

CLR

LIFT

WFTRA
LIFT Act Plus Existing Earned Income Tax Credit

Benefit by filing status

Income ($)

Benefit ($)

- Married with children
- Single with children
- Single, no children
- EITC (married with 2 children)
- EITC (single with 2 children)
- EITC (single with no children)

Source: Authors’ calculations.
Note: EITC = the earned income tax credit. The LIFT Act would supplement (not replace) the existing EITC for eligible families. These calculations assume all income comes from earnings and that households with children have two children.

Billions of dollars

**Proposal**
- CLR
- LIFT
- AFA
- WFTRA

**Cost Comparison**
- **Current Law, CTC**
- **Current Law, EITC**

Source: Tax Policy Center Microsimulation Model (version 0319-2): Table T20-0005.

Note: CTC = the child tax credit; EITC = the earned income tax credit.
Distribution of 2019 EITC/CTC, Current Law and Proposals
By share of net benefits distributed by income quintile

Estimated 10-year expenditures (billions)

Current Law

- EITC: $750
- CTC: $1,220

Proposals

- LIFT: $2,730
- CLR: $1,510
- AFA: $1,290
- WFTRA: $1,100

Share of total federal tax change


Note: EITC = the earned income tax credit; CTC = the child tax credit; AFA = American Family Act; CLR = Cost of Living Refund Act; LIFT = Livable Incomes for Families Today Act; WFTRA = Working Families Tax Relief Act. Proposal cost estimated over fiscal years 2019–2028.
Average Change in Tax Benefits, 2019 Child and Work Proposals

Comparing lowest and highest quintiles of income


Note: AFA = American Family Act; CLR = Cost of Living Refund Act; LIFT = Livable Incomes for Families Today Act; WFTRA = Working Families Tax Relief Act; EITC = the earned income tax credit. Proposal cost estimated over fiscal years 2019–2028. AFA proposed changes to the CTC only, while WFTRA proposes changes to both credits, and LIFT and CLR only propose changes to the EITC. The LIFT credit would supplement the current EITC while all others would replace the relevant existing credit(s).
Average Change in Tax Benefits, 2019 Child and Work Proposals

Comparing families with and without children

10-year cost of proposal ($ billions)

Average tax benefit

- AFA: $1,290
- CLR: $1,510
- LIFT: $2,730
- WFTRA: $1,100


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Average Change in Tax Benefits, 2019 Child and Work Proposals

Comparing married and not married people

Average Change in Tax Benefits, 2019 Child and Work Proposals

Comparing elderly vs non-elderly filers


Taxes are a blunt instrument

- Tax units vs. households
- Work and child based assistance leave out
  - Elderly
  - Childless
- Timing mismatch
  - Annual eligibility
  - Benefits come largely after tax filing for low- and moderate-income people
## Advanced Payment Option

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td>Current law, earned income tax credit</td>
<td>No advanced payment option. Majority of credit delivered as tax refund in the calendar year following the year of eligibility.</td>
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</tr>
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<td>Cost-of-Living Refund Act</td>
<td>Option to receive up to $500 of credit before tax filing.</td>
</tr>
<tr>
<td>LIFT (Livable Incomes for Families Today) the Middle Class Act</td>
<td>Monthly advanced payment option.</td>
</tr>
<tr>
<td>American Family Act (AFA)</td>
<td>Monthly advanced payment option.</td>
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</tbody>
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Example of timing

Single parent, two children ages 3 and 7, Colorado
By hours worked

Source: Urban Institute Net Income Change Calculator.
Note: Child care costs are assumed to be $0 when the parent is not working. When the parent begins working, the cost of child care is assumed to be $741 which grows to $1,482 when the parent is working 40 hours per week. The parent's hourly wage is assumed to be the minimum wage in Denver in 2020, deflated to 2016 levels using the Consumer Price Index for All Urban Consumers (CPI-U).
Rent is assumed to be the 2016 Fair Market Rent in Denver (HUD) for a 1-bedroom unit.
Analysis incomplete without...

- Understanding how programs will be paid for
- Address administration