



**MODERNIZING
THE EITC WITH A
COST-OF-LIVING
REFUND**

*Fighting Poverty and the
Rising Cost of Living*

Economic hurdles challenge most Americans

1 in 7

Americans living in **poverty**: higher for children and people of color.

57% OF AMERICANS

Cannot cover the cost of a \$500 **emergency**

1/3

Voters in 2018 exit polls saying their personal financial situation has improved even in a “strong” economy

The rising cost of living and housing remains a top concern for Americans, with the recent government shutdown highlighting how middle-class Americans are living on the brink.

We need policies that put more money back in working people’s pockets.

Why modernize the EITC?

Largest antipoverty program for working age adults but:

- Fails to provide enough help to **workers without children** at home.
- Fails to account for **complex families** (most costly errors are in child determination).
- Limited to people with **traditional jobs**.
- Not large enough to offset **wage stagnation**.
- Exacerbates **income volatility** because the credit comes just once a year to most recipients (up to 40% of a family's income at one time), leading many to rely on payday lenders.

An expanded and modernized EITC could help in all these areas.

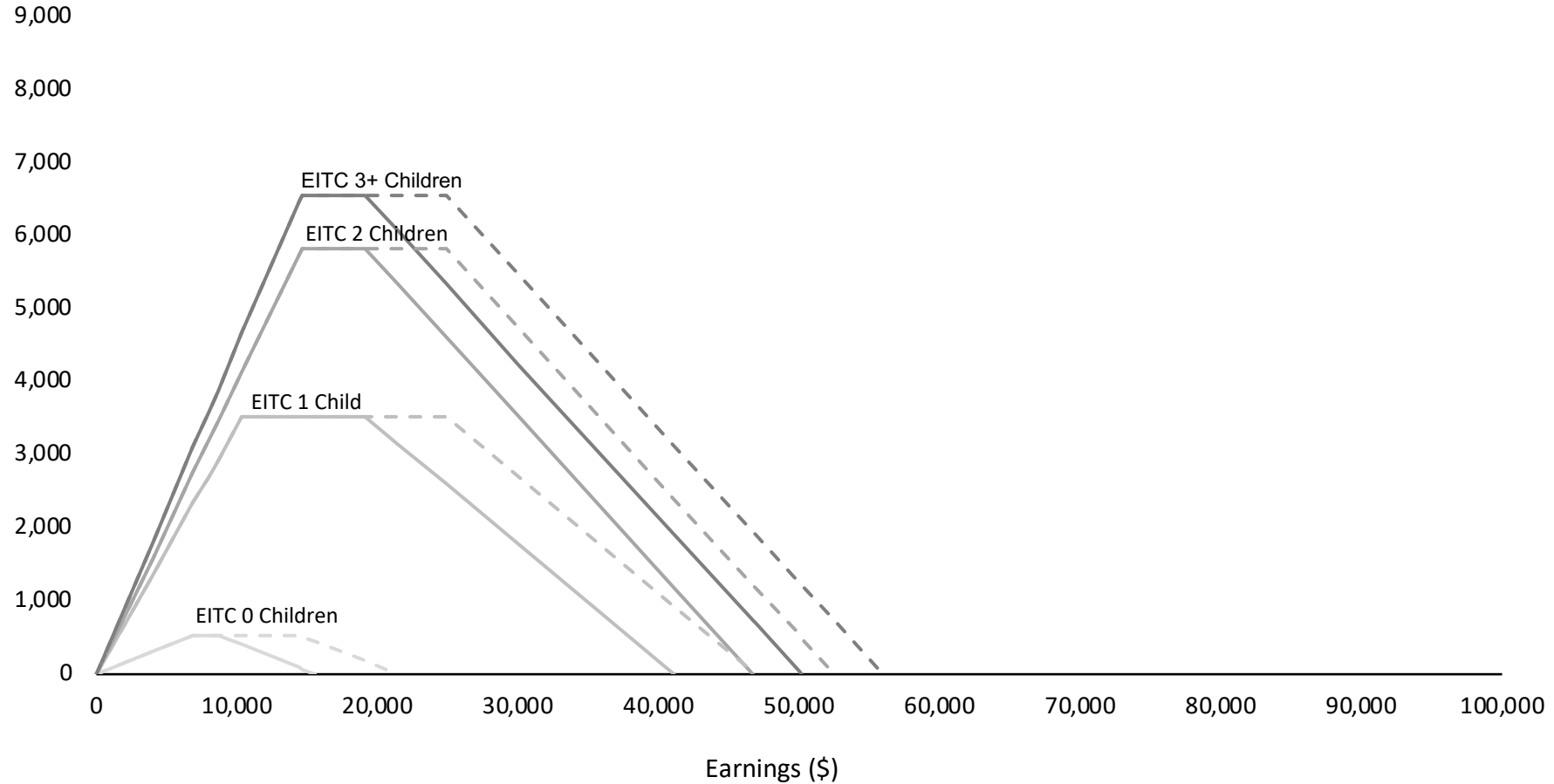
Three Key Modernizations in a Cost-of-Living Refund

- **More support for more people**
 - Larger maximum credit boosts impact on poverty
 - Reaches into the middle class, to reduce financial instability
- **Expands definition of work**
 - Family caregivers and low-income students
 - Also broadens age range
- **Makes the credit more user-friendly**
 - Monthly credit option smooths income
 - Automatic filing ensures all eligible receive credit

Credit remains grounded in work, complements a \$15 minimum wage.

Current EITC

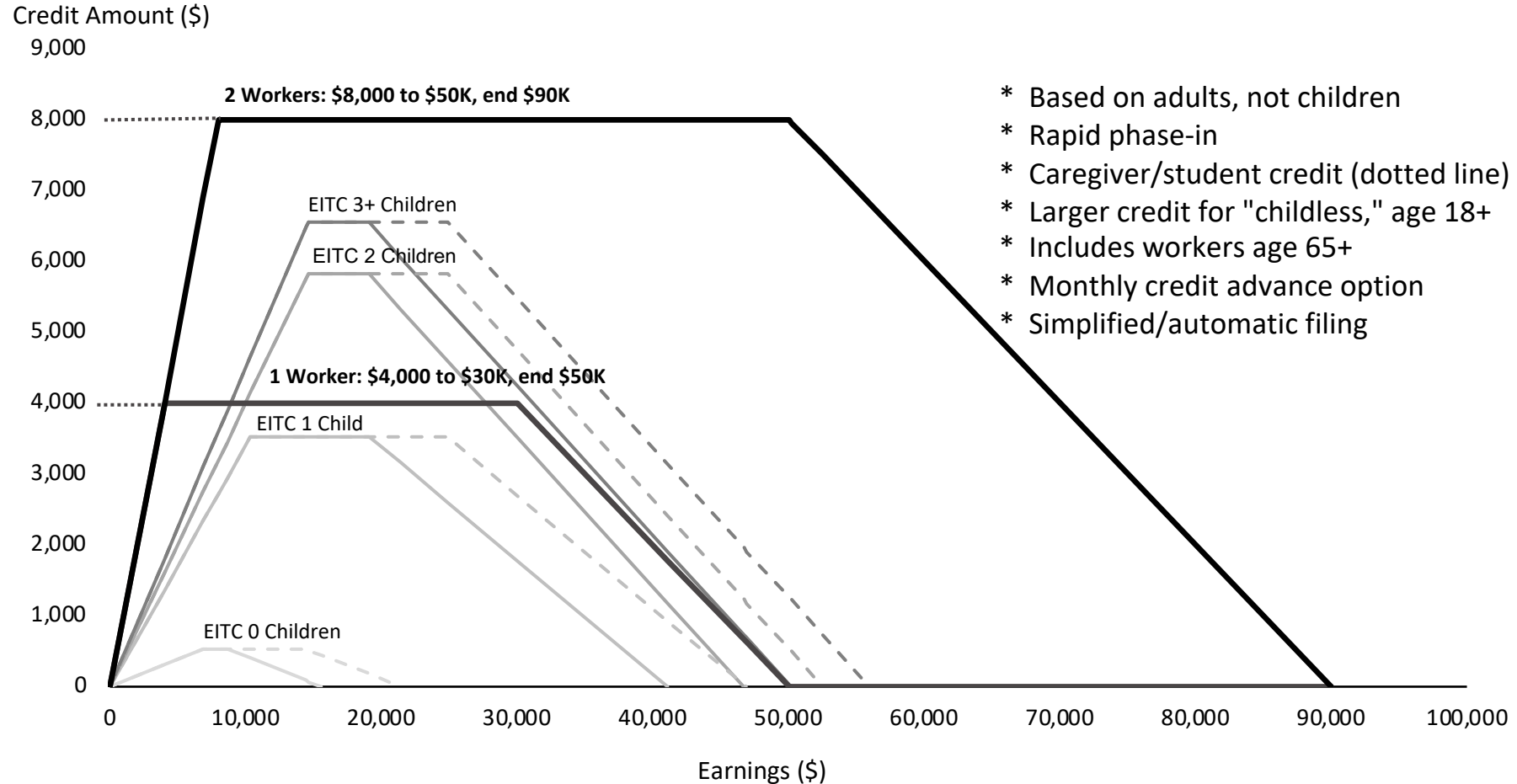
Credit Amount (\$)



Source: Tax Policy Center, 2019. Internal Revenue Procedure 2018-57.

Note: Assumes all income comes from earnings. Dashed lines represent the EITC schedule for married taxpayers. Solid lines represent the EITC schedule for taxpayers filing as single or head of household.

Cost-of-Living Refund vs. EITC



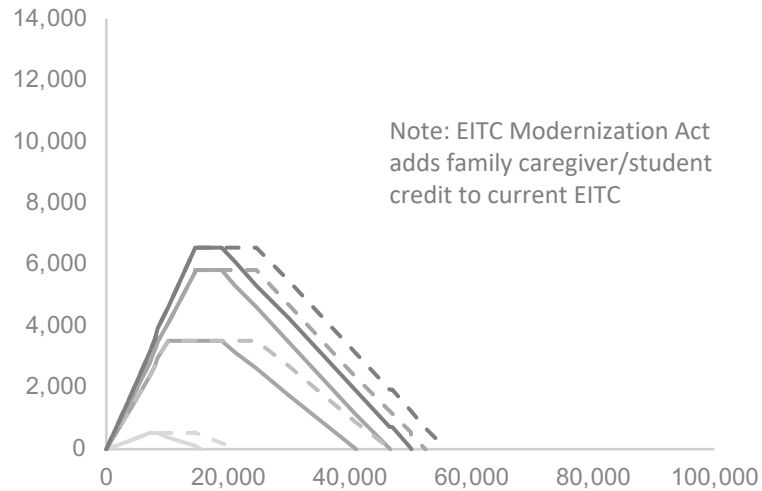
Source: Tax Policy Center, 2019. Internal Revenue Procedure 2018-57, Internal Revenue Service and Economic Security Project.

Note: Assumes all income comes from earnings. Dashed lines represent the EITC schedule for married taxpayers; solid lines represent the EITC schedule for single or head of household taxpayers. Dotted line indicates Cost-of-Living Refund available to qualifying students and caregivers.

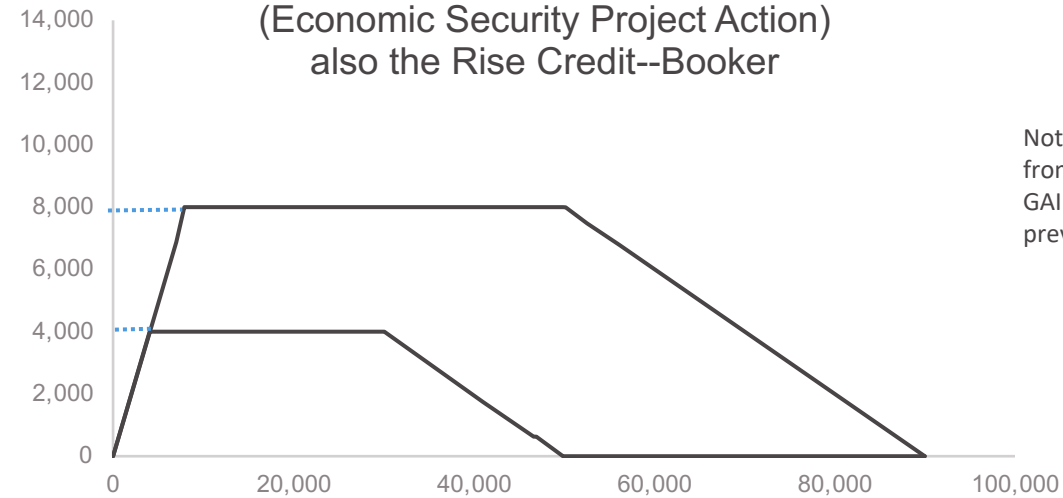
Worker Tax Credit Proposals and the EITC



Earned Income Tax Credit, 2019

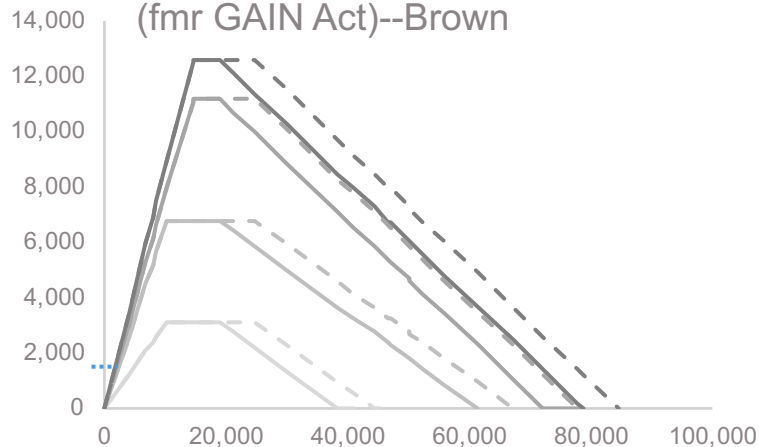


Cost-of-Living Refund
(Economic Security Project Action)
also the Rise Credit--Booker

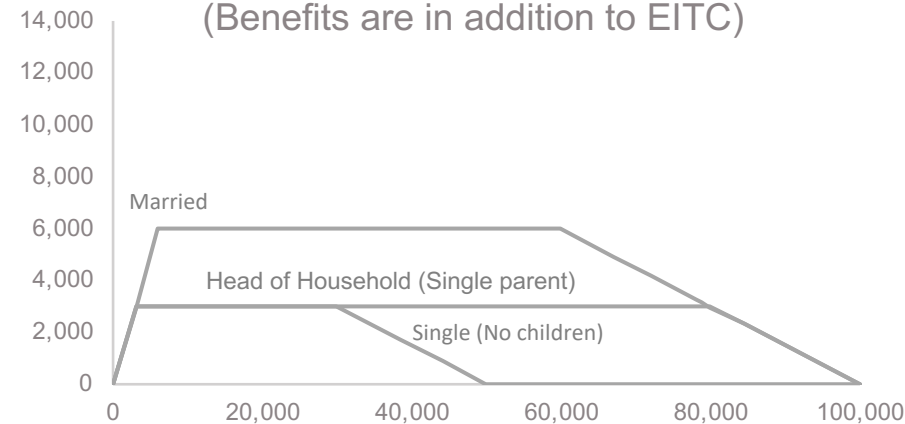


Notes: Figures assume all income comes from earnings; dashed lines in EITC and GAIN represent married taxpayers. See previous slides for additional details.

Cost-of-Living Refund
(fmr GAIN Act)--Brown



LIFT the Middle Class Act--Harris
(Benefits are in addition to EITC)



Estimated Cost

- Tax Policy Center estimates the Cost-of-Living Refund, as currently designed, would deliver **an additional \$2.5 trillion in benefits** – beyond the EITC – over the current 10-year budget window extending from FY2019 - 2028.
- The existing EITC would deliver \$0.7 trillion in benefits over that period.
- Total benefits delivered by the Cost-of-Living Refund would be \$3.2 trillion over that period.
- TPC estimates 2.6 percent of households would see lower benefits under the Cost-of-Living Refund than under the EITC, chiefly single parents. These would be made whole through an accompanying expansion of the child tax credit.

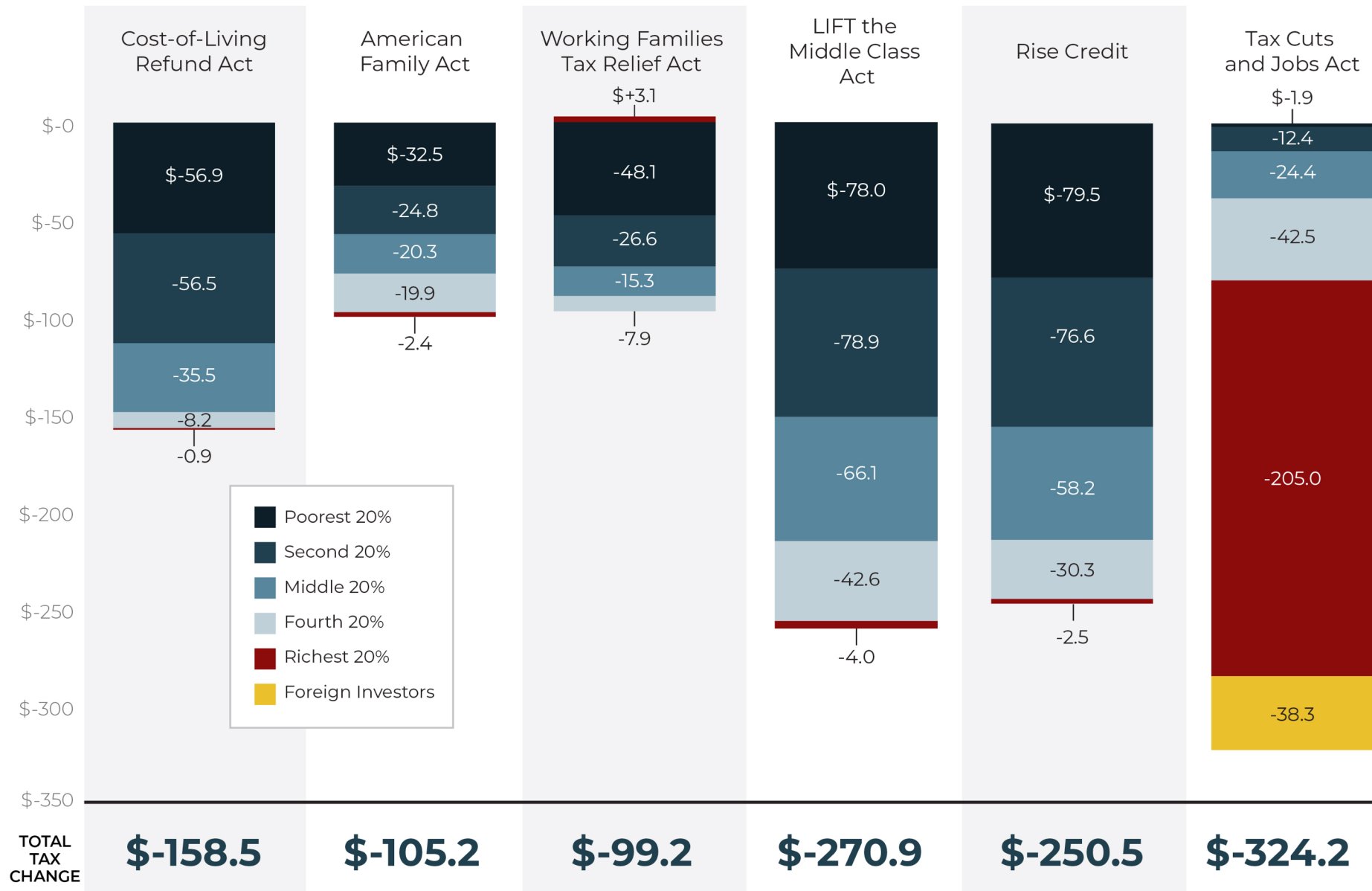
Estimated Benefits

- Tax Policy Center estimates it **benefits nearly half of Americans:** 153.7 million people.
- **Lifts 14.7 million people out of poverty, cutting poverty by nearly 1/3,** 2.5 times the poverty impact of the current EITC, while also supporting people in the middle class.

FIGURE 2

New Tax Credit Proposals

Total Tax Change in Billions of Dollars, 2020



Source: Institute on Taxation and Economic Policy, ITEP microsimulation model

Paying for the Cost-of-Living Refund

- **Taxes on the wealthy and corporations** would fund the program. Policymakers have many options, including:
 - Repealing the Trump tax cuts,
 - A wealth tax,
 - An estate tax,
 - Raising taxes on income over \$250,000,
 - A financial transaction tax,
 - A fee on big banks
 - Closing capital gains loopholes.

Experts back a Cost-of-Living Refund or modernized EITC

BROOKINGS

Center for American Progress



Economic
Policy
Institute

Demos

AN EQUAL SAY AND AN
EQUAL CHANCE FOR ALL

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TAX POLICY CENTER
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BUDGET
& POLICY
CENTER



California Budget
& Policy Center

Maine Center for
Economic Policy

NATIONAL
WOMEN'S
LAW CENTER
EXPANDING THE POSSIBILITIES

CARING
ACROSS
GENERATIONS

U.S. PIRG
Standing Up
To Powerful Interests



CALIFORNIA STATE CONFERENCE
NAACP

Moms
Rising

(Experts from each group have supported the policy, organizations for identification purposes only)

Policy details on the credit structure

Technical Description of Credit Structure

- Credit would phase in at a rate of 100%: \$1 credit for every \$1 earned.
- Single people would receive a maximum credit of \$4,000.
- Married couples would receive a maximum credit of \$8,000.
- Benefits would begin phasing out at a rate of 20%:
 - Single workers begin phasing out at \$30,000, end at \$50,000;
 - Married couples begin phasing out at \$50,000, end at \$90,000.
- For people with earnings, the credit works just like the EITC: The credit increases with earnings until the maximum benefit is reached. Recipients receive the maximum benefit until they earn enough to begin having benefits phase out. The credit decreases with income in excess of the phase out beginning point until it reaches \$0.

Eligibility

- Expands eligibility for maximum credit, even with no/low earnings, to:
 - **Low-income students** who get a Pell grant (or meet similar criteria): helps those struggling with living expenses
 - **family caregivers** (children under 6 or elderly/disabled dependents): recognizes the value of unpaid care, chiefly provided by women.
- Expanding up and down the age range:
 - **“Childless” workers** without dependent children, including eligible students and caregivers, are eligible at **age 18+**. (However, persons eligible to be a dependent on another return are not eligible for the credit.)
 - There is **no upper age limit** on the credit.
 - Parents of all ages are eligible for the credit.

Credit delivery

- Recipients can choose a **monthly credit** rather than an annual credit at tax time:
 - reduces income volatility by providing a steady stream of income.
- Workers can claim the credit in **advance** as real-time support:
 - Workers can file their tax form with the IRS beginning in January, 2019, to begin receiving their anticipated 2019 tax credit, rather than waiting until Spring, 2020, to receive that credit.
- IRS should offer **simplified/automatic filing** to EITC recipients:
 - Helps the 1 in 5 EITC recipients who don't receive their credit today