



## How the Earned Income Tax Credit Helps Low-Income Americans without Stigma

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More than twenty years ago, the U.S. welfare system was overhauled to remove the entitlement to cash assistance. While millions left the welfare rolls, those who still get cash benefits remain stigmatized as second-class citizens – unless they get the Earned Income Tax Credit, called “EITC” for short.

### How the Earned Income Tax Credit Works

As part of filing federal taxes each year, more than 26 million lower-income households apply for and receive this refundable tax credit. With it, filers can receive a check from the Internal Revenue Service if their tax liability goes below zero, as it does for most low-income parents. For millions of working families each year, the EITC makes tax time “like hitting the lottery” and “better than Christmas,” because a check that can be worth a quarter to a third of their annual income arrives in a lump sum. This means significant additional income lands in the pockets of cash-strapped families.

The basic EITC may be only the beginning, because many Earned Income Tax Credit recipients are also eligible for the refundable portion of the Child Tax Credit. In addition, some 26 states offer their own versions of the Earned Income Tax Credit, typically set at a percentage of the tax filer’s federal credit.

The federal Earned Income Tax Credit can be worth more than \$5,500 for parents with two children, and the average credit for families with children is more than \$3,000. By way of comparison, the typical cash welfare benefit for eligible families is \$432 a month, cumulating to an annual total of \$5,184. Since the values of the EITC and cash benefits are comparable, other factors explain why EITC payments entail less stigma:

- Unlike many other means-tested programs, the Earned Income Tax Credit is delivered through a universal system – filing with the Internal Revenue Service. Participation in this program does not mark beneficiaries as different or separate from their fellow citizens. Whether taxpayers seek deductions for mortgage interest payments, write off capital losses, or claim the EITC, they all participate in the same U.S. tax filing system. By contrast, Americans who apply for cash welfare, Food Stamps, or other kinds of low-income assistance visibly participate in separate programs.
- The EITC is primarily reserved for employed parents, a valued identity in our society. Only low-income people with earned income, a visible sign of work effort, can qualify for the EITC. Further, low-income adults without children can only claim a small benefit. Recipients see this credit as a reward for doing the right thing, rather than as a stigmatized hand-out. The credit is affirming of recipients’ contributions to American society.

### Benefits beyond Dollars and Cents

Researchers have found that the Earned Income Tax Credit encourages work and leads to many other positive impacts. The credit has been found to lead to better birth outcomes and fewer high-risk behaviors among mothers during pregnancy. It is also associated with higher academic achievement by schoolchildren and more frequent college attendance and graduation for young adults. In addition, the credit supports work engagement and higher earnings for mothers; reduces evictions, foreclosures, and indebtedness; and lowers the likelihood that low-income children will experience neglect and require attention from Child Protective Services.

While studies have not yet pinned down the specific mechanisms through which receipt of the credit confers all of these associated benefits, qualitative research suggests possibilities. Most straightforwardly, families

have more money to alleviate material hardship and allow investments in children. EITC benefits may not be spent in the same ways as other kinds of government cash assistance: Because the EITC is delivered through the general tax system, arrives in a lump sum, and has an affirming meaning for working parents, it may be spent in special ways – such as paying down debts, investing in durable goods, and buying birthday presents for children.

The EITC also likely helps by reducing stresses that can impair parenting. Easing financial strains for parents may have positive ripple effects on family functioning. Furthermore, the arrival of a lump sum of extra income at tax time provides a break from scarcity, allowing families to make economic choices without the clouding effects of deprivation.

## The Future of the EITC

Although the Earned Income Tax Credit has enjoyed support across the political aisle, it can still be improved in various ways. The EITC offers limited benefits to those not claiming a dependent child – this even includes parents who are bearing the costs of raising children by paying child support or having a child live with them less than half time. As a consequence, many low-income adults do not benefit from its work incentives and financial support. In addition, about half of states do not currently offer their own supplemental Earned Income Tax Credits, and some of the states that do offer credits have not made them refundable. This leaves low-income families in these states at a disadvantage given the relatively high state and local tax burdens they often bear. Finally, some states fund EITC credits with welfare dollars, creating a trade-off between the parts of their overall safety nets that help employed versus non-employed poor parents. Because some poor parents cannot hold or find jobs, the Earned Income Tax Credit cannot really serve as a replacement for cash welfare.

Despite remaining challenges, today's Earned Income Tax Credit shows it is possible to provide financial assistance to low-income Americans without social exclusion or stigma. At both the federal level and in the states, this is a worthy goal for all aspects of U.S. poverty policy. We can provide financial assistance in ways that avoid stigma and enhance participants' sense of responsible involvement as full American citizens.

**Read more in Sarah Halpern-Meekin, Kathryn Edin, Laura Tach, and Jennifer Sykes, *It's Not Like I'm Poor: How Working Families Make Ends Meet in a Post-Welfare World* (University of California Press, 2015); and Jennifer Sykes, K. Kri, Kathryn Edin, and Sarah Halpern-Meekin, "Dignity and Dreams: What the Earned Income Tax Credit (EITC) Means to Low-Income Families." *American Sociological Review* 80, no. 2 (2015): 243-267.**