

UNITED WAY LEGISLATIVE ISSUE BRIEF 112[™] CONGRESS: EARNED INCOME TAX CREDIT (EITC)

"United Way urges Congress to make the temporary improvements to the EITC permanent, and to protect the EITC in tax reform and deficit reduction discussions"

What is the Earned Income Tax Credit?

The Earned Income Tax Credit (EITC) is a federal tax credit for **working** individuals that earn low or moderate incomes. Enacted by Congress in 1975 and significantly expanded in the late 1980s and early 1990s, the tax credit was created to reduce the tax burden on lower-income workers, supplement their wages, and encourage greater participation in the workforce. It has become the nation's largest and most effective anti-poverty program, significantly increasing the number of single parents leaving welfare for employment.

The tax credit is structured to augment the incomes of lower-wage workers by reducing their income tax liabilities and providing refunds to those who qualify. Because the credit is refundable, if the credit exceeds the low-wage worker's federal income tax liability, the balance will be refunded to the taxpayer.

Recent Improvements Expire at the End of 2012 – Action is Necessary to Make Improvements Permanent

The American Recovery and Reinvestment Act (ARRA) of 2009 increased the EITC rate for working families with three or more children from 40% to 45% for tax years 2009 and 2010. It also reduced the financial penalty some couples receive once they marry by allowing married couples to receive larger tax benefits. The 2010 Tax Relief and Job Creation Act extended the ARRA changes through the end of 2012 and increased the maximum credit for families with three or more children from \$5,236 to \$5,891. According to the Center on Budget and Policy Priorities, these temporary expansions alone were responsible for raising about 500,000 people out of poverty. Both the marriage-penalty relief provision and the EITC expansion for families with three or more children are set to expire at the end of 2012 unless Congress takes action.

Why is this Important to United Way?

EITC is a top legislative priority for United Way. Studies find that the EITC encourages work, increases financial stability, helps families meet basic needs, and improves children's achievement in schools, all of which advance the common good. More than 340 United Ways across the United States help individuals and families access EITC through community Volunteer Income Tax Assistance and other programs. For the 2011 tax year, a coalition of 100 United Ways providing free tax preparation services across 40 states helped bring back \$854 million in tax refunds to low and moderate-income workers.

In a time of increasing financial hardship brought on by the recession, it's important to make permanent the EITC improvements established through ARRA and the Tax Relief Act. Additionally, as Congress debates tax reform and deficit reduction strategies, it will be especially important for the strength of our communities that the EITC be preserved or strengthened.

The Ask: "United Way urges you to promote work and strengthen communities by making permanent the temporary improvements to the EITC and by protecting the EITC during tax reform and deficit reduction discussions"

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