

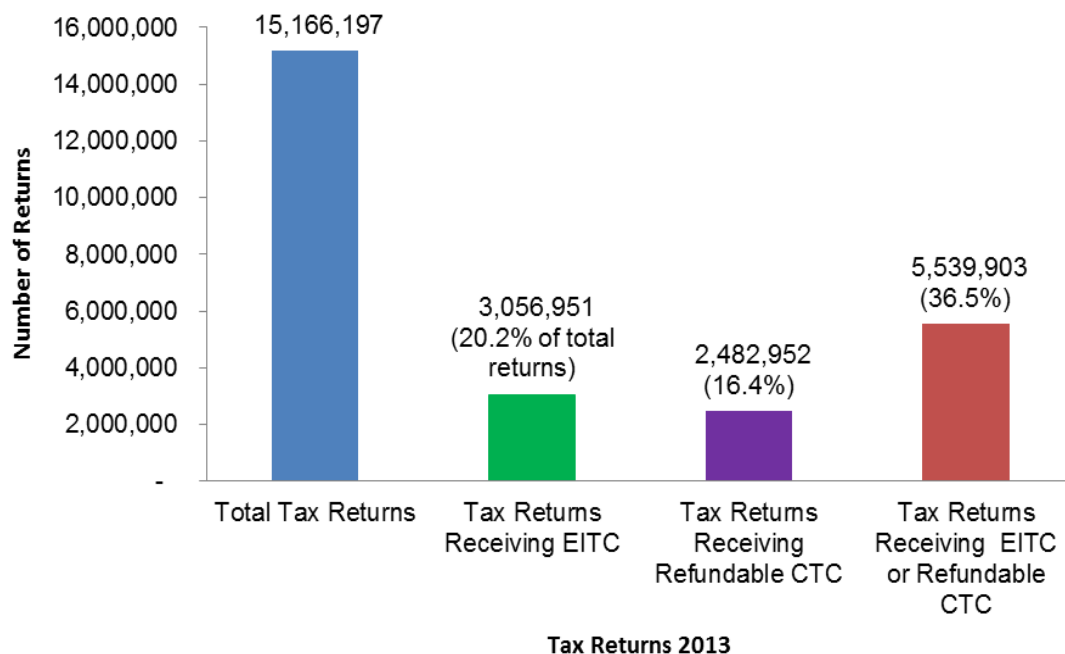
## Vital Tax Credits Reduce Poverty and Contribute to California's Economy

While the economy is improving, too many working families are not earning enough to cover their basic expenses. More than 40% of Latinos earn poverty-level wages.<sup>1</sup> Among the most effective federal policies to fight poverty among working families are the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The EITC amounts to as much as \$6,143 and the CTC can be up to \$1,000 per child, depending on family income. These tax credits are refundable, meaning very low-income families can still earn a partial credit. Unless Congress acts, key improvements to the EITC and CTC enacted in 2009 will expire at the end of 2017.

### The EITC and CTC are vital to the financial security of California's working families.

- The EITC and CTC are critical to working families in California; in 2013, more than 5.5 million households received the EITC or the CTC.<sup>2</sup>
- The EITC and the CTC lifted 1.2 million Californians, including 621,000 children, out of poverty each year from 2011 to 2013.<sup>3</sup>
- Additionally, the EITC added an estimated \$7.3 billion into California's economy in 2012.<sup>4</sup>
- Of the 15.2 million households in California receiving tax returns, 3.1 million households received the EITC and 2.5 million received the CTC (see Figure 1).

Figure 1. EITC and CTC Receipt among California Households, 2013



Source: NCLR compilation based on Brookings Institution, "Earned Income Tax Credit (EITC) Interactive," <http://www.brookings.edu/research/interactives/eitc> (accessed June 2015).

### **The EITC and CTC promote work and produce lifelong benefits for low-income families.**

- Only people who are working can be eligible for the EITC and the CTC. Evidence shows the EITC was a major factor in boosting single mothers' employment in the 1990s.
- The EITC and the CTC are refundable, meaning some low-income families who earn too little to incur much, if any, tax liability can qualify for a partial tax credit.
- Studies have linked tax credits like the CTC to higher test scores, particularly in math; higher high-school graduation rates; and higher college attendance rates.<sup>5</sup>

### **The expanded EITC and CTC keep millions of families out of poverty.**

- The CTC was expanded in 2009 to reach families earning as little as \$3,000. This expansion alone lifted 1.1 million people above the poverty line in 2013.<sup>6</sup>
- Changes enacted in 2009 enable married couples and families with more than two children to earn a slightly larger EITC, lifting 600,000 people out of poverty in 2013.<sup>7</sup>

### **Latinos would be disproportionately harmed if the EITC and CTC expansions expire.**

- If these enhancements expire, about five million Latino working families with nine million children stand to lose an average of more than \$1,000 each.
- Allowing the EITC improvements to expire would affect about two million Latino working families.
- Allowing the CTC improvements to expire would affect three million Latino working families with six million children.
- Altogether, if Congress fails to make these expiring tax provisions permanent, more than 16 million people, including eight million children, would fall into or deeper into poverty.<sup>8</sup>

<sup>1</sup> Economic Policy Institute, *The State of Working America*, "Share of workers earning poverty-level wages, by race and ethnicity, 1973–2013," <http://www.stateofworkingamerica.org/chart/swa-wages-figure-4f-share-workers-earning/> (accessed February 2015).

<sup>2</sup> Brookings Institution, "Earned Income Tax Credit (EITC) Interactive," <http://www.brookings.edu/research/interactives/eitc> (accessed June 2015).

<sup>3</sup> Center on Budget and Policy Priorities, "California Fact Sheet: Tax Credits Promote Work and Fight Poverty," (Washington DC: Center on Budget and Policy Priorities, 2015), <http://apps.cbpp.org/3-5-14tax/?state=CA> (accessed June 2015).

<sup>4</sup> Center on Budget and Policy Priorities, "California Fact Sheet: Tax Credits Promote Work and Fight Poverty," (Washington DC: Center on Budget and Policy Priorities, 2015), <http://apps.cbpp.org/3-5-14tax/?state=CA> (accessed June 2015).

<sup>5</sup> Chuck Marr, Chye-Ching Huang, and Arloc Sherman, *Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds* (Washington, DC: Center on Budget and Policy Priorities, 2014), <http://www.cbpp.org/cms/index.cfm?fa=view&id=3793> (accessed February 2015).

<sup>6</sup> Center on Budget and Policy Priorities, "Policy Basics: The Child Tax Credit," (Washington DC: Center on Budget and Policy Priorities, 2014), <http://www.cbpp.org/cms/index.cfm?fa=view&id=2989> (accessed February 2015).

<sup>7</sup> Center on Budget and Policy Priorities, "Policy Basics: The Earned Income Tax Credit," (Washington DC: Center on Budget and Policy Priorities, 2014), <http://www.cbpp.org/cms/index.cfm?fa=view&id=2505> (accessed February 2015).

<sup>8</sup> Chuck Marr, Bryann DaSilva, and Arloc Sherman, *Letting Key Provisions of Working-Family Tax Credits Expire Would Push 16 Million People Into or Deeper Poverty* (Washington, DC: Center on Budget and Policy Priorities, 2014), <http://www.cbpp.org/cms/?fa=view&id=4228> (accessed February 2015).