

# The Earned Income Tax Credit and Child Tax Credit

## *Prescriptions for Healthy Families*

In 1975 the federal government created the Earned Income Tax Credit (EITC), which supplements low-wage workers' incomes. The EITC is one of the largest assistance programs targeted at low-income families. Over the past forty years, research has shown that the EITC alleviates poverty, stimulates the economy, and improves the health of young children both in the short term and throughout their lives.<sup>1</sup> The Child Tax Credit (CTC) —created in 1997 to help working families offset the cost of raising children—has not been studied to the same extent as the EITC, however its design is similar. The EITC and CTC have a strong history of broad bipartisan support in Washington, DC and many state legislatures, which has enabled both credits to flourish and grow significantly over the past few decades. Together, the EITC and CTC provide a meaningful hand-up to millions of families across the United States.

Unfortunately, the EITC and the CTC are both at risk of being undermined. Several key provisions of the EITC and CTC are set to expire at the end of 2017 unless Congress acts to renew or make these provisions permanent.

### Key provisions of the federal EITC and CTC at risk of expiring

The 2009 American Recovery and Reinvestment Act and subsequent 2013 American Taxpayer Relief Act strengthened the EITC by 1) adding a "third tier" (higher benefit levels) for families with more than two children and expanding marriage-penalty relief<sup>1</sup>; and 2) strengthening the CTC by lowering the earnings exclusion<sup>2</sup>, allowing working families to earn a more substantial CTC and reducing the number of families ineligible for the credit. Unfortunately, these improvements will expire in 2017 unless Congress acts to make them permanent.



#### What is the EITC?

The Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people that encourages and rewards work as well as offsets federal payroll and income taxes. The EITC is a "refundable" tax credit, which means if the total amount of the EITC is greater than the tax owed, the IRS sends a tax refund for the difference. Twenty-six states and the District of Columbia have established state-specific EITCs.

#### What is the CTC?

The Child Tax Credit (CTC) helps working families offset the cost of raising children. The tax credit, which is worth up to \$1,000 per eligible child under age 17 at the end of the tax year, is subtracted from the total amount of federal income taxes a filer would otherwise owe. The CTC includes a refundable component. Due in part to its bipartisan appeal, New York, Oklahoma, North Carolina and California have enacted state-specific versions of this credit to supplement the federal credit.

<sup>1</sup> After 2017, the income level at which the EITC begins to phase out for married couples will decrease from \$5,000 higher than for single filers to only \$3,000 higher, which would shrink the EITC for many low-income married filers and increase the marriage penalty.

<sup>2</sup> For example, the earnings needed to qualify for the full CTC (of \$1,000 per child) would jump from \$16,330 to more than \$28,000 for a married couple with two children, leaving out many lower income working families.

### Congress has an opportunity to preserve the strength of EITC and CTC and make these key provisions permanent:

- Reduction in the EITC marriage penalty
- Provision of additional EITC to families with more than two children to reflect their higher living costs
- Preservation of the CTC for hard working low wage parents
- Indexation of the maximum CTC to inflation to preserve the value of the benefit

### The EITC promotes child health and reduces health care costs<sup>3</sup>

In 2013, 8 percent (315,099) of children born in the United States had low birth weight and 11 percent (447,361) were born preterm.

<sup>iii</sup> The health care costs for these low birth weight/preterm children are approximately \$9.2 billion annually — more than 25 times the average cost of hospital stays for uncomplicated newborns<sup>4</sup>.<sup>iv</sup>

Not only do preterm/low birth weight infants require costlier health care in the days and weeks following their birth, but they are also at higher risk for expensive long-term mental and physical disabilities, special education services, and lost household and labor market productivity. The estimated annual societal economic burden associated with preterm birth (most of which are also low birth weight) in the United States was \$35.2 billion, or \$69,502 per infant born preterm.<sup>v</sup>

Research on previous expansions of the EITC demonstrated that \$1,000 in income from the EITC was associated with a 7 percent to 11 percent decrease in rates of low birth weight and up to a 15 percent decrease in low birth weight in high-poverty neighborhoods.<sup>vi,vii</sup> Given these findings, the EITC's role in reducing the prevalence of low birth weight is critical to reducing health care and other societal costs, increasing future opportunities for children, and most importantly, improving child health.

<sup>3</sup> All health care and societal costs reflect most recent data available, adjusted for inflation in 2014 dollars using the U.S. Medical Cost Inflation Calculator from [http://www.halfhill.com/inflation\\_js.html](http://www.halfhill.com/inflation_js.html).

<sup>4</sup> Note that these costs do not include the cost of delivery and other medical care for the mother, but rather are exclusively the costs associated with the newborn's care, defined as all admissions, including the newborn admission at delivery, hospital transfers, and all readmissions up to 1 year of age, not including mother's admission.

### Increasing the “dose” of EITC improves families' health

#### EITC is associated with improved maternal mental health

- Among mothers with two or more children, the EITC was associated with fewer days of poor mental health<sup>viii</sup>

#### EITC is associated with improved maternal physical health

- Among mothers with two or more children, the EITC was associated with improved physical health, including reducing the levels of health risk measures such as inflammation and high diastolic blood pressure<sup>ix</sup>

#### Families receiving the EITC are more likely to purchase healthier food

- EITC recipients buy more healthy food items including fresh fruits and vegetable during the months when most refunds are paid<sup>x</sup>

**“The EITC and CTC act like a prescription that improves the health of my patients. These tax credits help families pay for food, rent and heat—and keep kids healthy.”**



Dr. Megan Sandel, pediatrician at Boston Medical Center and Principal investigator with Children's HealthWatch

### Good medicine: The EITC and children's health

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## Every parent wants to do more

“I’ve got to pay my rent. I’ve got to pay gas and electric. I’ve got to take care of the kids. I’ve got to make sure there’s food in the house, you know, make sure they got clothes, make sure they got shoes, and make sure I got bus fare to even get to work. Trying to struggle and juggle all of that on one income that’s coming in the house is extremely hard.”

Photo: courtesy of Shaunte B. from Baltimore, Witnesses to Hunger, EITC recipient



### What happens if Congress fails to make key provisions of the EITC and CTC permanent?

- Over 50 million Americans, including 25 million children, would lose part or all of their EITC and CTC
- More than 16 million people in low-income working families, including 8 million children, would fall into (or deeper into) poverty

Source: Center on Budget and Policy Priorities<sup>ii</sup>

### Rx for healthy families— Preserve the strength of the EITC and CTC!

Like a correctly dosed medicine, the EITC and CTC are associated with improvements in children’s health and well-being. To ensure that these proven policy prescriptions continue to improve the health of children and their families, Congress can:

- Prevent the rollback of the ARRA improvements to the EITC and CTC and make those key provisions permanent
- Index the maximum CTC to inflation to preserve the value of the benefit

In doing so, we will make sure that families are able to receive effective doses of this essential medicine for optimal health—sustaining individual family health as well as the health of whole communities.

**About Children's HealthWatch** Children's HealthWatch is a nonpartisan network of pediatricians, public health researchers, and children's health and policy experts. Our network is committed to improving children's health in America. We do that by first collecting data in urban hospitals across the country on infants and toddlers from families facing economic hardship. We then analyze and share our findings with academics, legislators, and the public. These efforts help inform public policies and practices that can give all children equal opportunities for healthy, successful lives.

*Authors: Richard Sheward, MPP, Senior Policy Analyst - State Policy; Allison Bovell, M.Div, Research, Policy and Communications Coordinator; Stephanie Ettinger de Cuba, MPH, Research and Policy Director; Justin Pasquariello, MBA, MPA, Executive Director; and John Cook, Ph.D., M.A.Ed., Research Scientist and Principal Investigator*

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**For additional information, please contact:**

**Richard Sheward, Senior Policy Analyst - State Policy**

**Tel. (617) 414-6364/ Email: richard.sheward@bmc.org**

**Allison Bovell, Research, Policy, and Communications Coordinator**

**Tel. (617) 414-3580/ Email: allison.bovell@bmc.org**

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