CHILD POLICY brief

Society for Research in Child Development

The Earned Income Tax Credit Reduces Poverty and Supports Children's Healthy Development

Tax credits have the potential to promote family well-being and disrupt intergenerational poverty, but effectiveness depends on policy design.

At-a-Glance

- Tax credits can be a valuable tool for promoting positive economic and social outcomes, including higher employment for parents and poverty reduction for families.
- The Earned Income Tax Credit (EITC), for example, lifts nearly 6 million people out of poverty and reduces the depth of poverty for many more.
- Children in EITC-recipient households experience less poverty, better nutrition, and higher test scores, largely due to the combined increases in household income and parental labor force participation.

Policy Implications

- Delivered through the tax code, the EITC has several administrative advantages, though policy design, such as eligibility criteria and timing of credit distribution, can limit its reach and effectiveness.
- Confusion about tax filing or a lack of program awareness can limit the anti-poverty potential of tax credits. Tax reforms that increase filing complexity, like proposals to obtain pre-certification of qualifying children, could result in fewer qualifying families claiming the credit.

Tax Credits Promote Positive Child Development and Adult Outcomes

Federal tax credits lift millions of children and families out of poverty annually, alongside other anti-poverty programs, including Medicaid and the Supplemental Nutrition Assistance Program (SNAP).[1] In the United States, more than 1-in-7 children live in families with incomes below the federal poverty threshold.[2] Social science and child development research consistently finds that poverty is associated with worse developmental and adult outcomes.[3]

The two largest tax policies targeting families with children are the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC). These credits can reduce families' owed taxes or even provide families with a refund if the tax credit exceeds their tax bill. They can promote positive child development in two ways:

1) by freeing up and providing family resources to invest in children.

2) by reducing household stress associated with poverty as more basic needs are met.[4]

The EITC Increases Employment and Earnings

The EITC provides low- and moderate-earning households with a refundable tax credit, meaning families can receive a tax refund if the credit exceeds the amount of taxes they owe. In the 2023 tax year, approximately 23 million tax filers claimed $64 billion in EITC benefits, with an average credit of $2,743.[5]

The EITC is designed to support employment and avoid a sudden "benefit cliff," where a small increase in a family's earnings makes them suddenly ineligible for a public benefits program. By doing so, the EITC promotes parental employment, particularly for single mothers.[6] It reduces poverty by both increasing families' earnings, as parents work more, and post-tax income, through the value of the credit itself. Importantly, research shows the increase in parental employment does not come at the expense of developmentally enriching parenting time.[7]

How the EITC works: Instead of an all-or-nothing eligibility around a single dollar amount, the credit:

- Increases with earnings (married couples combine their earnings when calculating the credit),
- Hits a maximum value, and then
- Decreases gradually.

The EITC Benefits Both Parents and Children

Research suggests that the EITC reduces the depth of poverty for nearly 9 million children, lifting 3 million above the federal poverty threshold entirely.[8] By increasing parental employment and reducing the developmentally negative effects of poverty, the EITC is associated with multiple socioeconomic benefits for children, including improved nutrition, better health, and stronger school performance.[9] [10] [11] [12] [13]

The EITC can help break the intergenerational cycle of poverty, like other anti-poverty programs, such as SNAP.[14] [15] Children whose families received the EITC are more likely to attend post-secondary school and demonstrate positive employment outcomes in early adulthood, reducing the likelihood that their own children grow up in poverty.[12]

The EITC may therefore be considered a "three-generation" policy, supporting outcomes for parents, their children, and, possibly, their children's children.

Anti-Poverty Tax Policies Have Administrative Advantages and Complexities

Advantages: Tax credits can be a straightforward way to support working families with relatively low administrative burden.[1] Families claim the EITC when filing their end-of-year taxes, an action most already take. As the vast majority of earnings used to qualify for the credit are reported to the IRS by employers, the determination of whether a family meets the income requirements is straightforward for most.

Complexities: The complexity of the tax system leaves out some low-income families and can lead to eligibility confusion that results in families over- or under-claiming the credit inadvertently. Immigrant families where parents do not have a Social Security number are ineligible for the EITC, even if their children are U.S. citizens and they pay taxes.[16] Households with non-traditional family structures-such as unmarried parents or non-parent relatives raising children-can claim or lose the benefit in error if eligibility rules make it ambiguous or confusing as to who should receive the credit.[17] Benefit determination is done on an annual basis, after the year has ended. This makes tax credits less responsive than traditional transfer programs to changes in economic and familial circumstances.

Acknowledgements and references available at www.srcd.org

Acknowledgements and References

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