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U.S. Poverty Data Shows Urgency of Saving Pro-Work Tax Credits

With the latest U.S. Census data showing that one in seven Americans — and almost one in five children — live at or below the poverty line, it's more important than ever for Congress to save key provisions of pro-work tax credits that help millions of hardworking families make ends meet.

The Earned Income Tax Credit (EITC) and the **Child Tax Credit (CTC)** have been praised by both Republicans and Democrats alike, and for good reason: in 2014, these tax credits moved 9.8 million people out of poverty in 2014 alone, including 5.2 million children. The EITC and CTC promote work by allowing people to keep what they earn. Recipients use their refunds at businesses in their communities, paying for basic needs like groceries for their kids and car repairs so they have a reliable way to get to and from work.

Important improvements to these tax credits are set to expire in 2017. If Congress doesn't act in time, 50 million Americans, including 25 million children, will lose part or all of their EITC or CTC. About 16 million people, including 8 million children, will slip into poverty or deeper into poverty. That includes some one million veteran and armed forces families and more than two million rural families.

The decisions made in our nation's capital have big implications for all of us. As Congress considers extending some tax breaks for businesses, they should also save important provisions of the EITC and CTC that are set to expire. In addition, they should build on the success of the EITC by fixing the gap in the EITC for workers without children.

Tax Credits for Low-Income Americans

How do they work?

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low-income working individuals and families. It is designed to "make work pay." Because the credit grows for low-income workers as their incomes increase, the EITC provides a financial incentive for workers to stay employed and increase their earnings.

The Child Tax Credit (CTC) is a partially-refundable tax credit designed to help families with the cost of raising children. Households with at least $3,000 in earned income can get a tax credit of up to $1,000 for each child under 17 years old. By reducing income tax liability, this credit helps offset the cost of raising children.

Why do they matter?

Both the EITC and the CTC lead to large decreases in poverty and substantial increases in employment, as well as decreasing the number of single parents receiving cash welfare. They are critical lifelines for millions of families, and a net-gain for the American tax base.

The benefits are far-reaching: EITC households tend to spend their credits quickly and locally, which produces a strong "multiplier effect," generating at least $1.50 - $2.00 in local economic activity for every $1 claimed. In the long term, credits like the CTC and EITC help children do better academically and boost their earnings later in life, according to a range of studies.

What's at risk? What is Congress doing about it?

Important improvements to the EITC and CTC were first enacted in 2009, responding to the challenges faced by low-income Americans in the Great Recession. These provisions adjusted the credits to better support married couples, families with three or more children, and lower-income families.

We've seen the benefit of those changes for millions of families, but they're scheduled to expire in 2017. If Congress doesn't save these provisions, 16 million people will fall into poverty or deeper into poverty.

What comes next?

As the Census Bureau releases its annual poverty data — and Congress considers extending some tax breaks for businesses — lawmakers should be looking at how we can even better strengthen work incentives and boost incomes for families facing poverty.

In the next few months Congress is expected to enact a long-term federal highway funding bill and also address the so-called "tax extenders," a collection of mostly business tax breaks that are extended regularly. Those extenders have expired and will be renewed this year. Some have pressed to make certain of these business extenders permanent, perhaps as a part of the highway legislation. It is critical that no business tax breaks should be made permanent unless the EITC and CTC provisions are also made permanent.

After saving the expiring EITC and CTC provisions, here's what Congress should do next:

- Fix a gap in the EITC by expanding it for adults without children in the home. Many are non-custodial parents struggling to pay child support or young workers just starting out. They are currently only eligible for one-tenth the credit a family with two children receives. As a result, they are the only group the U.S. tax code actually taxes into (or deeper into) poverty.

- Extend the CTC to America's poorest families. Paradoxically, those families earning less than $3,000 per year are currently excluded from the credit.

- Make the CTC fully refundable. Because low-income families many times owe little or no income tax (though they still pay other taxes, like payroll, sales, and property taxes), they receive little benefit from a CTC that's only partially refundable.

While many members of Congress use deficit concerns to justify cuts to anti-poverty programs, the U.S. House of Representatives has acted on multiple tax breaks for wealthy families and large corporations, adding billions to the federal budget deficit. Now is the chance for us to remind Congress that it's time for a change: working families — not wealthy individuals or corporate interests — must come first.