

EARNED INCOME TAX CREDIT (EITC) IN THE DISTRICT OF COLUMBIA

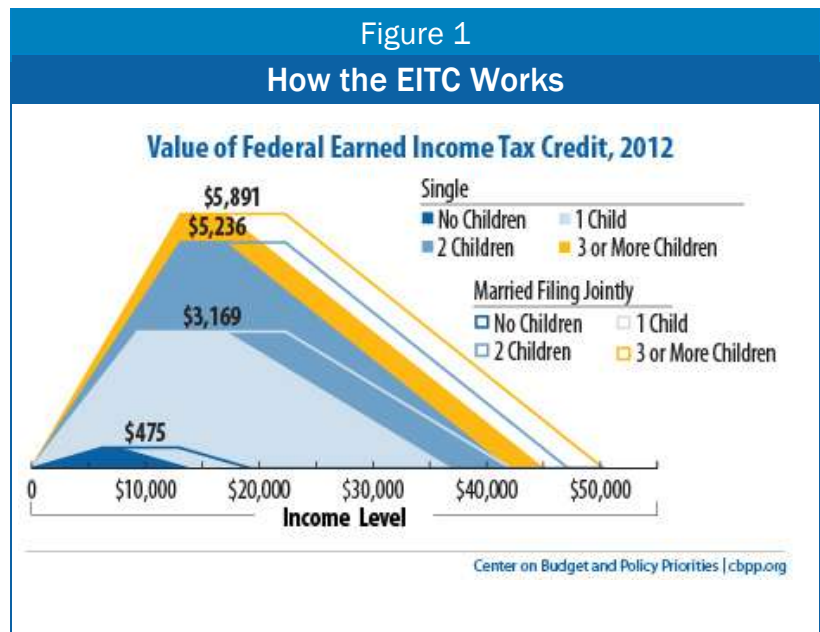
Overview

The District's Earned Income Tax Credit (EITC), based on the federal EITC, increases the take-home pay for low-income working residents by boosting their incomes and reducing their income tax liability. Twenty four states, including DC, offer a state-level credit. In 2008, nearly 47,400 filers claimed the federal EITC in DC with an average benefit of \$1,875 per household. The EITC is one of the most effective anti-poverty tools for low-income working families. In 2010, the Federal EITC lifted about 6.3 million people out of poverty, of which over half were children.¹ The added value of the DC EITC helps it reduce poverty in the District beyond the impact of the federal credit.

This policy brief provides basic information on the District's EITC program. It also identifies a key issue currently facing the program, the fact that the EITC currently only provides extremely limited benefits for childless adults.

Who is Eligible for the EITC and How Does it Work?

DC's EITC was created in 2000 and helps boost the take-home pay of low-income DC workers. DC's EITC is tied to the federal EITC that was established in 1975.² The DC EITC, like the federal EITC, is a refundable credit, meaning that if a family's EITC benefit exceeds their tax liability, then the family will receive the remaining amount of the EITC as a refund. Both the federal and the DC EITC have the same benefit structure and eligibility requirements. Families and individuals who claim the federal EITC are also able to claim the DC EITC, which is set at 40 percent of the household's federal EITC amount.



¹ Center for Budget and Policy Priorities, "Policy Basics: The Earned Income Tax Credit," Feb 2012, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>.

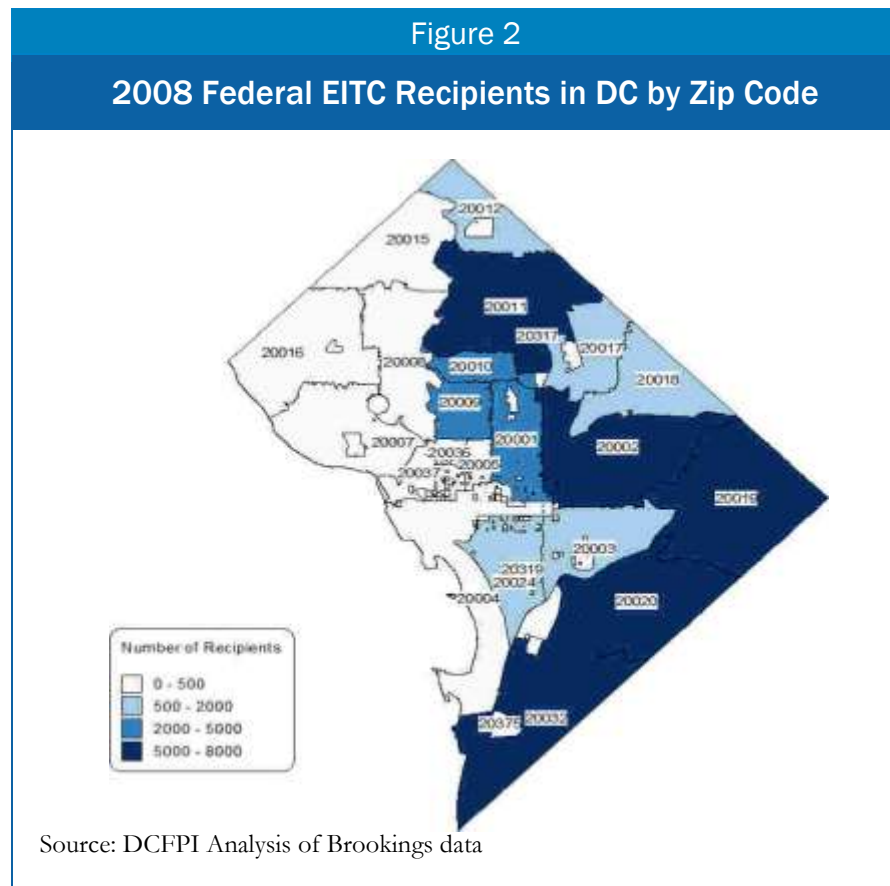
² To read more about the federal EITC, see: <http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>.

Whether a family qualifies for the credit depends largely on their household earnings and the number of children in their family. In 2011, single parents with two children qualified for the EITC if they earned less than \$40,964, while single parents with one child qualified if they earned less than \$36,052. Married couples with two children were eligible for the EITC if they earned less than \$46,044, while married couples with one child were eligible if they earned less than \$41,132.

Individuals and couples without children also are eligible to receive the EITC but on a more limited basis. In 2011, they were required to be between 25 years and 64 years old and earn less than \$13,660 (single filers) or \$18,740 (married filing jointly) to qualify. In addition, all EITC recipients must have been U.S. citizens during the past year, possess valid Social Security numbers for themselves and their children, and have investment income less than \$3,150 in 2011.³

The Earned Income Tax Credit is designed to help working poor households make ends meet and as an incentive to work. The value of the EITC benefit grows with each additional dollar earned for workers with very low earnings. This continues until the credit reaches a maximum value, which is determined by household size. The maximum EITC benefit applies to households over a set income range, and then the credit begins to phase out for every additional dollar of earnings. The amount of benefit that an individual or family can receive depends on their income and family make up. The maximum federal EITC is \$5,891 for a family with three children, \$5,236 for a family with two children, \$3,169 for a family with one child, and \$475 for a worker with no children in their home. Figure 1 shows how income level and household type impact the total EITC credit a family or individual can receive at the federal level.

The District's EITC benefits are set at 40 percent of the federal credit. This means that, in 2012, the maximum DC EITC benefit is \$2,356 for families with three or more children, \$2,094 for



³ Center for Budget and Policy Priorities, "Comparing the Eligibility Requirements for the EIC and the CTC," <http://eitcoutreach.org/wp-content/uploads/2009/09/EIC-CTC-Eligibility-Comparison1.pdf>.

families with two children, \$1,268 for families with one child, and \$190 for families with no children in the home.

The EITC Can Provide a Significant Boost to a Low-Income Working Family's Earnings

For many families with children the increase in income from the federal and DC EITCs can be significant. Table 1 shows the effect of the federal and DC EITC in 2011 on the take-home pay of a single parent household with two children. For a single parent with two children earning \$15,000 a year, the EITC would increase their tax-home pay by \$7,157, or nearly 50 percent.

Research shows that families use their EITC benefits help take care of everyday necessities—like rent and utility payments or home and car repairs — and also sometimes to improve their social mobility by enrolling in additional training or education.⁴

In the District, nearly 47,400 households received the federal EITC in 2008, and the average benefit per filer was \$1,875. As can be seen in Figure 2, most EITC recipients in DC live in Wards 7 and 8.

The EITC Is one of the most Effective Anti-Poverty Tools for Low-Income Working Families

In 2010, the Federal EITC lifted about 6.3 million people out of poverty, of which over half were children.⁵ If the EITC had not been in effect in 2010, the number of children living in poverty would have been 25 percent higher.⁶ DC's EITC enhances the ability of the federal EITC to lift families above poverty.

Research shows that boosting the incomes of low-income families also can lead to improvements in the educational outcomes of the children and increase their earnings later in life.⁷ While the research looked at other income boosting programs other than the EITC, many of the researchers noted that it was likely that the findings would apply to the EITC as well.⁸

⁴ Center for Budget and Policy Priorities, “Policy Basics: The Earned Income Tax Credit,” February 2012, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>.

⁵ Center for Budget and Policy Priorities, “Policy Basics: The Earned Income Tax Credit,” February 2012, <http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>.

⁶ Ibid.

⁷ Center on Budget and Policy Priorities, “Studies Show Earned Income Tax Credit Encourages Work and Success in School and Reduces Poverty,” June 2012, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3793>.

⁸ Ibid.

Table 1			
Benefits in 2011 for a Single Head of Household with Two Children			
Household Income	Federal EITC Benefit	DC EITC Benefit	Percent Increase in Household Income
\$5,000	\$2,010	\$804	56%
\$10,000	\$4,010	\$1,604	56%
\$15,000	\$5,112	\$2,045	48%
\$20,000	\$5,112	\$2,045	36%
\$25,000	\$4,426	\$1,770	25%
\$30,000	\$3,373	\$1,349	16%

Source: Center for Budget and Policy Priorities 2011 Earned Income Tax Credit Estimator

Current Issues

There is one major issue currently affecting EITC: The credit provides only limited benefits for childless adults.

The EITC for workers without children is much less when compared to the credit for working families with children. Currently, a childless adult working full-time at minimum wage is ineligible to receive both federal and DC EITC benefits, while an individual with children making this same wage would receive the maximum benefit – as much as \$5,891. The maximum federal EITC benefit for a worker without children is just \$475 for a worker earning roughly \$7,000.

In 2011, a bill was introduced by Councilmember David Catania (I, At-Large) that would, among other things, expand the DC EITC for workers without children in the home by extending it to include such adults between the ages of 18 and 25.⁹ Currently, the EITC for workers without children is only available to those between ages 25 and 64. The bill would not address the low level of EITC benefits for workers without children in the home, but would at least make the EITC accessible to more of these workers. The bill has not yet had a full vote before the DC Council.

⁹ For legislation see: <http://dcclims1.dccouncil.us/images/00001/20111104095151.pdf>.