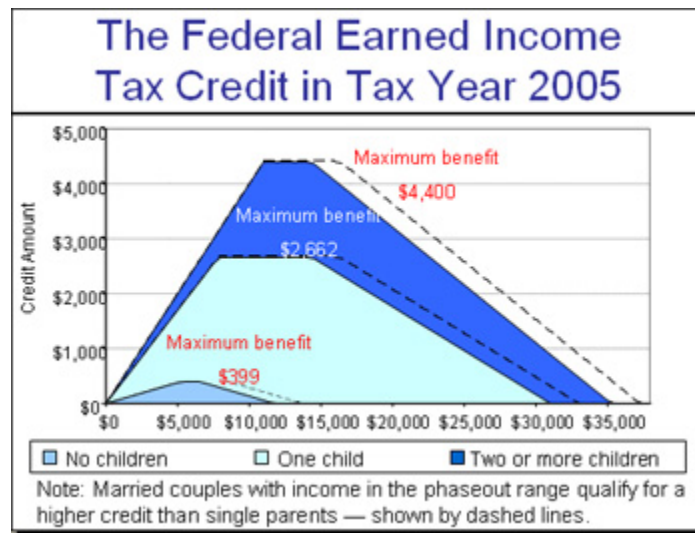


The Earned Income Tax Credit (EITC)

The EITC is a refundable tax credit that low-income households receive when filing their federal income tax return. They receive a portion of their payroll and income taxes paid during the year. Benefits are calculated based on household size and income.

The EITC mostly helps families with children. In 2005, a family with one child could receive a maximum of \$2,662 and a family with two or more children \$4,400. The maximum a single person could receive was \$399.



Source: Center on Budget and Policy Priorities

In 2005, 22.7 million households received EITC benefits, totaling \$37.4 billion or an average of \$1,864 per household.

An estimated 5 million people, including 2.5 million children, are lifted out of poverty as a result of receiving the EITC, currently making it the most effective government anti-poverty program.

The EITC enjoys bipartisan support because it provides a clear incentive for people to work and is less bureaucratic than other anti-poverty programs. Nearly all funding goes directly to workers, rather than to pay for administrative costs.

Ronald Reagan, no faint hearted critic of welfare, called the EITC the best anti-poverty program ever created.

The EITC was enacted in 1975. Many improvements have been made to the program since then—although problems remain. Benefits do not increase for families of more than two children. Poverty rates are significantly higher for families with more than two children. Restructuring the EITC to increase with family size would be a valuable improvement.

Two single people who received the EITC and wanted to marry could be discouraged from doing so, especially if one or both are parents. Their combined incomes once they married might lower their EITC eligibility. Anti-poverty programs should not in any way discourage marriage.

Finally, filing for the EITC is complicated, leading most families to use commercial tax preparation services. These services come at a high cost. EITC filers pay hundreds of millions of dollars every year for tax preparation services. Providing families with a free alternative so that they can keep more of their EITC benefits is the subject of **Asset Building at Tax Time: Scaling Up Volunteer Tax Assistance**.