

# The Federal Tax Code: Eligibility for Refundable Tax Credits and Latinos

The “Tax Cuts and Jobs Act,” the latest tax bill from House Republicans, would result in a massive tax cut for the richest Americans and big corporations, while providing little, if any, tax relief to working- and middle-income families.<sup>1</sup> Corporations would see their rate drop from 35% to 20%, amounting to a \$1.5 trillion tax cut, and the rich would disproportionately benefit: about 45% of the bill’s tax cuts would go to households with incomes above \$500,000.<sup>2</sup> To pay for these massive tax cuts, the bill proposes eliminating several tax deductions, but the revenue raised would be insufficient to cover the cost. Therefore, spending on important programs like health care, nutrition, education, and housing, will be slashed, jeopardizing the well-being of Latino families.

The tax bill would also eliminate eligibility for immigrants for refundable tax credits. Currently, taxpayers filing with an Individual Taxpayer Identification Number (ITIN) are eligible for the Child Tax Credit (CTC) and the American Opportunity Tax Credit (AOTC), and a Social Security number is required to claim the Earned Income Tax Credit (EITC). The House Republican plan would require a work-authorized Social Security number to claim the refundable portions of the CTC, AOTC, and the EITC. These proposals would impact millions of Latino families and their nearly four million U.S.-citizen children.<sup>3</sup>

## **What Is the Earned Income Tax Credit?**

The EITC provides substantial support to working-class families. The amount in tax credits a family can receive will depend upon their income and the number of children they have, with larger tax credits available to families with more children. The EITC is a powerful anti-poverty tool because it is a refundable tax credit, meaning if a worker’s EITC amount is larger than what they owe in taxes, the worker will receive the difference as a tax refund. The EITC is only available to taxpayers who are working, earning income, and who have a Social Security number, such as Deferred Action for Childhood Arrivals (DACA) recipients.

## What Is the Child Tax Credit?

The CTC supplements the wages of the lowest-income taxpayers, helping low-paid working parents put food on the table and buy other necessities for growing children. The CTC provides a tax credit of up to \$1,000 per child, and if the CTC amount is greater than the family's tax liability, the Additional Child Tax Credit (ACTC) refunds at least a portion of the unused CTC. The value of the ACTC refund is the smaller of two amounts: either the unused CTC amount, or 15% of a family's income above \$3,000. The CTC is only available to taxpayers who are working, earning income, and raising children, and is legally available to qualified taxpayers using a Social Security number or an ITIN, many of whom are immigrants.

## What Is the American Opportunity Tax Credit?

The AOTC allows people to deduct up to \$2,500 in undergraduate education expenses from their federal taxes. The education expenses must be for a student who is enrolled at least half-time for one or more semesters during the year, and the AOTC can be used for up to four years of education. The AOTC benefits single-parent families with income under \$90,000 and married couples with incomes up to \$180,000.<sup>4</sup> Up to \$1,000 of the AOTC is refundable and either the student, or the parent or guardian who paid for the expenses, can claim the AOTC. Currently, the credit is legally available to qualified taxpayers using a Social Security number or an ITIN.

## Who Benefits From the EITC, CTC, and AOTC?

Working-class families largely benefit from the EITC, CTC, and AOTC. This is because these three credits are either fully refundable or partially refundable, providing families with tax refunds that often go toward necessities like food and housing. Immigrants are another group of people who benefit from the EITC, CTC, and AOTC. DACA recipients are eligible to claim all three of these tax credits, and the CTC and AOTC both allow immigrant taxpayers with ITINs to claim them. Together, these tax credits drive down poverty and ensure working-class Americans have more money in their pockets.

### EITC

- In tax year 2015, 27 million tax filers received \$67 billion worth of tax credits through the EITC, and the latest Census data show that 34% of EITC beneficiaries were Latino.<sup>5</sup>
- The EITC lifted approximately 2.7 million Latinos out of poverty in 2015, including approximately 1.4 million Latino children.<sup>6</sup>

**CTC**

- 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.<sup>7</sup>
- CTC lifted an estimated 981,000 Latinos out of poverty in 2015, including an estimated 560,000 Latino children.<sup>8</sup>

**AOTC**

- In general, the AOTC primarily benefits middle-class families. The majority of families benefitting from the credit earns between \$30,000 and \$100,000 per year.<sup>9</sup>
- However, the AOTC's partial refundability provision benefits many working-class families. In 2013, more than half (59.9%) of the refundable portion of the AOTC was claimed by taxpayers earning less than \$20,000 per year. In contrast, a little over 6% of taxpayers earning between \$50,000 and \$200,000 claimed the refundable portion of the AOTC.<sup>10</sup>

**Immigrant Taxpayers and the CTC and AOTC**

- In 2013, 4.38 million tax returns were filed with ITINs (about 3% of all tax returns). Among these 4.38 million tax returns, 61% (2.68 million) were mixed-use returns having either a parent with an ITIN and at least one child with a Social Security number, or a parent with a Social Security number and at least one child with an ITIN.<sup>11</sup>
- In 2013, ITIN taxpayers claimed 5% (\$1.31 billion) of CTC benefits, 17% (\$4.72 billion) of AOTC benefits, and 1.1% (\$204 million) of AOTC benefits.<sup>12</sup>

**What About Tax Reform?**

The futures of the EITC, CTC, and AOTC for certain immigrants are in jeopardy. The "Tax Cuts and Jobs Act" aims to tighten EITC eligibility requirements by allowing only taxpayers with work-authorized Social Security numbers to claim the credit, meaning that DACA recipients would be no longer eligible to claim the EITC once their status expires.

Changes to eligibility for the CTC and AOTC by eliminating ITIN taxpayers' ability to claim them would have an even larger impact. Such changes would mean that about 80% of current ITIN taxpayers would be excluded, and at risk of falling into or deeper into poverty.<sup>13</sup>

Efforts to help the working class, like a proposal to expand the CTC and increase it by \$600, fall short, as they exclude the lowest-income working families. Currently, the CTC phases out for couples earning more than \$150,000. Under the House proposal, that threshold would be

nearly doubled, expanding the CTC to higher-income families while doing nothing for those who need the benefit most: 10 million children in low-wage working families would be left out of the increased CTC altogether.<sup>14</sup>

Congress should oppose a tax agenda that takes benefits away from working American families to provide trillions in tax cuts for the rich and large corporations. Instead, Congress should enact true tax reform that raises revenue to invest in our economy, is progressive to ensure all pay their fair share, supports working families and children to reduce poverty, and promotes economic mobility and asset-building for those struggling to get ahead.

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All sources accessed November 2017, unless otherwise noted.

- <sup>1</sup> House Committee on Ways and Means, *Tax Cuts and Jobs Act, H.R. 1, Section by Section Summary*, report prepared by House Ways and Means Committee Majority Tax Staff, 115th Cong., 1st sess., 2017, [https://waysandmeansforms.house.gov/uploadedfiles/tax\\_cuts\\_and\\_jobs\\_act\\_section\\_by\\_section\\_hr1.pdf](https://waysandmeansforms.house.gov/uploadedfiles/tax_cuts_and_jobs_act_section_by_section_hr1.pdf).
- <sup>2</sup> Chye-Ching Huang and Guillermo Herrera, "Joint Committee on Taxation Distribution Tables Confirm Skewed Priorities of House Tax Bill," (Washington, DC: Center on Budget and Policy Priorities, 2017) <https://www.cbpp.org/research/federal-tax/joint-committee-on-taxation-distribution-tables-confirm-skewed-priorities-of>.
- <sup>3</sup> UnidosUS calculation using Wyatt Clarke, Kimberly Turner, and Lina Guzman, *One Quarter of Hispanic Children in the United States Have an Unauthorized Immigrant Parent*, (Bethesda, MD: National Research Center on Hispanic Children and Families, 2017), 3, <http://www.hispanicresearchcenter.org/wp-content/uploads/2017/10/Hispanic-Center-Undocumented-Brief-FINAL.pdf>; and U.S. Census Bureau, "Data Retrieval: 2016 American Community Survey 1-Year Estimates," [https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS\\_16\\_1YR\\_B05003I&prodType=table](https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_16_1YR_B05003I&prodType=table), Table B05003I.
- <sup>4</sup> Tax Policy Center, *Briefing Book: Key Elements of the U.S. Tax System*, (Washington, DC: Tax Policy Center, 2017), <http://www.taxpolicycenter.org/briefing-book/what-tax-incentives-exist-help-families-pay-college>.
- <sup>5</sup> Internal Revenue Service, "Statistics for Tax Returns with EITC," (Washington, DC: IRS, 2017) <https://www.etc.irs.gov/EITC-Central/eitcstats> (accessed May 2017); and NCLR analysis of 2016 data from Census Bureau's Current Population Survey, Annual Social and Economic Supplement & Supplemental Poverty Measure public use files (Washington, DC: Census, 2016) <https://www.census.gov/programs-surveys/cps.html> (accessed May 2017).
- <sup>6</sup> UnidosUS analysis of 2016 data from Census Bureau's Current Population Survey, Annual Social and Economic Supplement & Supplemental Poverty Measure public use files (Washington, DC: Census, 2016) <https://www.census.gov/programs-surveys/cps.html>.
- <sup>7</sup> Internal Revenue Service, "IRS Statistics of Income Historical Table 2," (Washington, DC: IRS, 2017) <https://www.irs.gov/pub/irs-soi/14in54cmcsv.csv>; and Center on Budget and Policy Priorities analysis of 2013–2015 American Community Survey 3-Year Estimates.
- <sup>8</sup> UnidosUS analysis of 2016 data from Census Bureau's Current Population Survey, Annual Social and Economic Supplement & Supplemental Poverty Measure public use files (Washington, DC: Census, 2016) <https://www.census.gov/programs-surveys/cps.html>.
- <sup>9</sup> Margot L. Crandall-Hollick, "The American Opportunity Tax Credit: Overview, Analysis, and Policy Options," (Washington, DC: Congressional Research Service, 2016) <https://fas.org/spp/crs/misc/R42561.pdf>.

<sup>10</sup> Ibid.

<sup>11</sup> United States Government Accountability Office, “Refundable Tax Credits: Comprehensive Compliance Strategy and Expanded Use of Data Could Strengthen IRS’s Efforts to Address Noncompliance,” (Washington, DC: GAO 2016) <http://www.gao.gov/assets/680/677548.pdf>.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid., 50.

<sup>14</sup> Chuck Marr, “House GOP’s Child Tax Credit Expansion Excludes Millions of Children in Lower-Income Working Families,” (Washington, DC: Center on Budget and Policy Priorities, 2017) <https://www.cbpp.org/blog/house-gops-child-tax-credit-expansion-excludes-millions-of-children-in-lower-income-working>.