

## **EITCs Encourage Work, Reduce Poverty, and Improve Children's Lot in Life**

*(For a full report on the research, see <http://www.cbpp.org/cms/index.cfm?fa=view&id=3793>)*

The Earned Income Tax Credit (EITC) goes to working families and individuals. The federal version of the credit is designed, in part, to offset the federal payroll, excise, and income taxes they pay. Because working families who receive the federal credit also pay a substantial share of their income in state and local taxes (sales, excise, and property taxes), twenty-five states have their own EITCs.

An extensive body of research shows that both federal and state EITCs have impacts that go well beyond offsetting taxes.

- Numerous studies over the last 20 years have shown that EITCs substantially increase work and earnings among poor single parents.
- EITCs have long been recognized as the nation's most effective tool for reducing poverty among working families and children.
- More recent studies show that EITCs and other policies that significantly boost poor families' incomes improve children's school achievement are associated with increased employment and earnings when children become adults.
- Substantial health benefits from EITCs have also been documented.

### **Proven to Encourage Work**

For families that have very low earnings and are just gaining a toehold in the labor market, the EITC increases as the families' earnings rise, boosting the families' overall income and strengthening incentives to work more hours. Numerous studies have confirmed that the EITC is effective at promoting work. In fact, while policymakers often point to the 1996 welfare law's creation of Temporary Assistance for Needy Families (TANF) as a primary reason for increased work among single mothers, the research indicates that the EITC expansion had a larger effect than the welfare law in producing these gains.

- According to economists Nada Eissa of Georgetown University and Hilary Hoynes of the University of California, Davis, "the overwhelming finding of the empirical literature is that EITC has been especially successful at encouraging the employment of single parents, especially mothers."<sup>1</sup>
- Likewise, economist Jeffrey Grogger of the University of Chicago has found that the EITC expansions enacted in the 1990s "appear to be the most important single factor in explaining why female family heads increased their employment over 1993-1999."<sup>2</sup> He concluded that the EITC expansions actually had a larger effect in increasing employment among single mothers

---

<sup>1</sup> Nada Eissa and Hilary Hoynes, "Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply," October 10, 2005, [http://www.econ.ucdavis.edu/working\\_papers/05-29.pdf](http://www.econ.ucdavis.edu/working_papers/05-29.pdf).

<sup>2</sup> Jeffrey Grogger, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Head Families," Review of Economics and Statistics, May 2003.

## WEBINAR HANDOUT--DO NOT CITE OR DISTRIBUTE

than time limits under welfare reform or other reforms like work requirements and increased child care subsidies.

- By boosting employment among single mothers, EITCs can reduce reliance on public assistance. The EITC expansions of the 1990s induced more than a half a million families to move from cash welfare assistance to work.<sup>3</sup> And state EITCs have been shown to reduce reliance on public health care. One study found that children in states that adopt state EITCs are more likely to have private rather than public coverage and better health outcomes after EITC adoption.<sup>4</sup>
- In addition, women who benefitted most from the EITC expansions of the 1990s had higher wage growth in later years than other similarly-situated women.<sup>5</sup>

### **Reduces Poverty**

The EITC reduces poverty by encouraging work and by supplementing the wages of workers who are still poor because of their low pay. The federal EITC:

- Lifted 6.1 million people — including 3.1 million children — above the poverty line in 2011, based on the Census Bureau's Supplemental Poverty Measure that counts refundable tax credit payments (and other benefits) as income (and subtracts income and payroll taxes).<sup>6</sup>
- Lifts more children out of poverty than any other single program.
- Provides a short-term safety net. Most EITC recipients claim the credit temporarily when a job disruption or other significant event reduces their income. Of people who received the EITC over an 18-year period, 61 percent received the credit for only one or two years at a time.

State EITCs build on this effect, keeping additional families and children out of poverty.

### **Improves school performance, health, and long-term earnings**

Beneficial effects of the EITC go well beyond lowering taxes, promoting work, and reducing poverty. The EITC has a range of positive impacts, particularly on low-income children. States

---

<sup>3</sup> Stacy Dickert, Scott Houser, and John Karl Scholz, "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation," *Tax Policy and the Economy*, Vol. 9, MIT Press, 1995. V. Joseph Holt, Charles H. Mullin, and John Karl Scholz also showed that the EITC was an important tool encouraging welfare recipients to enter the labor force. V. Joseph Holt, Charles H. Mullin, and John Karl Scholz, "Examining the Effect of the Earned Income Tax Credit on the Labor Market Participation of Families on Welfare," NBER Working Paper No. 11968, January 2006, <http://www.nber.org/papers/w11968>.

<sup>4</sup> Reagan A. Baughman, "The Effects of State EITC Expansion on Children's Health," Carsey Institute, no.48, spring 2012, <http://www.carseyinstitute.unh.edu/publications/IB-Baughman-EITC-Child-Health.pdf>.

<sup>5</sup> Molly Dahl, Thomas DeLeire, and Jonathan A. Schwabish, "Stepping Stone or Dead End? The Effect of the EITC on Earnings Growth," Institute for the Study of Labor, revised April 2009, <http://ftp.iza.org/dp4146.pdf>.

<sup>6</sup> These estimates come from the Census Bureau's Supplemental Poverty Measure which is based on the 1995 National Academy of Sciences recommendations for poverty measurement, with modifications reflecting more recent research and the recommendations of the Interagency Technical Working Group on Developing a Supplemental Poverty Measure. See the following for a detailed description of the SPM, Kathleen Short, "The Research Supplemental Poverty Measure: 2011," United States Census Bureau, November 2012,

[http://www.census.gov/hhes/povmeas/methodology/supplemental/research/Short\\_ResearchSPM2011.pdf](http://www.census.gov/hhes/povmeas/methodology/supplemental/research/Short_ResearchSPM2011.pdf).

## WEBINAR HANDOUT--DO NOT CITE OR DISTRIBUTE

EITCs build on the already-proven effectiveness of the federal EITC and amplify it. Together federal and state EITCs:

- **Improve infant health.** Recent studies indicate that expectant mothers who receive the EITC are more likely to receive prenatal care, give birth to healthier infants, and to smoke and drink less during pregnancy.<sup>7</sup> Researchers have examined the impact of the EITC expansions in the 1990s and found that infants born to mothers who were eligible for the greatest increases in their EITC as a result of the expansions experienced the greatest improvements in a number of birth indicators, such as low birth weight and premature birth, that are associated with worse child and adult outcomes.<sup>8</sup>
- **Improve children's school performance.** A growing body of research indicates that lifting the incomes of low-income families helps children in those families do better in school.<sup>9</sup> For example, one study found that even under conservative assumptions, additional income from the EITC leads to significant increases in students' test scores.<sup>10</sup> Additionally, economists have found that additional income from the EITC raises the combined math and reading test scores of students by similarly large magnitudes.<sup>11</sup>
- **Increase children's work effort and earnings as adults.** The added income from the EITC may help children later in life as well: recent research finds that raising a poor family's income by \$3,000 a year<sup>12</sup> (a fairly typical amount for a poor family to receive from the EITC) between a child's prenatal year and fifth birthday is associated with a significant increase in the child's work effort and earnings in adulthood. A leading study finds a 17 percent increase in earnings in adulthood, and an average of 135 hours of additional work per year, compared to similar children whose families do not receive the increase in income.<sup>13</sup>

---

<sup>7</sup> Kevin Baker, "Do Cash Transfer Programs Improve Infant Health: Evidence from the 1993 Expansion of the Earned Income Tax Credit," University of Notre Dame mimeo, 2008, [http://economics.nd.edu/assets/24011/baker\\_paper.pdf](http://economics.nd.edu/assets/24011/baker_paper.pdf). Kate W. Strully, David H. Rehkopf, and Ziming Xuan, "Effects of Prenatal Poverty on Infant Health: State Earned Income Tax Credits and Birth Weight," *American Sociological Review* (August 2010), 1–29, <http://www.irp.wisc.edu/newsevents/workshops/2011/participants/papers/15-Strully.pdf>. William N. Evans and Craig Garthwaite, "Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health," May 2011, [http://www.kellogg.northwestern.edu/faculty/garthwaite/htm/EITC\\_Health\\_Final\\_Draft.pdf](http://www.kellogg.northwestern.edu/faculty/garthwaite/htm/EITC_Health_Final_Draft.pdf). Hilary W. Hoynes, Douglas L. Miller, and David Simon, "Income, The Earned Income Tax Credit, and Infant Health," NBER Working Paper No. 18206, July 2012, <http://www.nber.org/papers/w18206>.

<sup>8</sup> Hilary W. Hoynes, Douglas L. Miller, and David Simon, 2013, "The EITC: Linking Income to Real Health Outcomes," UC Davis Center for Poverty Research. See Strully, Rehkopf, and Xuan for evidence of the positive impact of state EITCs on birth weight: <http://www.irp.wisc.edu/newsevents/workshops/2011/participants/papers/15-Strully.pdf>.

<sup>9</sup> Raj Chetty, John N. Friedman, and Jonah Rockoff, "New Evidence on the Long-Term Impacts of Tax Credits," Statistics of Income Paper Series, November 2011, <http://www.irs.gov/pub/irs-soi/11rpchettyfriedmanrockoff.pdf>. Gordon B. Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the EITC." *American Economic Review*, Vol 102(5), August 2012, pp. 1926-56.

<sup>10</sup> Chetty, Friedman, and Rockoff 2011.

<sup>11</sup> The figures in the Dahl and Lochner study are expressed in 2000 dollars. Gordon Dahl and Lance Lochner, "The Impact Of Family Income On Child Achievement: Evidence From The Earned Income Tax Credit," *American Economic Review* (2012), 1927-1956, <http://www.aeaweb.org/articles.php?doi=10.1257/aer.102.5.1927>.

<sup>12</sup> The \$3,000 figure is in 2005 dollars, equivalent to approximately \$3,530 in 2012. Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development* (January/February 2010), pp. 306-325.

<sup>13</sup> Duncan, Ziol-Guest, and Kalil 2010. Chetty, Friedman, and Rockoff 2011.