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Expanding EITC Efficacy

Permanently Expanding the EITC Will Benefit Millions of Young Adult Workers

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YOUNG  INVINCIBLES

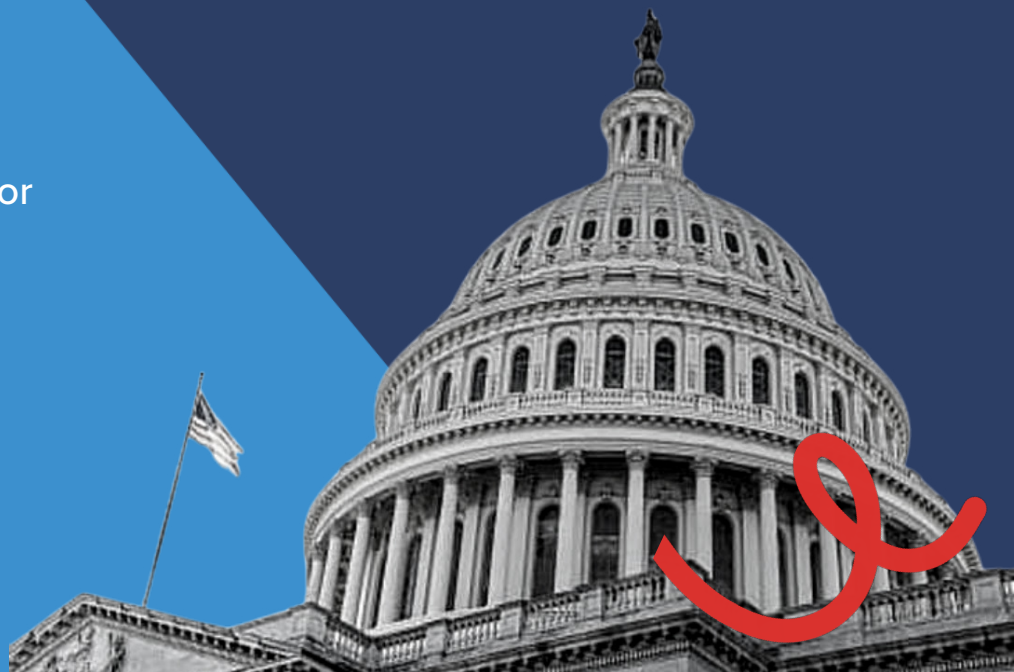




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Introduction

Federal legislators took unprecedented actions to combat the COVID-19 pandemic. Through powerhouse legislation like the American Rescue Plan (ARPA), the federal government provided eviction protections, stimulus checks, and emergency funds to communities across the country. ARPA was historic legislation that expanded many essential programs including the Earned Income Tax Credit (EITC).

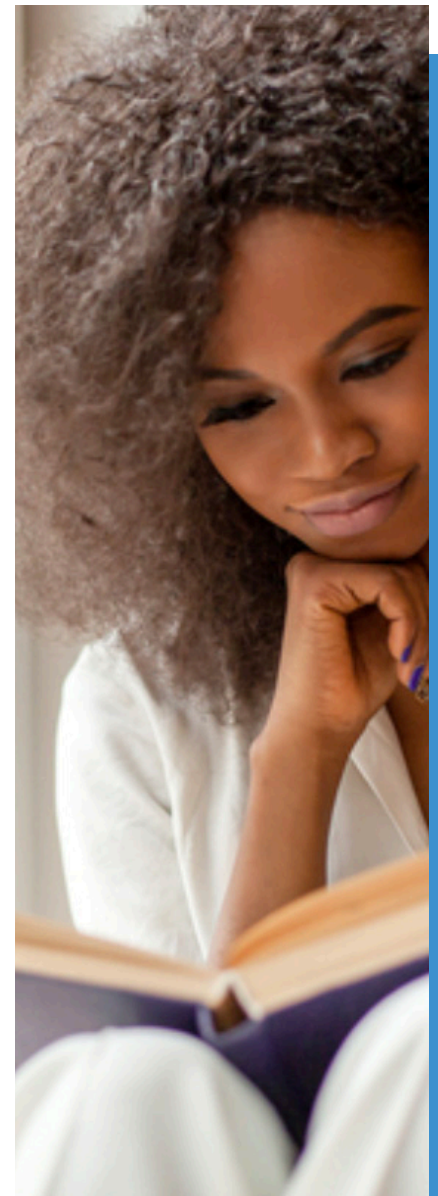
The EITC is one of the country's primary anti-poverty tools. Introduced in the 1970s, the early version of this program was praised across the aisle, including from fiscal conservatives like former President Ronald Reagan.¹ Since its creation, the program has existed to help alleviate the tax liability on low and working-class families. However, in many cases, it provides a credit above and beyond such liability. The original refund was the difference between a family's tax liability and the maximum credit amount. The EITC program has always relied on means-testing or requiring some income to benefit. Its work requirement could explain how it garnered bipartisan support in its passage.

Bipartisan support for the program has not led to regular expansions. The expansion in the 1990s under former President Bill Clinton was when the program took shape as a significant vehicle for reducing poverty among low-income families.² These changes almost doubled the maximum credit amount for families with at least one qualifying child.

Limiting economic support through the EITC to families with qualifying children excludes a significant population of low-income workers who need support. Of course families and children need assistance, but they are far from the only working Americans who require it. The COVID-19 pandemic was the first time legislators acknowledged this deficiency and responded by increasing the childless worker credit age range and maximum through ARPA.

1. Greenstein, Robert. "New Research Findings on the Effects of the Earned Income Tax Credit." [Cbpp.Org](https://www.cbpp.org/sites/default/files/atoms/files/archive/311eitc.htm#:~:text=The%20EITC%20was%20enacted%20in,frequently%20provide%20a%20wage%20supplement). Center for Budget and Policy Priorities, March 11, 1998. <https://www.cbpp.org/sites/default/files/atoms/files/archive/311eitc.htm#:~:text=The%20EITC%20was%20enacted%20in,frequently%20provide%20a%20wage%20supplement>.

2. PRESIDENT CLINTON PROPOSES TO EXPAND THE EARNED INCOME TAX CREDIT IN ORDER TO INCREASE THE REWARD FOR WORK AND FAMILY." <https://Clintonwhitehouse4.Archives.Gov/>. White House Office of Press Secretary, January 12, 2000.



Expanded EITC under ARPA (American Rescue Plan).

Historically, the EITC has included age restrictions that prevent 18-24 year old childless workers from collecting benefits. The tax provisions in ARPA were the first time EITC access was expanded to 19-24 year old childless workers. The expansion in ARPA changed the EITC in several ways for young adults.³

1. It nearly tripled the maximum credit amount for childless workers, taking it from \$543 to \$1502.
2. It expanded the age eligibility range to include workers ages 19-24.

These changes to the program were considered pandemic relief and stipulated for only one tax year (2021). While we won't know the economic effects of the expansion for some time until the data is available, research centers are releasing estimates as high as 1 in 3 young childless workers benefitting from the expansion.⁴ These estimates reveal a reality for lawmakers: young adult childless workers are a significant portion of our low-income workforce that need economic support.

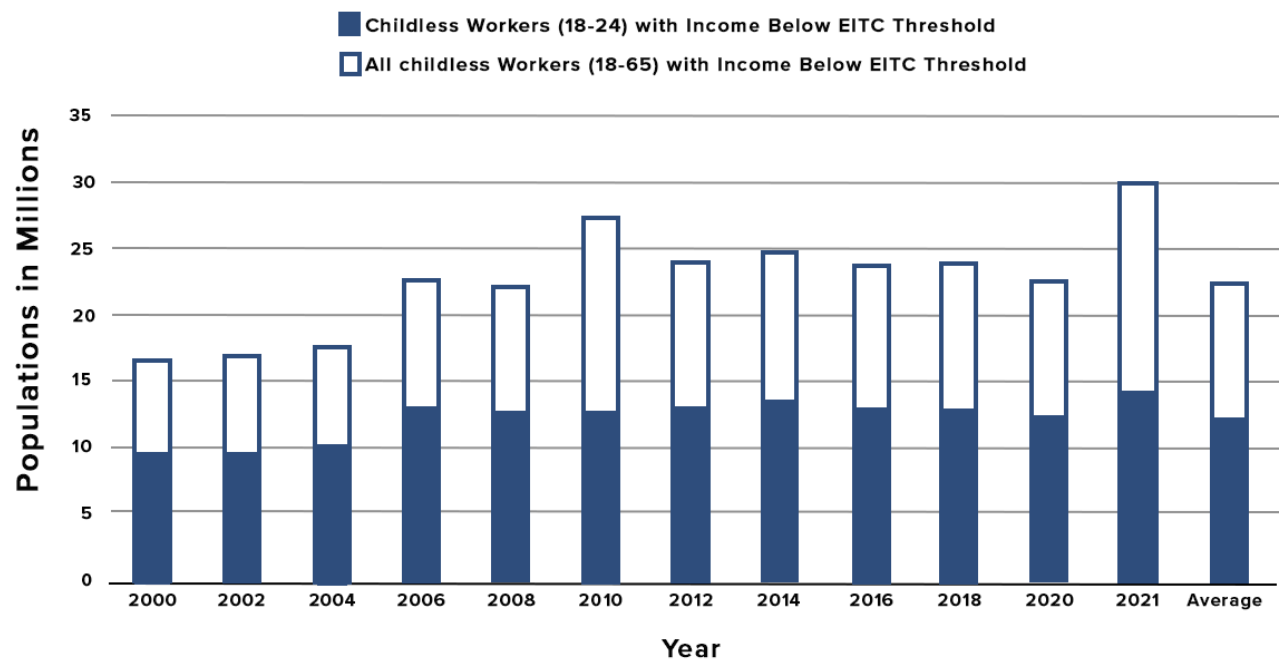
This report examines data collected from the American Community Survey from 2010 through 2021 and gives particular attention to childless workers between ages 18 and 24 with incomes below the usual threshold for EITC receipt. It is important to note that 2021 was the first year 19-24-year-old childless workers were eligible for the tax benefit. References to their "eligibility" in previous years reflect income level rather than actual access to the tax benefit during that period. Also, our recommendations include expanding the eligibility age range to 18-24, so our data reflects individuals within that range rather than those specified in ARPA (ages 19-24). Finally, our recommendations also include expanding access to college students with earned income, so the numbers here represent populations defined by income and age, not by other qualifying factors for the EITC, like school status.

Graph A demonstrates, year-by-year, the number of childless workers ages 18-24 with income below the threshold for the EITC, and the total population of childless workers with income falling below the threshold for EITC. As the graph demonstrates, more than half of the childless worker population with income below the EITC threshold falls in the 18-24 age range. The ARPA expansion in 2021 represented the first time young adult childless workers were not arbitrarily excluded from one of the nation's central anti-poverty programs.

3. Brown-Graham, Anita . "5 Things to Know about EITC and the American Rescue Plan Act." [Ncimpact.Sog.Unc.Edu](https://ncimpact.sog.unc.edu/2021/04/5-things-to-know-about-eitc-and-the-american-rescue-plan-act/). UNC School of Government NcImpactInitiative, April 15, 2021. <https://ncimpact.sog.unc.edu/2021/04/5-things-to-know-about-eitc-and-the-american-rescue-plan-act/>.

4. Davis, Aidan. "Federal EITC Enhancements Help More Than One in Three Young Workers." [Itep.Org](https://itep.org/federal-eitc-enhancements-help-more-than-one-in-three-young-workers/#:~:text=More%20than%20one%20in%20three%20young%20adults%E2%80%94or%20more%20than,policymakers%20extend%20the%20EITC%20enhancements.). Institution of Taxation and Economic Policy, February 8, 2022. <https://itep.org/federal-eitc-enhancements-help-more-than-one-in-three-young-workers/#:~:text=More%20than%20one%20in%20three%20young%20adults%E2%80%94or%20more%20than,policymakers%20extend%20the%20EITC%20enhancements.>

Childless Workers With Income Below EITC Threshold Weighted using ACS PERWT



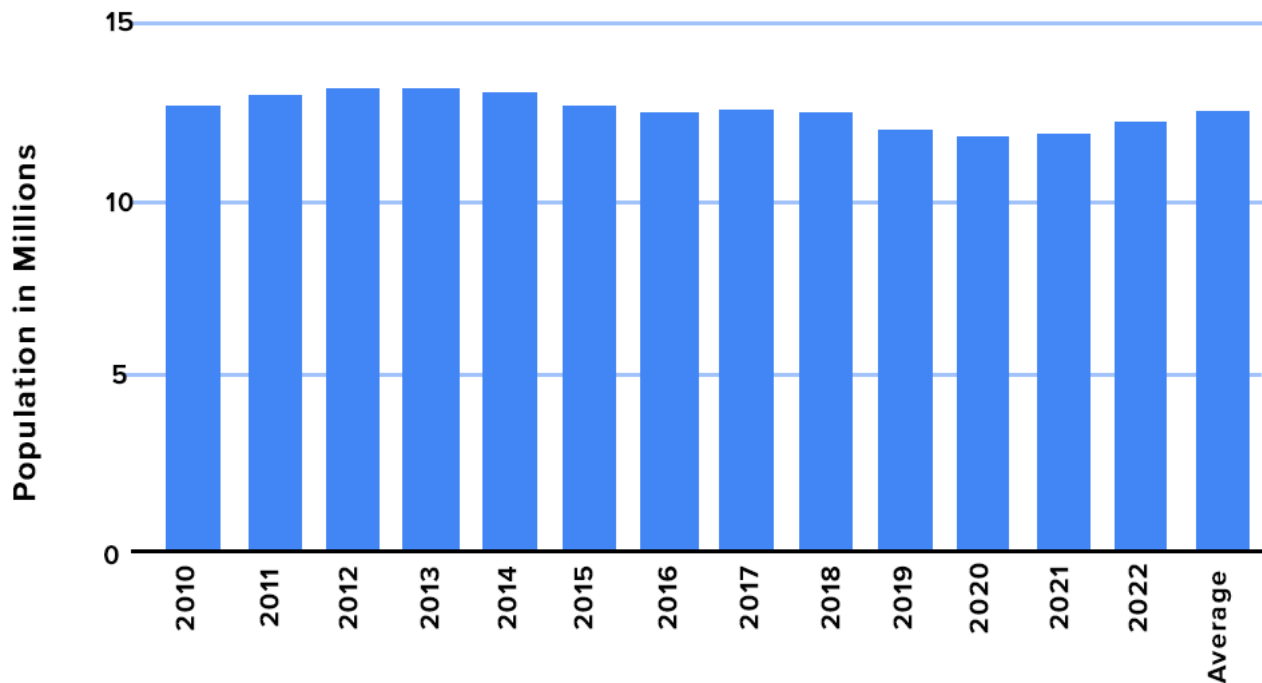
Extending or making this tax provision permanent, coupled with a phase-in at age 18, could, on average, benefit over 10 million young adult childless workers. The EITC is intended to lift working-class Americans out of poverty. The income threshold for EITC changes year-to-year, and often floats just above the Department of Health and Human Services federal poverty guidelines. Childless workers ages 18-24 excluded from the EITC, are also kept below the federal poverty line.

When these childless workers ages 18-24 are denied a tax credit, which lifts millions out of poverty every year, it keeps workers in that age range in poverty. According to ACS data in Graph B, there are an estimated 11 million childless workers in this age demographic with income that falls below the federal HHS poverty guidelines every year since 2010. Denying them access to the EITC continues to perpetuate a system of working poor among young adults. For many of them, access to the EITC credit could put them above the poverty line.

Graph B demonstrates population estimates of 18-24 year old childless workers with income below the HHS federal poverty guidelines. Each year the department publishes new guidelines for income that is considered poverty. Even so, every year, more than 10 million 18-24 year old childless workers are considered working poor.

Childless Workers (18-24) with Income Below Poverty Line

Weighted using ACS PERWT



Economic Profile of EITC Eligible Childless Worker Population (18-24).

There are always questions of need in program development and implementation. Decision makers want to ensure the program reaches those for whom it will do the most good. When examining need among the various ages of childless workers with income under the EITC threshold, no one age group has defining characteristics to exclude another group.

Legislators, considering the restriction of benefits, must recognize that Americans in every phase of adulthood find themselves in need of income support. When looking at childless workers 18-24 years old, their life stage may differ from other age groups, but their fundamental need for economic support persists.

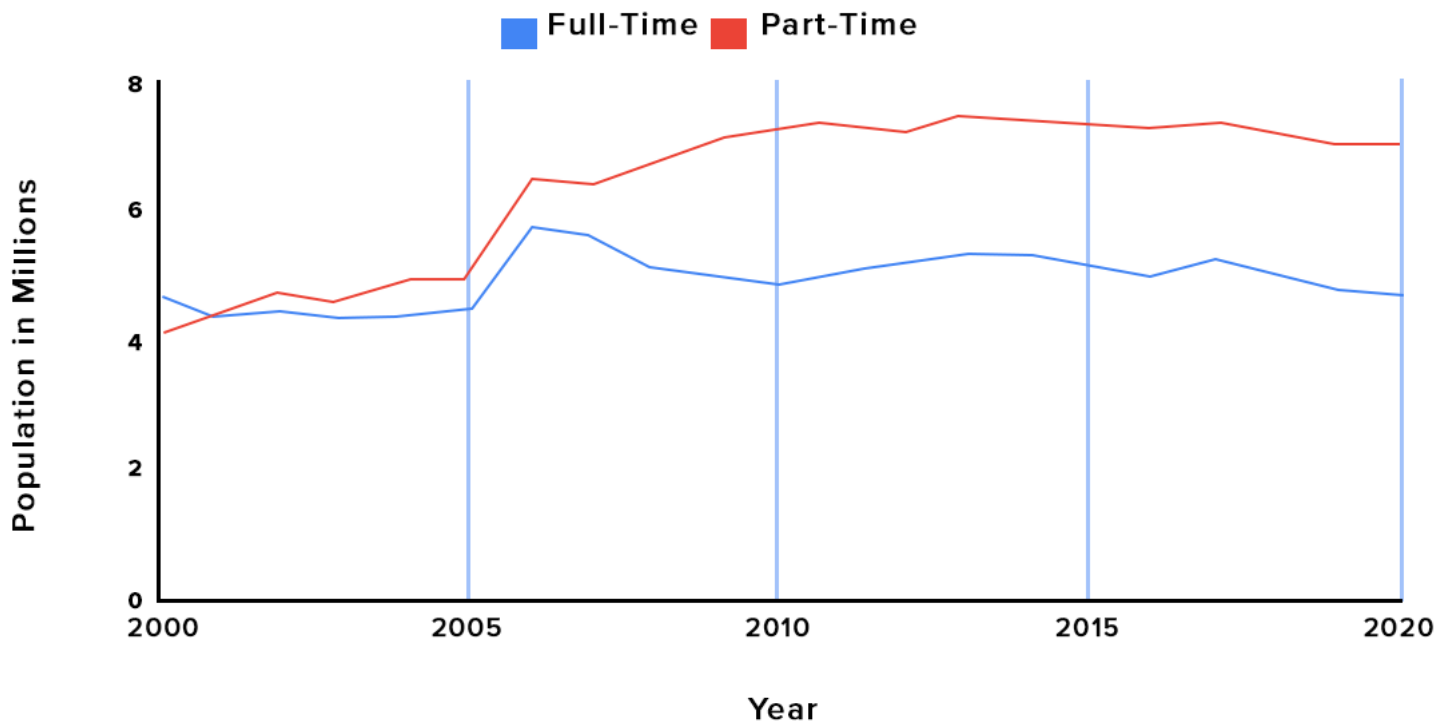
The economic characteristics of the 18-24-year-old cohort that gained EITC access through ARPA show substantial economic need. Many of them are working while in school, relying alone on their earned income, and lack the education that would lead them to a higher-paying job.

Looking at the childless worker population ages 18-24 eligible for the EITC, from 2000-2020, on average, 43 percent worked full time. Graph C shows the trend among full-time and part-time childless workers over 20 years. Looking at the average rate of



change over this period (Graph C), we know that the number of childless workers ages 18-24 working either full-time or part-time is growing. Seasonal and gig work is common among this age group, especially while in school or caring for family members. The unavoidable fluctuations in the gig economy means these workers are often in substantial need of further income support.

Full-Time vs. Part-Time (18-24) Childless Workers with Income Below Threshold for EITC
 Weighted Using PERWT



School status determines eligibility for the EITC under current law, but college students would benefit from receiving the EITC credit, as many of them are working their way through college with incomes below the poverty line.⁵ For example, in 2020, NCES found that 40 percent of full-time students had a job.⁶ However, despite school status remaining a disqualifier, many in the 18-24-year-old age group aren't in school and have only a high school diploma. Looking at available data from ACS, 43 percent of childless workers ages 18-24 from 2000-2022 were not in school. Graph D, shows that over 70 percent of these childless workers only achieved a high school diploma or part of a college education.

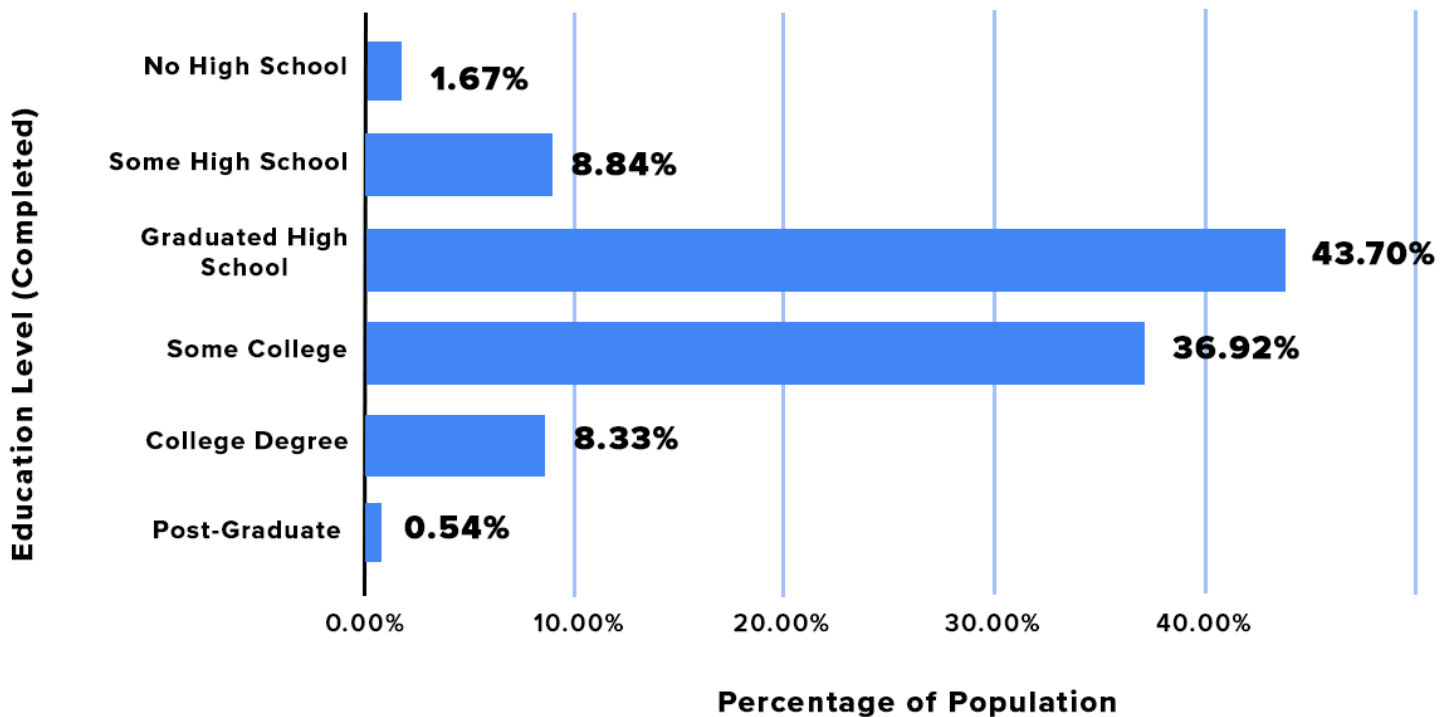
5. Fry, Richard. "A Rising Share of Undergraduates Are From Poor Families, Especially at Less Selective Colleges." [Www.Pewresearch.Org](https://www.pewresearch.org/social-trends/2019/05/22/a-rising-share-of-undergraduates-are-from-poor-families-especially-at-less-selective-colleges/#:~:text=In%202016%2C%2020%25%20of%20dependent,with%2029%25%2020%20years%20earlier). Pew Research Center, May 22, 2019. <https://www.pewresearch.org/social-trends/2019/05/22/a-rising-share-of-undergraduates-are-from-poor-families-especially-at-less-selective-colleges/#:~:text=In%202016%2C%2020%25%20of%20dependent,with%2029%25%2020%20years%20earlier>.
 College Student Employment." Nces.Ed.Gov. National Center for Educational Statistics, May 1, 2022. <https://nces.ed.gov/programs/coe/indicator/ssa/college-student-employment#suggested-citation>.



Furthermore, there is a correlation between higher education and greater income, so many of these workers will remain at a low income level since most of them never progressed past a high school degree.⁷

Childless Workers (18-24) with Income Below Threshold for EITC

Education Attainment (Weighted Using ACS: PERWT)

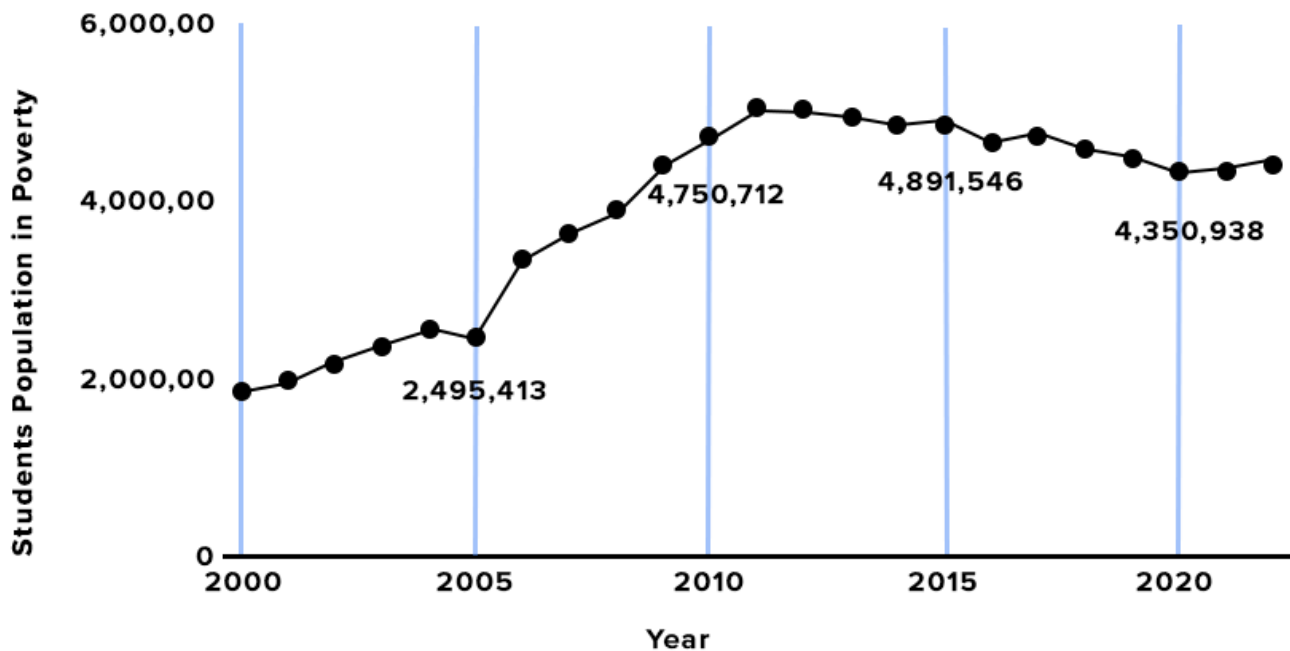


College students are not exempt from poverty. In some cases, post-secondary students are secure in housing due to on-campus living. However, college expenses are high, and tuition assistance and scholarships often aren't enough to support a college education and basic living necessities like housing, food, and clothes. College students are often required to work while in school to cover these expenses. Income from part-time jobs often puts these students below the HHS poverty line. Reference Graph E to see the growing population of part-time employed post-secondary students falling below the poverty line.

7. Torpey, Elka. "Measuring the Value of Education." [www.Bls.Gov/](https://www.bls.gov/careeroutlook/2018/data-on-display/education-pays.htm#:~:text=As%20the%20chart%20shows%2C%20the,than%20a%20high%20school%20diploma.). U.S. Bureau of Labor Statistics, April 1, 2018. <https://www.bls.gov/careeroutlook/2018/data-on-display/education-pays.htm#:~:text=As%20the%20chart%20shows%2C%20the,than%20a%20high%20school%20diploma.>

Postsecondary Students Living in Poverty

ACS Data: Weighted USing



Another concern, expressed in current EITC restrictions, over this age group of childless workers receiving the benefit is that many may not have housing expenses. Graph F breaks down the housing relationship status of this population of childless young adult workers from 2000-2020. While the data from the ACS indicates that a little over half of this age group are living with a parent, that does not account for the remaining individuals, nor does it diminish their need for the credit. We live in a time of inflation with high rent prices and costs of living across the country.⁸ Additionally, the economic impact of the COVID-19 pandemic left many young adults with few other options than to move home with their parents.

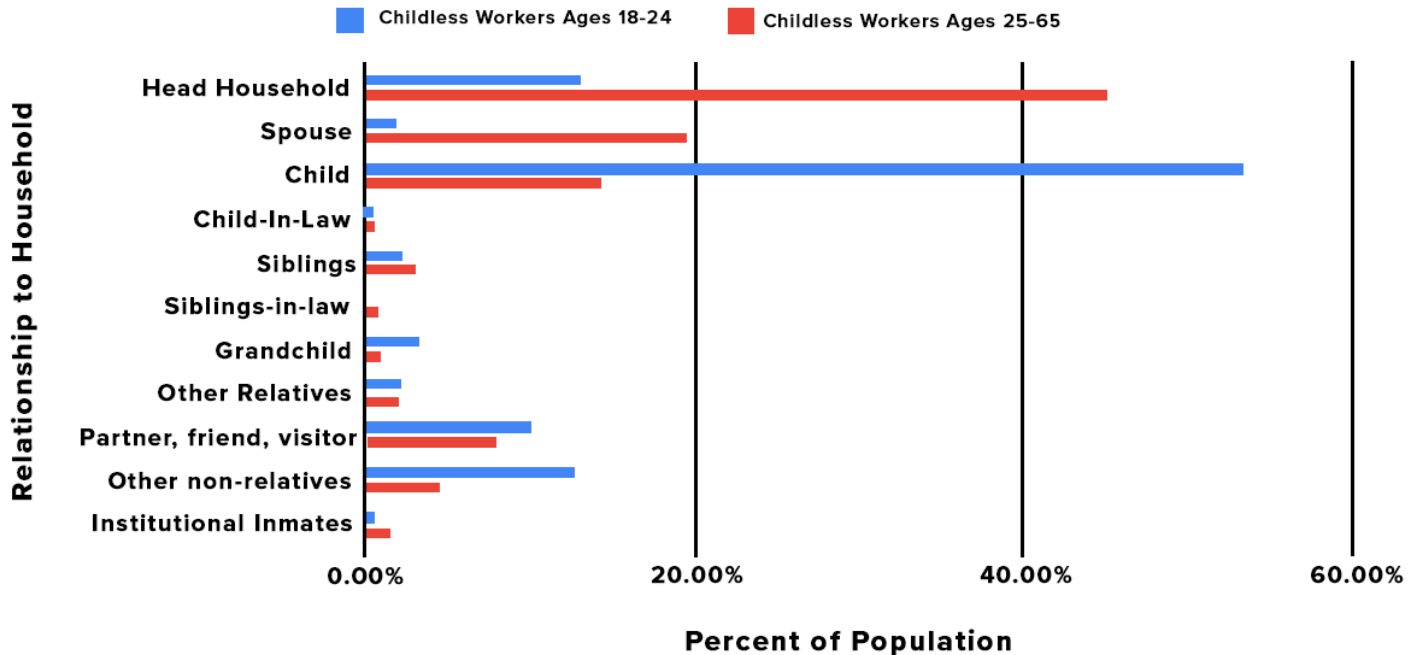
Even for young adults living with family, the EITC can be a crucial vehicle to help gain financial independence.

Then there is the other half of this age group in a possible living situation where they may have rental expenses. They may not be on a lease, but they pay rent to a sibling, co-worker, friend, or non-parental relative.

8. Bhattarai, Abha. "Rents Are up More than 30 Percent in Some Cities, Forcing Millions to Find Another Place to Live." [Www.Washingtonpost.Com](https://www.washingtonpost.com/business/2022/01/30/rent-inflation-housing/). Washington Post, January 30, 2022. <https://www.washingtonpost.com/business/2022/01/30/rent-inflation-housing/>.

Childless Worker with Income Below Threshold for EITC

Relationship to Household (Weighted Using ACS PERWT)



The economic profile of the EITC eligible childless workers ages 18-24 shows a well-established need for monetary support.

Many of these young adult childless workers ages 18-24 are living in poverty while working their way through school and have not received benefits of the EITC due to arbitrary rules about age. These figures reveal how much work lawmakers have left to do to make sure young adults can make ends meet in an economy that is working against them. Lawmakers found a vehicle (the EITC) in 2021 to help accomplish this, and an extension of the temporary tax provision will ensure young people continue to receive the support they need.

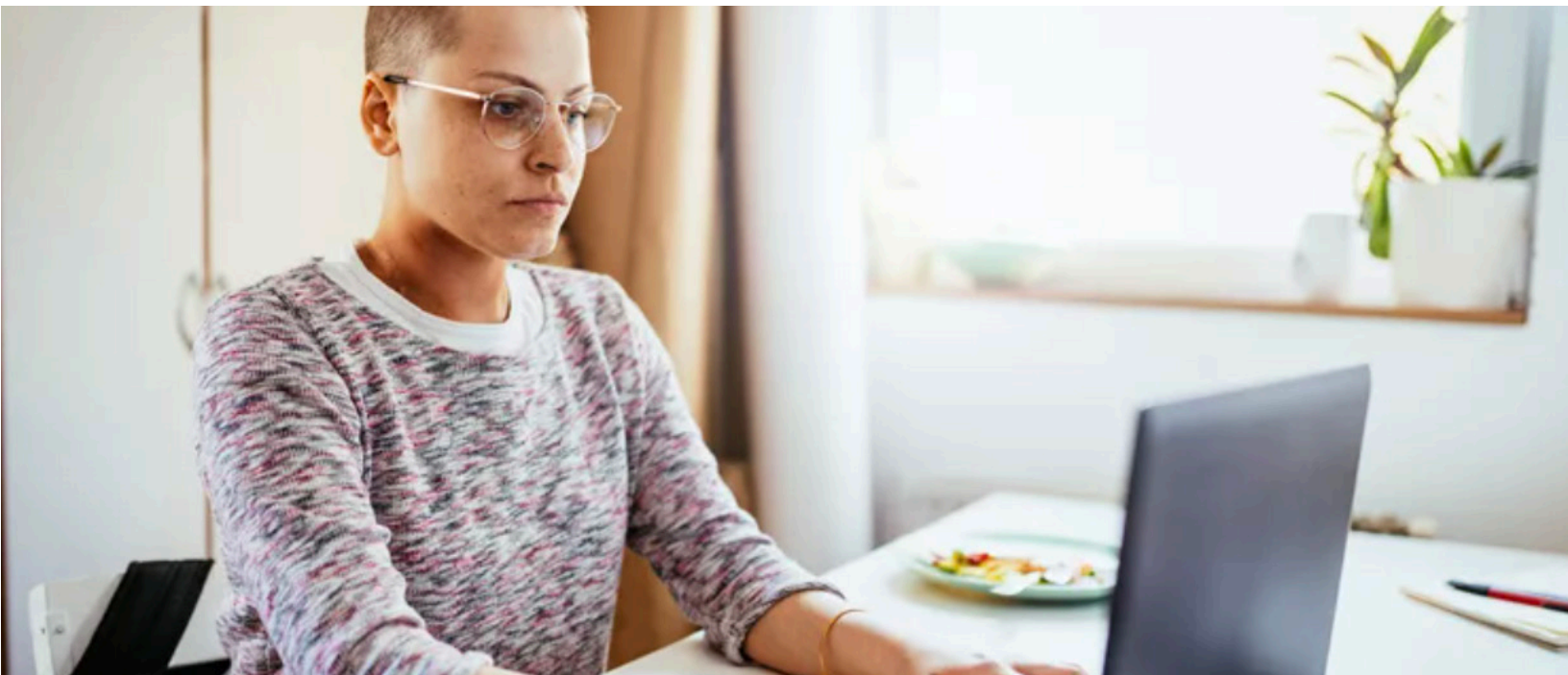
Expanding the EITC to Address Economic Inequities

Young adult workers from underrepresented communities experience unique economic challenges. Expanding the EITC so more of them can access the benefit is a positive step towards rectifying many of the system economic barriers they face. This expanded program alone cannot solve the unique financial need of these communities. However, it does present an opportunity to alleviate some of the associated struggles of living in an economy that is working against them.

The ARPA childless worker expansion for the EITC would have expanded access to the following populations:

- From 2015-2020 an average of 1.7 million Black young adult childless workers ages 18-24 would have benefitted from an EITC tax credit.
- From 2015-2020 an average 106,000 Indigenous young adult childless workers ages 18-24 would have benefitted from an EITC tax credit.
- From 2015-2020 an average 500,000 Pacific Islander young adult childless workers ages 18-24 would have benefitted from an EITC tax credit.
- From 2015-2020 an average 175,000 Asian young adult childless workers ages 18-24 would have benefitted from an EITC tax credit.
- From 2015-2020 an average 1.5 million mixed race young adult childless workers ages 18-24 would have benefitted from an EITC tax credit.
- From 2015-2020 an average 2.5 million Hispanic young adult childless workers ages 18-24 would have benefitted from an EITC tax credit.

It is important to consider that young adult workers from underrepresented communities have unique experiences with poverty.⁹ The poverty rate for many of these communities can be double than that of a white community. Expanding access to these young adult workers from these communities could offer a boost in economic security at earlier points in their lives.



9. Poverty Rate by Race/Ethnicity." [Www.Kff.Org](https://www.kff.org/other/state-indicator/poverty-rate-by-raceethnicity/?currentTimeframe=0&sortModel=%7B%22collid%22:%22Black%22,%22sort%22:%22desc%22%7D). Kaiser Family Foundation, Accessed February 24, 2023. <https://www.kff.org/other/state-indicator/poverty-rate-by-raceethnicity/?currentTimeframe=0&sortModel=%7B%22collid%22:%22Black%22,%22sort%22:%22desc%22%7D>.

Recommendations for EITC Expansion.

Make the ARPA Temporary Expansion of EITC Permanent or at minimum extend it.

Congress should make permanent the expanded EITC eligibility codified by ARPA. The political undertaking of this recommendation may be ambitious, so an incremental solution would be to extend the expansion. Tax provision extensions offer legislators the opportunity to continue providing fiscal relief without affecting federal revenues, and provide more time to analyze the efficiency of the provision.¹⁰

The data presented here shows there is a need among the childless worker population ages 18-24 for this tax credit, and the amount is also crucial. Permanent expansion of the program would mean little to these workers if the credit amount did not reflect an improved economic situation. The 2022 maximum credit amount of \$560 does little for a childless worker working full-time at minimum wage.¹¹ A childless worker working full-time at minimum wage (\$7.25), will have a gross income just above the federal poverty line for the year (\$13,920). When you consider what they will owe in federal taxes (12 percent), their new income falls below the poverty line (\$12,249). Here is where the EITC credit amount is crucial. The proposed 2022 credit maximum (\$560) will not move these childless workers above the federal poverty line. However, the ARPA maximum credit amount (\$1,502) almost eliminates their federal tax liability, lifting them above the poverty guideline for 48 states.¹² The Congressional Research Service states that an extended tax provision is efficient if it solves a market failure.¹³ Poverty is a market failure, and the way the current EITC tax law is written denies a subgroup of childless workers tax benefits that would lift them out of poverty.

In summary, policymakers should :

- Make the ARPA expansion of EITC permanent and change the age range to 18-24.
- At a minimum, extend the EITC ARPA childless worker tax provisions for another 3 tax years.
- Keep the increased maximum credit amount for childless workers (\$1,502).

10. Expired and Expiring Temporary Tax Provisions (Including “Tax Extenders”).” [Crsreports.Congress.Gov](https://crsreports.congress.gov/product/pdf/R/R47252). Congressional Research Service, September 23, 2022. <https://crsreports.congress.gov/product/pdf/R/R47252>.

11. “Earned Income and Earned Income Tax Credit (EITC) Tables.” [Www.Irs.Gov](https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-and-earned-income-tax-credit-eitc-tables). Internal Revenue Service, Accessed February 24, 2023. <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-and-earned-income-tax-credit-eitc-tables>.

12. Poverty Guidelines.” [Aspe.Hhs.Gov](https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines). Department of Health and Human Services, Accessed February 24, 2023. <https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines>.

13. Expired and Expiring Temporary Tax Provisions (Including “Tax Extenders”).” [Crsreports.Congress.Gov](https://crsreports.congress.gov/product/pdf/R/R47252). Congressional Research Service, September 23, 2022. <https://crsreports.congress.gov/product/pdf/R/R47252>.

College students need access to the EITC.

Many college students are living in poverty while working while attaining their degrees. Higher education costs are also skyrocketing, so many students must work while in school.¹⁴ These costs are especially burdensome for low-income families and students from underserved communities. The EITC program must be expanded to include these students. There are tax credits for students like the American Opportunity Tax Credit (AOTC) and the Learning Lifetime Credit (LLC). The AOTC is for educational expenses and is refundable up to \$1000, and the LLC is not refundable.¹⁵ While this support is helpful, it isn't enough to pull many of these students out of poverty.

Young Invincibles recommends removing the school status as a disqualification for an EITC benefit. The reality is most college students have earned income, and the IRS code needs updating to reflect a more precise qualifying process for college students. An independent student with earned income, and low family contributions should receive access to the EITC. Financial stability during college can promote academic success according to a study published by the NCBI.¹⁶ An EITC credit for college students with earned income could provide much needed financial stability and cover expenses for basic necessities like food, housing, or books.

Young Invincibles recommends a change to the IRS tax code when it comes to definitions around school status. We recognize the importance of benefits transfers going to those who need it. If there is a concern a college student not in need of an EITC benefit will receive it, under our recommendations, this would not likely occur. If legislators expand access to EITC for college students, and a student from an affluent family tries to take the tax credit, said family is losing more in aggregate tax benefits. See the example below:

- A family making \$100,000 - \$149,000 roughly receives **just over \$1,500**¹⁷ by claiming a dependent under the standard deduction. If the dependent (college student) from this family were to claim the EITC tax credit, the benefit amount would be \$600 (current law) or \$1502 (recommendation). So comparatively, it is in the family's interest to claim the child as a dependent, or even if the dependent isn't claimed and collects EITC the aggregate effect on federal revenue is nominally different.

14. Hess, Abigail J. "College Costs Have Increased by 169% since 1980-But Pay for Young Workers is up by 19%: Georgetown Report." CNBC, November 2, 2021. <https://www.cnbc.com/2021/11/02/the-gap-in-college-costs-and-earnings-for-young-workers-since-1980.html>.

15. American Opportunity Tax Credit." Wwww.Irs.Gov. Internal Revenue Service, Accessed February 24, 2023. <https://www.irs.gov/credits-deductions/individuals/aotc>.

16. Moore, A., Nguyen, A., Rivas, S., Bany-Mohammed, A., Majeika, J., & Martinez, L. (2021). A qualitative examination of the impacts of financial stress on college students' well-being: Insights from a large, private institution. SAGE open medicine, 9, 20503121211018122. <https://doi.org/10.1177/20503121211018122>

17. How Dependents Affect Federal Income Taxes." Wwww.Cbo.Gov. Congressional Budget Office, January 23, 2020. <https://www.cbo.gov/publication/56004>.

We anticipate our recommendation will benefit college students who are in charge of their own finances and transitioning to adulthood. They often live on their own, frequently off campus, and working through school.

These students would benefit from an EITC tax credit, and should not be arbitrarily excluded because of age or school status.

Look to the EITC as a vehicle for more robust income supports.

With some simple reforms, The EITC could become one of the most robust income support programs in the U.S.

- 1. Offer monthly disbursement benefit transfers through the year.** Congress offered a similar plan in previous years but not many taxpayers took advantage because they were worried they would end up owing back taxes at the end of the year.¹⁸ A simple change to avoid this would be the IRS basing disbursements on the AGI of a previous filing. So if income increased in the current tax year, a smaller EITC benefit would be received the following year. Likewise, if your income decreased, the benefit would increase in the next year.
- 2. Raise the income-phase out threshold.** The EITC can evolve to provide relief to more than the lowest-income workers and families. By making the income-phase out threshold higher, more lower-middle class workers and families could benefit from receiving an EITC tax refund.

Conclusion.

The COVID-19 pandemic dragged many disparities in our economy into the forefront of policymaking. As a focusing event, it offered the opportunity to address many of them. While we may be exiting the peak of the pandemic, many of those economic improvements passed as temporary have the chance to become permanent and improve the lives of millions. The ARPA expansion of EITC is one of those chances. While the expansion ends for the next tax year, lawmakers could revise the tax law making the expanded provisions permanent. After seeing the available data on the population of childless workers, at a minimum, they need to recognize the program is deficient and renew the expansion for another tax year while they discuss a permanent solution.

18. Hungerford, Thomas, and Rebecca Thiess. "The Earned Income Tax Credit and the Child Tax Credit." [Www.Epi.Org](https://www.epi.org/publication/ib370-earned-income-tax-credit-and-the-child-tax-credit-history-purpose-goals-and-effectiveness/). Economic Policy Institute, September 25, 2013. <https://www.epi.org/publication/ib370-earned-income-tax-credit-and-the-child-tax-credit-history-purpose-goals-and-effectiveness/>.