

Updated August 14, 2014

## DISTRICT OF COLUMBIA'S EARNED INCOME TAX CREDIT

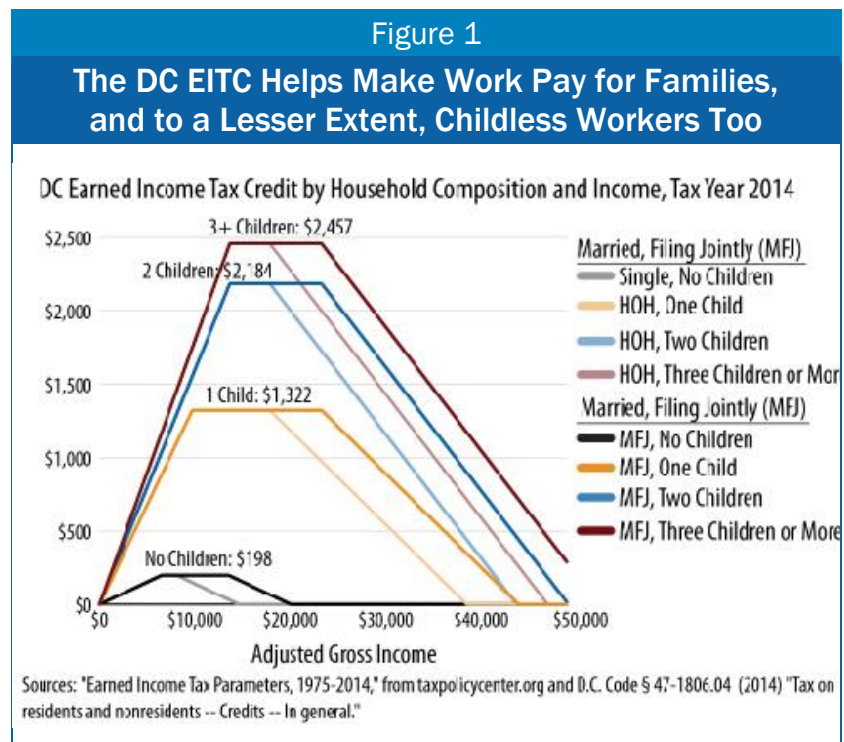
The District's Earned Income Tax Credit (EITC), based on the federal EITC, assists working low-income residents through a refundable income tax credit that puts money back in the pockets of those who need it most. For the 2011 tax year, about 56,036 DC tax filers claimed a total of \$53,459,777 in DC EITC, with an average benefit of \$954 per household.<sup>1</sup>

This policy brief describes how the DC EITC works and describes the District's recent efforts to increase EITC benefits for childless workers.

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

Since the DC EITC is based on the federal EITC, it is helpful to understand how the federal EITC works. The federal EITC is available to eligible working households based on income, the number of qualifying children in the household, and the household's filing status. These criteria also impact the actual EITC benefit a household receives.

The credit is designed to reward and incentivize work. The credit amount grows with each additional dollar of income earned for those with very low earnings, reaches the maximum credit and levels off, and then decreases slowly to zero as earnings reach the income limit. (See **Figure 1**.)



<sup>1</sup> E-mail from Jason Juffras, DC Office of the Chief Financial Officer, June 11, 2014.

In addition to the income restrictions, 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 \$3,350 in 2014.<sup>2</sup>

The DC EITC is equal to 40 percent of the federal EITC credit. Like the federal EITC, the DC EITC is a refundable tax credit. This means that it not only reduces taxes owed, dollar for dollar, but if the EITC exceeds the taxes owed, then the household receives the balance as a refund.

The EITC is one of the most effective anti-poverty tools available, lifting close to 6.5 million people out of poverty nationwide in 2012.<sup>3</sup> Just under half of those lifted out of poverty were children. The credit can also provide a substantial boost to the incomes of low-income working households, especially those with children. For example, in 2013, a single parent with two children and \$25,000 in wages would have been eligible for a federal EITC of \$3,794 and a DC EITC of \$1,518, totaling over \$5,300 in tax credits.<sup>4</sup>

## Increased Help for Childless Adults in DC

While the federal EITC provides a great deal of help for households with children, it provides limited assistance for childless adults; the maximum credit is much smaller and the income limits are more restrictive. For example, in 2013, the maximum credit for a single person without children was only \$487 and only those with incomes between \$5,950 and \$13,310 qualified for this full amount. Single, childless adults with more than \$19,650 in income would not receive any federal EITC. The maximum DC EITC was about \$200 for a childless adult.

There has been some effort to expand the federal EITC for workers without children. President Obama proposed such an increase in 2014. Given the partisan challenges within Congress, however, it is not clear when such a proposal will be considered, even though the EITC has had broad bipartisan support.

In the wake of federal inaction, the DC Council acted in 2014, following recommendations of the DC Tax Revision Commission, to expand the DC EITC for households without children in two ways. First, the maximum credit will increase from about \$200 to about \$500. Second, the credit expands so that more childless households can receive the maximum credit, up from those who make under \$14,000 to those that make under \$23,000.<sup>5</sup>

These changes will mean a great deal for low-wage workers without children. A worker earning \$18,000 would go from owing \$533 in income taxes to receiving a refund of \$102, almost entirely as a result of the expanded EITC. This change will take effect January 1, 2015.

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<sup>2</sup> IRS, “Earned Income Tax Credit Rules for Everyone,” <http://www.irs.gov/Individuals/Earned-Income-Tax-Credit-Rules-for-Everyone>, updated February 5, 2014.

<sup>3</sup> Center on Budget and Policy Priorities, “Policy Basics: The Earned Income Tax Credit,” <http://www.cbpp.org/files/policybasics-eitc.pdf>, updated January 30, 2014.

<sup>4</sup> Center on Budget and Policy Priorities, “Policy Basics: The Earned Income Tax Credit,” same as above.

<sup>5</sup> DC Tax Revision Commission Final Report, May 2014, <http://www.dctaxrevisioncommission.org>.