

FY18 Federal Budget: Refundable Tax Credits and Latinos

The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are federal tax credits for low- and moderate-income workers. The EITC encourages and rewards work – a worker’s EITC grows with each additional dollar of earnings until their income qualifies for the maximum value of the credit. The CTC helps working families cover the cost of raising children. Both credits have lifted millions of families above, or closer to, the poverty line because they are refundable.

What are Refundable Tax Credits?

Refundable tax credits like the EITC and CTC are critical to working families who benefit from the credits even if their incomes are low. If the EITC or CTC exceeds a low-wage worker’s income tax liability, the worker may receive the difference in the form of a refund check. Federal refundable tax credits help ensure that working families have the resources to succeed. Research shows that families mostly use refundable tax credits to pay for necessities, repair homes, maintain vehicles used to go to work, and obtain additional training to improve their earning power.¹ Refundable tax credits reduce poverty by supplementing the income of low-wage workers.

Who Benefits?

When filing taxes for 2016, working families with children who have annual incomes between \$39,300 and \$53,500 may be eligible for the EITC. Working people without children and with incomes below \$14,900 can receive a very small EITC.² When claiming the CTC in 2016, eligible working families can receive a refund equal to 15% of their earnings above \$3,000, up to the credit’s full \$1,000-per-child value.³ In tax year 2015, 27 million tax filers received \$67 billion worth of tax credits through the EITC, and the latest Census data shows that 34% of EITC beneficiaries were Latino.⁴ In tax year 2014, 19.8 million tax filers received \$26.6 billion worth of tax credits through the refundable portion of the CTC, and the latest Census data show that 33% of CTC beneficiaries were Latino.⁵ Together, the EITC and CTC lifted approximately 9 million Americans out of poverty in 2015, including 3.9 million Latinos, 2 million of whom were children.⁶

What About the Federal Budget?

President Trump's FY18 budget request aims to undermine federal anti-poverty programs by imposing unprecedented cuts to fund tax breaks for both corporations and the wealthy. In particular, Trump's budget proposes to only allow taxpayers who have work-authorized Social Security Numbers to claim the EITC, and to end the CTC for immigrant workers who pay taxes using an Individual Tax Identification Number (ITIN). The latter would greatly impact children of ITIN taxpayers, most of whom are U.S. citizens. Nationally, more than 80% of ITIN filers projected to lose the CTC would be Latino.⁷ The House Budget Committee followed suit and included these harmful provisions in their concurrent resolution on the federal budget for FY18.⁸ Congressional appropriators should reject attempts to restrict eligibility for the CTC as a budgetary offset and should preserve and improve these important anti-poverty tax measures.

¹ Center on Budget and Policy Priorities, "Policy Basics: The Earned Income Tax Credit" (Washington, DC: CBPP, 2016) <http://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>.

² Ibid.

³ Center on Budget and Policy Priorities, "Policy Basics: The Child Tax Credit" (Washington, DC: CBPP, 2016) <http://www.cbpp.org/research/federal-tax/policy-basics-the-child-tax-credit>.

⁴ Internal Revenue Service, "Statistics for Tax Returns with EITC" (Washington, DC: IRS, 2017) <https://www.eitc.irs.gov/EITC-Central/eitcstats>; and National Council of La Raza analysis of U.S. Census Bureau, "2015-2016 Annual Social and Economic Supplement," *Current Population Survey*. Washington, DC, 2016, <https://www.census.gov/programs-surveys/cps/data-detail.html>.

⁵ Ibid; and Center on Budget and Policy Priorities (CBPP) analysis of 2013-2015 American Community Survey 3-Year Estimates.

⁶ UnidosUS analysis of U.S. Census Bureau, "2015-2016 Annual Social and Economic Supplement," *Current Population Survey*. Washington, DC, 2016, <https://www.census.gov/programs-surveys/cps/data-detail.html>; and Center on Budget and Policy Priorities, "EITC, CTC Together Lifted 9.8 Million out of Poverty in 2015" (Washington, DC: CBPP, 2016) <http://www.cbpp.org/blog/eitc-ctc-together-lifted-98-million-out-of-poverty-in-2015>.

⁷ National Immigration Law Center, "Why Cutting the Child Tax Credit is Bad Policy" (Washington, DC: NILC, 2014) <https://www.nilc.org/issues/taxes/cuttingctcbadpolicy/>.

⁸ House Committee on the Budget, *Concurrent Resolution on the Federal Budget-Fiscal Year 2018*, 115 Cong., 1st sess., Committee Print 115-240, <https://www.gpo.gov/fdsys/pkg/CRPT-115hrpt240/pdf/CRPT-115hrpt240.pdf>.