The Earned Income Tax Credit (EITC): An Overview

Gene Falk
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The Earned Income Tax Credit (EITC): An Overview

Abstract
The Earned Income Tax Credit (EITC or EIC) began in 1975 as a temporary program to return a portion of the Social Security tax paid by lower-income taxpayers (the credit was, and remains, calculated as a percentage of earned income, with no direct link to Social Security taxes paid by the tax filer), and was made permanent in 1978. In the 1990s, the program became a major component of federal efforts to reduce poverty, and is now the largest need-tested, anti-poverty cash entitlement program. Childless adults in 2011 (the latest year for which data are available) received an average EITC of $264, families with one child received an average EITC of $2,199, families with two children received an average EITC of $3,469, and families with three or more children received an average EITC of $3,750.

A low-income worker must file an annual income tax return to receive the EITC and meet certain requirements for income and age. A tax filer cannot be a dependent of another tax filer and must be a resident of the United States unless overseas because of military duty. The EITC is based on income and whether the tax filer has a qualifying child.

The EITC interacts with several nonrefundable federal tax credits to the extent lower-income workers can use the credits to reduce tax liability before the EITC. Income from the credit is not used to determine eligibility or benefits for need-tested programs.

The maximum earned income amounts, phase-out income levels, disqualifying investment income level, and maximum credit amounts are adjusted annually to reflect inflation. The actual amount of the credit a tax filer receives is determined by the tax filer's earned income and number of qualifying children using these inflation adjusted parameters.

Keywords
Earned Income Tax Credit, EITC, qualifications, federal benefits

Comments
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The Earned Income Tax Credit (EITC): An Overview

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October 22, 2014
The Earned Income Tax Credit (EITC): An Overview

Summary

The Earned Income Tax Credit (EITC or EIC) began in 1975 as a temporary program to return a portion of the Social Security tax paid by lower-income taxpayers (the credit was, and remains, calculated as a percentage of earned income, with no direct link to Social Security taxes paid by the tax filer), and was made permanent in 1978. In the 1990s, the program became a major component of federal efforts to reduce poverty, and is now the largest need-tested, anti-poverty cash entitlement program. Childless adults in 2011 (the latest year for which data are available) received an average EITC of $264, families with one child received an average EITC of $2,199, families with two children received an average EITC of $3,469, and families with three or more children received an average EITC of $3,750.

A low-income worker must file an annual income tax return to receive the EITC and meet certain requirements for income and age. A tax filer cannot be a dependent of another tax filer and must be a resident of the United States unless overseas because of military duty. The EITC is based on income and whether the tax filer has a qualifying child.

The EITC interacts with several nonrefundable federal tax credits to the extent lower-income workers can use the credits to reduce tax liability before the EITC. Income from the credit is not used to determine eligibility or benefits for need-tested programs.

The maximum earned income amounts, phase-out income levels, disqualifying investment income level, and maximum credit amounts are adjusted annually to reflect inflation. The actual amount of the credit a tax filer receives is determined by the tax filer’s earned income and number of qualifying children using these inflation adjusted parameters.
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The Earned Income Tax Credit (EITC) program began in 1975 as a temporary and small (6.2 million recipients) program to reduce the tax burden on working low-income families. The program has grown into the largest need-tested federal anti-poverty cash program with 27.9 million tax filers receiving $62.9 billion in tax credits for tax year 2011. Appendix A outlines the history of the EITC and Appendix B shows how the parameters for calculating the EITC have changed since the original enactment in 1975.

### Eligibility

The EITC is a refundable tax credit available to eligible workers with relatively low earnings. Under current law there are two categories of EITC recipients: childless adults and families with children. Because the credit is refundable, an EITC recipient need not owe taxes to receive the benefits. Eligibility for, and the size of, the EITC is based on earned income; age; residence, citizenship, and identification requirements; and the presence of qualifying children.

### Earned Income

Earned income for calculation of the credit includes wages, tips, and other compensation included in gross income and self-employment income after the deduction for self-employment taxes.

Earned income does not include pension or annuity income; income for nonresident aliens not from a U.S. business; income earned while incarcerated (for work in prison); and TANF benefits received while a TANF assistance recipient participates in work experience or community service activities.

Although gross (and earned) income for tax purposes does not generally include certain combat pay earned by members of the Armed Forces, members of the Armed Forces may elect to include combat pay for purposes of computing the earned income. Using combat pay to calculate the EITC does not make the combat pay taxable income. All military income earned by a member of the Armed Forces while in a designated combat zone is considered combat pay and is nontaxable income. As a result, a service member with combat zone service during the tax year may, without using the election to include combat pay for credit purposes, have earned income for the EITC.

To be eligible for the EITC, the tax filer must have adjusted gross income (AGI) and earned income below the amount that reduces the EITC to $0 and have investment income no greater than $3,350 (in tax year 2014). Investment income includes interest income (including tax-exempt interest), dividends, net rent, and royalties that are from sources other than the filer’s ordinary business activity, net capital gains, and net passive income.

---

1 Prior to 2011, any person with a child eligible for the credit could elect to receive advance credits through the employer’s payroll tax system by filing an eligibility certificate (Form W-5) with his or her employer. The option to claim the EITC in advance was little used, and was discontinued by P.L. 111-226 for tax years beginning after December 31, 2010.

2 For information on income levels where the EITC is reduced to $0, see Table 1.
Age
To be eligible for the credit, a tax filer without a qualifying child must be at least 25 years of age, but not more than 64 years of age, and cannot be claimed as a dependent on another person’s tax return. There is no age limitation for tax filers with qualifying children.

Residence, Citizenship, and Identification Requirements
The tax filer must reside in the United States unless in another country because of U.S. military duty.

U.S. citizenship is not a requirement for the credit. To be eligible for the EITC, the taxpayer, spouse (if married), and all qualifying children must meet the identification requirement—have a valid Social Security Number (SSN).

Qualifying Children
The tax filer’s child (or children), to be a qualifying child for the credit, must meet three of the five requirements for a qualifying child (as defined for the dependency exemption in 26 U.S.C. §152(c)):3

- relationship—the child must be a son, daughter, step child or foster child (if placed by an authorized agency or court order), brother, sister, half-brother, half-sister, step brother, step sister, or descendent of such a relative;
- residence—the child must live with the taxpayer for more than half the year in the United States (the 50 states and the District of Columbia); and
- age—the child must be under the age of 19 (or age 24, if a full-time student) or be permanently and totally disabled.

If more than one tax filer can claim the child for the EITC, the tax filers can decide which of them claims the child. If they cannot agree, and more than one tax filer claims a child for the EITC the tie breaker rules apply. The tie breaker rules are

- if a child qualified for more than one tax filer, the tax filer who is the child’s parent claims the child for the EITC;
- if neither the tax filers is a parent of the child, the tax filer with the highest AGI claims the child for the EITC;
- if both tax filers are parents of the child, the parent the child resided the longest with during the tax year claims the child; or
- if the child resided with each parent for the same period of time during the tax year, the tax filer with the larger AGI claims the child for the EITC.4

---

3 The two criteria of a qualifying child for the dependency exemption not required for the earned income credit are: (1) that the child has not provided one-half or more of his or her own support; and (2) the special rules (for the dependency exemption) for divorced or separated parents are not applicable.

4 An eligibility rule that an unmarried filer must meet the requirements for “head of household” tax filer status to be (continued...)
Credit Amount

Claimants receive an EITC in one of three ways:

- as a reduction in income tax liability;
- as a year-end cash payment (refund) from the Treasury if the family has no income tax liability; or
- as a combination of reduced taxes and direct payments (refunds).

To receive an EITC, a person must file an income tax return at the end of the tax year, together with a separate schedule (Schedule EIC) if claiming a qualifying child. The credit amount will vary based on the number of qualifying children and earned income. This is because the credit rate, maximum amount of qualified income (for computing the credit), the phase-out income level, and the phase-out rate are all based on the tax filer’s number of qualifying children and filing status.

In general, the EITC amount increases with earnings up to a point (the maximum earned income eligible for the credit), then remains unchanged for a certain bracket of income (the plateau), and then (beginning at the phase-out income level) gradually decreases to zero as earnings continue to increase.

**Figure 1** provides a graphic representation of EITC levels, by income level for a married couple with two children in tax year 2014.

(...continued)

eligible for the EITC was dropped by Omnibus Budget Reconciliation Act (OBRA) of 1990. This status was difficult for many low-income working mothers to meet at the time since many of them received more than half their cash income from AFDC, which was not regarded as self-support income by the IRS in determining “head of household” status.
Figure 1. EITC Levels by Income, Married Couple with Two Children, Tax Year 2014

Source: Figure prepared by the Congressional Research Service (CRS).

Up to the maximum earned income amount, the credit equals the earned income times a statutory percentage (the credit rate). During this phase-in period for the credit, for each additional $1 of earned income the recipient receives an additional credit equal to the credit rate. For example, in tax year 2014 for a married couple with two children, for each additional $1 of earnings (up to a total earned income of $13,650) the family receives an additional 40 cents in EITC.

For earned income between the maximum earned income amount and the phase-out income level, the EITC is constant at the maximum credit. Above the phase-out income level, for each additional $1 of income the recipient loses credit at the phase-out rate. In tax year 2014, for a married couple with two children, for each $1 of income above the phase-out level of income ($23,260), the recipient loses 20.16 cents of EITC. Graphically, the phase-in period for the credit is steeper than the phase-out period because the credit is increased faster during the phase-in than the credit is reduced during the phase-out.

The parameters for calculating the EITC (credit rates, phase-out rates, maximum earned income amount, maximum credit amount, phase-out income level, and disqualifying investment income level) for tax years 2012, 2013, and 2014 are shown in Table 1.

\[\text{\footnotesize The exception is for EITC recipients without children, where the credit rate and the phase out rate are the same (7.65\%).}\]
The maximum earned income amounts, phase-out income levels, disqualifying investment income level, and maximum credit amounts are adjusted annually to reflect inflation. The actual amount of the credit a tax filer receives is determined by the tax filer’s earned income and number of qualifying children using these inflation adjusted parameters.

The EITC is taken against total tax liability (regular, alternative minimum, and self-employment taxes) after several nonrefundable tax credits. Because the EITC is a refundable credit, on the tax return the line for the EITC can be found in the payment section after the lines for withholding and estimated tax payments. The individual income tax return booklet presents the EITC amounts in tables by income brackets (in $50 increments). This allows a tax filer to look up the correct amount of the EITC based on income, filing status, and number of children.

6 The tables can be found, for tax year 2013 returns, beginning on page 59 of the Form 1040 general instructions, which can be found at http://www.irs.gov/pub/irs-pdf/i1040gi.pdf.
### Table 1. EITC Parameters for Tax Years 2012-2014

<table>
<thead>
<tr>
<th></th>
<th>2012 ($)</th>
<th>2013 ($)</th>
<th>2014 ($)</th>
<th>Credit Rate</th>
<th>Phase-out Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No children</strong></td>
<td></td>
<td></td>
<td></td>
<td>7.65%</td>
<td>7.65%</td>
</tr>
<tr>
<td>Maximum earned income amount</td>
<td>6,210</td>
<td>6,370</td>
<td>6,480</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum credit</td>
<td>475</td>
<td>487</td>
<td>496</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-out income level</td>
<td>7,770</td>
<td>7,970</td>
<td>8,110</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-out income level for married filing joint</td>
<td>12,980</td>
<td>13,310</td>
<td>13,540</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income where EITC = 0</td>
<td>13,980</td>
<td>14,340</td>
<td>14,590</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income where EITC = 0 for married filing joint</td>
<td>19,190</td>
<td>19,680</td>
<td>20,020</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>One child</strong></td>
<td></td>
<td></td>
<td></td>
<td>34.00%</td>
<td>15.98%</td>
</tr>
<tr>
<td>Maximum earned income amount</td>
<td>9,320</td>
<td>9,560</td>
<td>9,720</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum credit</td>
<td>3,169</td>
<td>3,250</td>
<td>3,305</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-out income level</td>
<td>17,090</td>
<td>17,530</td>
<td>17,830</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-out income level for married filing joint</td>
<td>22,300</td>
<td>22,870</td>
<td>23,260</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income where EITC = 0</td>
<td>36,920</td>
<td>37,870</td>
<td>38,511</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income where EITC = 0 for married filing joint</td>
<td>42,130</td>
<td>43,210</td>
<td>43,941</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Two children</strong></td>
<td></td>
<td></td>
<td></td>
<td>40.00%</td>
<td>21.06%</td>
</tr>
<tr>
<td>Maximum earned income amount</td>
<td>13,090</td>
<td>13,430</td>
<td>13,650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum credit</td>
<td>5,236</td>
<td>5,372</td>
<td>5,460</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-out income level</td>
<td>17,090</td>
<td>17,530</td>
<td>17,830</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-out income level for married filing joint</td>
<td>22,300</td>
<td>22,870</td>
<td>23,260</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income where EITC = 0</td>
<td>41,952</td>
<td>43,038</td>
<td>43,756</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income where EITC = 0 for married filing joint</td>
<td>47,162</td>
<td>48,378</td>
<td>49,186</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Three or more children</strong></td>
<td></td>
<td></td>
<td></td>
<td>45.00%</td>
<td>21.06%</td>
</tr>
<tr>
<td>Maximum earned income amount</td>
<td>13,090</td>
<td>13,430</td>
<td>13,650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum credit</td>
<td>5,891</td>
<td>6,044</td>
<td>6,143</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-out income level</td>
<td>17,090</td>
<td>17,530</td>
<td>17,830</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase-out income level for married filing joint</td>
<td>22,300</td>
<td>22,870</td>
<td>23,260</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income where EITC = 0</td>
<td>45,060</td>
<td>46,227</td>
<td>46,997</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income where EITC = 0 for married filing joint</td>
<td>50,270</td>
<td>51,567</td>
<td>52,427</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Disqualifying investment income level</strong></td>
<td>3,200</td>
<td>3,300</td>
<td>3,350</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Table prepared by CRS.

**Notes:** To reflect the statutory language for calculating the inflation adjusted EITC parameters, the maximum earned income amount and the phase-out income level are rounded to the nearest $10, whereas the disqualifying income level is rounded to the nearest $50. In preparing their tax returns, tax filers will use a table with $50 increments of income to look up their EITC amount.
EITC Calculations: Examples

A formula presentation of the EITC calculation follows (where category reflects EITC factors based on the number of children and filing status as in Table 1, and AGI is equal to gross income from all taxable sources such as earned income, dividends, taxable interest, alimony, capital gains, taxable pensions, etc., less statutory adjustments).

\[
\text{EITC} = \text{Lesser of: earned income or maximum earnings amount}_{\text{category}} \times \text{credit rate}_{\text{category}} - \text{Greater of 0 or [earned income (or AGI, whichever is larger) minus phase-out income level}_{\text{category}} \times \text{phase-out rate}_{\text{category}}}
\]

The following three examples for a married couple with two children in tax year 2014, illustrate how the EITC is calculated.

Example 1. For a family receiving less than the maximum allowable credit, with earned income and AGI of $10,000 (which is less than the maximum earned income amount):

\[
\text{EITC} = $10,000 \times 40\% = $4,000
\]

Example 2. For a family receiving the maximum allowable with earned income and AGI of $20,000 (which is greater than the maximum earned income amount but less than the phase-out income level):

\[
\text{EITC} = $13,650 \times 40\% = $5,460 \text{ (the maximum credit)}
\]

Example 3. For a family subject to the phase-out of EITC with earned income and AGI of $25,000 (which is greater than the maximum earned income amount and the phase-out income level):

\[
\text{EITC} = $13,650 \times 40\% \text{ or } $5,460 \text{ (the maximum credit)} - $1,740 \times 21.06\% \text{ or } $366 = $5,094
\]

Indexing

With everything else held constant, when inflation increases income, taxes increase. In periods of high inflation, this may result in increases in taxes, which many view as a windfall to the government. To reduce the impact of inflation on taxes certain tax provisions, such as the personal exemption amount, are increased each year by the rate of inflation. The Tax Reform Act of 1986 (P.L. 99-514) began indexing of the maximum earned income and the phase-out income levels for the EITC. The actual amount of the credit a tax filer receives is determined by the tax filer’s earned income and number of qualifying children using these inflation adjusted parameters.
Participation

The EITC program has grown significantly since its inception in 1975. In 1975, there were 6.2 million recipients for a total of $1.2 billion in EITC, with 72.0% of the EITC received as a refund, and an average EITC of $201. For tax year 2011, a total of 27.9 million tax filers claimed a total of $62.9 billion in EITC. For tax year 2011, the average EITC was $2,252, and 87.7% of the EITC was received as a refund. Table 2 provides the total EITC, refunded portion, number of recipients (tax filers), and average credit for 1975 through 2011.

Table 2. EITC and Recipients 1975-2011

<table>
<thead>
<tr>
<th>Tax Year</th>
<th>Total EITC ($ millions)</th>
<th>Refunded Portion of EITC ($ millions)</th>
<th>Number of Recipients (thousands)</th>
<th>Average EITC ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>1,250</td>
<td>900</td>
<td>6,215</td>
<td>201</td>
</tr>
<tr>
<td>1976</td>
<td>1,295</td>
<td>890</td>
<td>6,473</td>
<td>200</td>
</tr>
<tr>
<td>1977</td>
<td>1,127</td>
<td>880</td>
<td>5,627</td>
<td>200</td>
</tr>
<tr>
<td>1978</td>
<td>1,048</td>
<td>801</td>
<td>5,192</td>
<td>202</td>
</tr>
<tr>
<td>1979</td>
<td>2,052</td>
<td>1,395</td>
<td>7,135</td>
<td>288</td>
</tr>
<tr>
<td>1980</td>
<td>1,986</td>
<td>1,370</td>
<td>6,954</td>
<td>286</td>
</tr>
<tr>
<td>1981</td>
<td>1,912</td>
<td>1,278</td>
<td>6,717</td>
<td>285</td>
</tr>
<tr>
<td>1982</td>
<td>1,775</td>
<td>1,222</td>
<td>6,395</td>
<td>278</td>
</tr>
<tr>
<td>1983</td>
<td>1,795</td>
<td>1,289</td>
<td>7,368</td>
<td>224</td>
</tr>
<tr>
<td>1984</td>
<td>1,638</td>
<td>1,162</td>
<td>6,376</td>
<td>257</td>
</tr>
<tr>
<td>1985</td>
<td>2,088</td>
<td>1,499</td>
<td>7,432</td>
<td>281</td>
</tr>
<tr>
<td>1986</td>
<td>2,009</td>
<td>1,479</td>
<td>7,156</td>
<td>281</td>
</tr>
<tr>
<td>1987</td>
<td>3,391</td>
<td>2,930</td>
<td>8,738</td>
<td>450</td>
</tr>
<tr>
<td>1988</td>
<td>5,896</td>
<td>4,257</td>
<td>11,148</td>
<td>529</td>
</tr>
<tr>
<td>1989</td>
<td>6,595</td>
<td>4,636</td>
<td>11,696</td>
<td>564</td>
</tr>
<tr>
<td>1990</td>
<td>7,542</td>
<td>5,266</td>
<td>12,542</td>
<td>601</td>
</tr>
<tr>
<td>1991</td>
<td>11,105</td>
<td>8,183</td>
<td>13,665</td>
<td>813</td>
</tr>
<tr>
<td>1992</td>
<td>13,028</td>
<td>9,959</td>
<td>14,097</td>
<td>924</td>
</tr>
<tr>
<td>1993</td>
<td>15,537</td>
<td>12,028</td>
<td>15,117</td>
<td>1,028</td>
</tr>
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<td>1994</td>
<td>21,105</td>
<td>16,598</td>
<td>19,017</td>
<td>1,110</td>
</tr>
<tr>
<td>1995</td>
<td>25,956</td>
<td>20,829</td>
<td>19,334</td>
<td>1,342</td>
</tr>
<tr>
<td>1996</td>
<td>28,825</td>
<td>23,157</td>
<td>19,464</td>
<td>1,481</td>
</tr>
<tr>
<td>1997</td>
<td>30,389</td>
<td>24,396</td>
<td>19,391</td>
<td>1,567</td>
</tr>
<tr>
<td>1998</td>
<td>32,340</td>
<td>27,175</td>
<td>20,273</td>
<td>1,595</td>
</tr>
<tr>
<td>1999</td>
<td>31,901</td>
<td>27,604</td>
<td>19,259</td>
<td>1,656</td>
</tr>
<tr>
<td>2000</td>
<td>32,296</td>
<td>27,803</td>
<td>19,277</td>
<td>1,675</td>
</tr>
<tr>
<td>2001</td>
<td>35,784</td>
<td>29,043</td>
<td>19,593</td>
<td>1,704</td>
</tr>
</tbody>
</table>
### The Earned Income Tax Credit (EITC): An Overview

#### Tax Year | Total EITC ($ millions) | Refunded Portion of EITC ($ millions) | Number of Recipients (thousands) | Average EITC ($)  
--- | --- | --- | --- | ---  
2002  | 37,786  | 33,258  | 21,574  | 1,751  
2003  | 39,186  | 34,508  | 22,112  | 1,772  
2004  | 40,024  | 35,299  | 22,270  | 1,797  
2005  | 42,410  | 37,465  | 22,752  | 1,864  
2006  | 44,388  | 39,072  | 23,042  | 1,926  
2007  | 48,540  | 42,508  | 24,584  | 1,974  
2008  | 50,669  | 44,260  | 24,756  | 2,047  
2009  | 59,240  | 53,985  | 27,041  | 2,191  
2010  | 59,562  | 54,256  | 27,368  | 2,176  
2011  | 62,906  | 55,350  | 27,912  | 2,254  


**Note:** The number of recipients is the number of tax filers claiming the EITC.

### Geographic Distribution

The distribution of EITC by state is a function of the relative populations and income levels of the states. In general states with larger populations or a large number of lower-income workers will have more EITC recipients. The number of federal returns, the number of returns claiming the EITC, the percentage of federal returns claiming the EITC, the total EITC, average EITC, and percentage of the credit refunded by state for tax year 2011 are shown in *Table 3.*
<table>
<thead>
<tr>
<th>State</th>
<th>Total Number of Returns</th>
<th>Number of EITC Returns</th>
<th>Percentage of Returns w/EITC</th>
<th>EITC Claimed (Total $, in thousands)</th>
<th>Average EITC ($)</th>
<th>Percentage of EITC Refunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>2,091,528</td>
<td>550,147</td>
<td>26.3%</td>
<td>1,413,774</td>
<td>2,570</td>
<td>89.7%</td>
</tr>
<tr>
<td>Alaska</td>
<td>370,819</td>
<td>51,022</td>
<td>13.8%</td>
<td>98,065</td>
<td>1,922</td>
<td>90.5%</td>
</tr>
<tr>
<td>Arizona</td>
<td>2,790,467</td>
<td>591,062</td>
<td>21.2%</td>
<td>1,381,176</td>
<td>2,337</td>
<td>89.1%</td>
</tr>
<tr>
<td>Arkansas</td>
<td>1,234,459</td>
<td>318,547</td>
<td>25.8%</td>
<td>759,930</td>
<td>2,386</td>
<td>90.0%</td>
</tr>
<tr>
<td>California</td>
<td>17,062,133</td>
<td>3,273,578</td>
<td>19.2%</td>
<td>7,251,211</td>
<td>2,215</td>
<td>84.8%</td>
</tr>
<tr>
<td>Colorado</td>
<td>2,420,566</td>
<td>372,911</td>
<td>15.4%</td>
<td>757,380</td>
<td>2,031</td>
<td>87.7%</td>
</tr>
<tr>
<td>Connecticut</td>
<td>1,747,468</td>
<td>218,030</td>
<td>12.5%</td>
<td>432,218</td>
<td>1,982</td>
<td>87.4%</td>
</tr>
<tr>
<td>Delaware</td>
<td>434,239</td>
<td>73,828</td>
<td>17.0%</td>
<td>159,321</td>
<td>2,158</td>
<td>92.3%</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>329,718</td>
<td>57,181</td>
<td>17.3%</td>
<td>128,382</td>
<td>2,245</td>
<td>85.1%</td>
</tr>
<tr>
<td>Florida</td>
<td>9,695,733</td>
<td>2,126,601</td>
<td>21.9%</td>
<td>4,841,136</td>
<td>2,276</td>
<td>86.4%</td>
</tr>
<tr>
<td>Georgia</td>
<td>4,671,692</td>
<td>1,140,859</td>
<td>24.4%</td>
<td>2,833,044</td>
<td>2,483</td>
<td>88.2%</td>
</tr>
<tr>
<td>Hawaii</td>
<td>661,948</td>
<td>114,700</td>
<td>17.3%</td>
<td>235,605</td>
<td>2,054</td>
<td>90.4%</td>
</tr>
<tr>
<td>Idaho</td>
<td>671,392</td>
<td>140,491</td>
<td>20.9%</td>
<td>302,468</td>
<td>2,153</td>
<td>88.9%</td>
</tr>
<tr>
<td>Illinois</td>
<td>6,122,028</td>
<td>1,062,856</td>
<td>17.4%</td>
<td>2,418,298</td>
<td>2,275</td>
<td>86.6%</td>
</tr>
<tr>
<td>Indiana</td>
<td>3,018,318</td>
<td>564,116</td>
<td>18.7%</td>
<td>1,242,184</td>
<td>2,202</td>
<td>89.6%</td>
</tr>
<tr>
<td>Iowa</td>
<td>1,421,065</td>
<td>215,951</td>
<td>15.2%</td>
<td>437,211</td>
<td>2,025</td>
<td>89.2%</td>
</tr>
<tr>
<td>Kansas</td>
<td>1,325,121</td>
<td>223,874</td>
<td>16.9%</td>
<td>478,922</td>
<td>2,139</td>
<td>90.4%</td>
</tr>
<tr>
<td>Kentucky</td>
<td>1,876,826</td>
<td>415,891</td>
<td>22.2%</td>
<td>924,565</td>
<td>2,223</td>
<td>89.1%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>2,022,779</td>
<td>552,924</td>
<td>27.3%</td>
<td>1,415,334</td>
<td>2,560</td>
<td>89.5%</td>
</tr>
<tr>
<td>Maine</td>
<td>633,428</td>
<td>105,893</td>
<td>16.7%</td>
<td>199,851</td>
<td>1,887</td>
<td>86.1%</td>
</tr>
<tr>
<td>Maryland</td>
<td>2,837,882</td>
<td>422,019</td>
<td>14.9%</td>
<td>902,588</td>
<td>2,139</td>
<td>86.5%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>3,258,058</td>
<td>408,821</td>
<td>12.5%</td>
<td>782,530</td>
<td>1,914</td>
<td>87.7%</td>
</tr>
<tr>
<td>Michigan</td>
<td>4,676,744</td>
<td>861,093</td>
<td>18.4%</td>
<td>1,912,050</td>
<td>2,220</td>
<td>87.1%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>2,601,604</td>
<td>355,940</td>
<td>13.7%</td>
<td>695,978</td>
<td>1,955</td>
<td>88.2%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>1,286,776</td>
<td>421,934</td>
<td>32.8%</td>
<td>1,106,784</td>
<td>2,623</td>
<td>90.6%</td>
</tr>
<tr>
<td>Missouri</td>
<td>2,729,064</td>
<td>539,836</td>
<td>19.8%</td>
<td>1,196,672</td>
<td>2,217</td>
<td>89.5%</td>
</tr>
<tr>
<td>Montana</td>
<td>480,902</td>
<td>86,646</td>
<td>18.0%</td>
<td>169,315</td>
<td>1,954</td>
<td>88.5%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>868,468</td>
<td>140,207</td>
<td>16.1%</td>
<td>295,609</td>
<td>2,108</td>
<td>89.7%</td>
</tr>
<tr>
<td>Nevada</td>
<td>1,297,925</td>
<td>243,606</td>
<td>18.8%</td>
<td>540,001</td>
<td>2,217</td>
<td>88.8%</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>678,296</td>
<td>82,739</td>
<td>12.2%</td>
<td>150,292</td>
<td>1,816</td>
<td>86.5%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>4,325,769</td>
<td>599,195</td>
<td>13.9%</td>
<td>1,274,398</td>
<td>2,127</td>
<td>86.1%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>914,444</td>
<td>222,996</td>
<td>24.4%</td>
<td>502,839</td>
<td>2,255</td>
<td>90.8%</td>
</tr>
<tr>
<td>New York</td>
<td>9,387,780</td>
<td>1,789,895</td>
<td>19.1%</td>
<td>3,887,837</td>
<td>2,172</td>
<td>84.7%</td>
</tr>
</tbody>
</table>
### The Earned Income Tax Credit (EITC): An Overview

#### Distribution by Number of Eligible Children and Income

For tax year 2011, returns with three or more eligible children have the highest average EITC ($3,750), and returns with no eligible children have the lowest average EITC ($264). Returns with one child claim 35.3% of the EITC and comprise 36.2% of all returns claiming the credit. Returns with two children claim 41.3% of the EITC and comprise 26.9% of all returns claiming the EITC. Returns with three or more children claim 20.5% of the EITC and comprise 12.3% of all returns claiming the EITC. The number of eligible children determines the parameters used to calculate the credit and therefore determines the income distribution of returns claiming the EITC. As shown in Table 4, for returns with no eligible children 68.9% have an AGI of less than

<table>
<thead>
<tr>
<th>State</th>
<th>Total Number of Returns</th>
<th>Number of EITC Returns</th>
<th>Percentage of Returns w/EITC</th>
<th>EITC Claimed (Total $, in thousands)</th>
<th>Average EITC ($)</th>
<th>Percentage of EITC Refunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Carolina</td>
<td>4,295,284</td>
<td>953,786</td>
<td>22.2%</td>
<td>2,200,620</td>
<td>2,307</td>
<td>89.4%</td>
</tr>
<tr>
<td>North Dakota</td>
<td>343,814</td>
<td>44,926</td>
<td>13.1%</td>
<td>87,000</td>
<td>1,937</td>
<td>89.8%</td>
</tr>
<tr>
<td>Ohio</td>
<td>5,508,810</td>
<td>989,730</td>
<td>18.0%</td>
<td>2,183,483</td>
<td>2,206</td>
<td>89.0%</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>1,617,355</td>
<td>358,415</td>
<td>22.2%</td>
<td>821,189</td>
<td>2,291</td>
<td>89.3%</td>
</tr>
<tr>
<td>Oregon</td>
<td>1,758,128</td>
<td>291,270</td>
<td>16.6%</td>
<td>570,485</td>
<td>1,959</td>
<td>88.5%</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>6,183,225</td>
<td>945,671</td>
<td>15.3%</td>
<td>1,929,653</td>
<td>2,041</td>
<td>89.5%</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>513,134</td>
<td>83,469</td>
<td>16.3%</td>
<td>175,773</td>
<td>2,106</td>
<td>88.2%</td>
</tr>
<tr>
<td>South Carolina</td>
<td>2,090,773</td>
<td>512,678</td>
<td>24.5%</td>
<td>1,206,997</td>
<td>2,354</td>
<td>90.1%</td>
</tr>
<tr>
<td>South Dakota</td>
<td>411,441</td>
<td>66,464</td>
<td>16.2%</td>
<td>134,299</td>
<td>2,021</td>
<td>90.4%</td>
</tr>
<tr>
<td>Tennessee</td>
<td>2,902,907</td>
<td>681,527</td>
<td>23.5%</td>
<td>1,587,753</td>
<td>2,330</td>
<td>87.8%</td>
</tr>
<tr>
<td>Texas</td>
<td>11,417,280</td>
<td>2,714,964</td>
<td>23.8%</td>
<td>6,840,529</td>
<td>2,520</td>
<td>87.3%</td>
</tr>
<tr>
<td>Utah</td>
<td>1,159,631</td>
<td>203,607</td>
<td>17.6%</td>
<td>451,717</td>
<td>2,219</td>
<td>89.4%</td>
</tr>
<tr>
<td>Vermont</td>
<td>320,656</td>
<td>47,051</td>
<td>14.7%</td>
<td>82,990</td>
<td>1,764</td>
<td>85.0%</td>
</tr>
<tr>
<td>Virginia</td>
<td>3,801,986</td>
<td>623,145</td>
<td>16.4%</td>
<td>1,334,103</td>
<td>2,141</td>
<td>88.9%</td>
</tr>
<tr>
<td>Washington</td>
<td>3,216,985</td>
<td>459,726</td>
<td>14.3%</td>
<td>923,327</td>
<td>2,008</td>
<td>88.9%</td>
</tr>
<tr>
<td>West Virginia</td>
<td>791,595</td>
<td>161,595</td>
<td>20.4%</td>
<td>335,500</td>
<td>2,076</td>
<td>91.3%</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>2,772,794</td>
<td>399,930</td>
<td>14.4%</td>
<td>812,305</td>
<td>2,031</td>
<td>89.0%</td>
</tr>
<tr>
<td>Wyoming</td>
<td>294,713</td>
<td>39,343</td>
<td>13.3%</td>
<td>74,722</td>
<td>1,899</td>
<td>90.1%</td>
</tr>
<tr>
<td>Other Areas</td>
<td>1,110,020</td>
<td>33,093</td>
<td>3.0%</td>
<td>73,986</td>
<td>2,236</td>
<td>96.3%</td>
</tr>
<tr>
<td>Total</td>
<td>146,455,970</td>
<td>27,955,779</td>
<td>19.1%</td>
<td>62,953,399</td>
<td>2,252</td>
<td>87.7%</td>
</tr>
</tbody>
</table>

**Source:** Internal Revenue Service, Total File, All States, Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2011, Expanded unpublished version, Table 2. The totals for Table 2 provided by the Internal Revenue Service differ from those of Table 2.5 used elsewhere in this report for several reasons. Table 2 includes “substitutes for returns” in which the Internal Revenue Service constructs tax returns for certain non-filers.
$10,000. However, for returns with two children, 49.6% have an AGI of $20,000 or more, and for returns with three or more children, 59.4% have an AGI of $20,000 or more.

Table 4. Distribution of Returns Claiming the EITC, by Number of Eligible Children and AGI, Tax Year 2011

<table>
<thead>
<tr>
<th>Number of Eligible Children</th>
<th>All EITC Returns</th>
<th>No child EITC</th>
<th>One Child EITC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Returns</td>
<td>Amount ($)</td>
<td>Number of Returns</td>
</tr>
<tr>
<td>Less Than $10,000</td>
<td>8,219,020</td>
<td>9,967,054</td>
<td>4,741,434</td>
</tr>
<tr>
<td>$10,000 less than $15,000</td>
<td>5,890,468</td>
<td>16,014,372</td>
<td>1,912,748</td>
</tr>
<tr>
<td>$15,000 less than $20,000</td>
<td>3,883,866</td>
<td>14,874,684</td>
<td>231,971</td>
</tr>
<tr>
<td>$20,000 less than $25,000</td>
<td>2,965,380</td>
<td>9,887,452</td>
<td>—</td>
</tr>
<tr>
<td>$25,000 less than $30,000</td>
<td>2,588,444</td>
<td>6,380,470</td>
<td>—</td>
</tr>
<tr>
<td>$30,000 less than $35,000</td>
<td>2,166,926</td>
<td>3,601,391</td>
<td>—</td>
</tr>
<tr>
<td>$35,000 less than $40,000</td>
<td>1,319,183</td>
<td>1,556,575</td>
<td>—</td>
</tr>
<tr>
<td>$40,000 less than $45,000</td>
<td>687,033</td>
<td>563,720</td>
<td>—</td>
</tr>
<tr>
<td>$45,000 and over</td>
<td>191,006</td>
<td>60,443</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>27,911,726</td>
<td>62,906,161</td>
<td>6,886,153</td>
</tr>
<tr>
<td>Average Credit</td>
<td>2,254</td>
<td>264</td>
<td>—</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Two Children EITC</th>
<th>Three+ Children EITC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Returns</td>
</tr>
<tr>
<td>Less Than $10,000</td>
<td>828,892</td>
</tr>
<tr>
<td>$10,000 less than $15,000</td>
<td>1,523,173</td>
</tr>
<tr>
<td>$15,000 less than $20,000</td>
<td>1,425,709</td>
</tr>
<tr>
<td>$20,000 less than $25,000</td>
<td>1,022,676</td>
</tr>
<tr>
<td>$25,000 less than $30,000</td>
<td>931,190</td>
</tr>
<tr>
<td>$30,000 less than $35,000</td>
<td>784,696</td>
</tr>
<tr>
<td>$35,000 less than $40,000</td>
<td>589,927</td>
</tr>
<tr>
<td>$40,000 less than $45,000</td>
<td>347,070</td>
</tr>
<tr>
<td>$45,000 and over</td>
<td>44,968</td>
</tr>
<tr>
<td>Total</td>
<td>7,498,301</td>
</tr>
<tr>
<td>Average Credit ($)</td>
<td>3,469</td>
</tr>
</tbody>
</table>

Source: Table prepared by CRS using Internal Revenue Service Data Statistics of Income Bulletin, Table 2.5 for tax year 2011 returns.
Interaction with Other Tax Provisions and Programs

Other Federal Tax Provisions

On the tax return, the EITC is calculated after total tax liability and several nonrefundable credits. The nonrefundable tax credits, which are taken against (reduce) tax liability, include credits for education, dependent care, savings, and the child credit. To the extent an EITC eligible family has a tax liability and can utilize one or more of these credits, the refundable portion of the family’s EITC is higher. This is because using one or more of the tax credits reduces tax liability before the EITC, but does not affect the calculation of the EITC.

For tax filers whose income places them in the phase out range of the credit, reducing their income will result in a larger EITC. Under the tax code, a variety of forms of income may be excluded from both AGI or earned income, and hence all else being equal, reduce the EITC recipients’ income. For example, pre-tax contributions to savings account for retirement or medical expenses are not included in either AGI or earned income. Hence, by making those contributions, EITC claimants whose pre-contribution income places them in the phase out range of the credit will receive a larger EITC.7

State EITC Provisions

Currently, 26 states and the District of Columbia offer an EITC for state taxes.8 For states with an EITC that is calculated based on the federal EITC, a change in the federal EITC will generally flow through and change the state EITC unless the state takes positive legislative action to alter or prevent the change.

Need-Tested Programs

By law,9 the EITC cannot be counted as income in determining eligibility, or the amount of benefit, for any federally funded public benefit program including Supplemental Nutrition Assistance Program (SNAP) food assistance, low-income housing, Medicaid, Supplemental Security Income (SSI), and Temporary Assistance for Needy Families (TANF). An EITC refund that is saved by the filer does not count against the resource limits of any federally funded public benefit program for 12 months after the refund is received.

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7 In contrast, if the pre-contribution income places them in the plateau or the phase in range, decreasing their earned income by making certain pre-tax savings contributions may either have no impact or result in a smaller credit.
9 The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) included a provision which made tax refunds, including those resulting from the EITC, disregarded in the administration of federal programs and federally assisted programs. At the end of 2012, this provision was made permanent by the American Taxpayer Relief Act of 2012 (P.L. 112-240).
Expiring Provisions

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) made several changes to the EITC that were scheduled to expire on December 31, 2010. Changes to the EITC that were scheduled to expire include

- changing the definition of earned income for the EITC so that it does not include nontaxable employee compensation;
- eliminating the reduction in the EITC for the alternative minimum tax; and
- simplifying the calculation of the credit through use of AGI rather than modified adjusted gross income.

The American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) created the category for families with three or more children, with a credit rate of 45%, for tax years 2009 and 2010 only. The ARRA also increased the phase-in amount for married couples filing joint tax returns so that it is $5,000 higher than for unmarried taxpayers in tax year 2009, and $5,010 in tax year 2010. The ARRA changes were also scheduled to expire on December 31, 2010.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) extended the EGTRRA and ARRA provisions for two years (through 2012).

Both the EGTRRA and ARRA provisions were scheduled to expire on December 31, 2012. The American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) made permanent the EGTRRA changes and extended the ARRA changes five years (through tax year 2017).
Appendix A. Legislative History of the EITC

The idea that became the EITC first arose during congressional consideration of President Nixon’s 1971 welfare reform proposal. Nixon’s proposal, the Family Assistance Plan, would have helped working poor, two-parent families with children by means of a federal minimum cash guarantee that would have replaced the federal-state welfare program of Aid to Families with Dependent Children (AFDC).

Work Bonus Plan (1972-1974 Proposals)

The EITC was patterned after a proposal, then known as a work bonus for the working poor, recommended by the Senate Finance Committee in April 1972. Though the idea originated as an alternative to the proposed Family Assistance Program, the work bonus provision was advocated as a “refund” of Social Security taxes paid by employers and employees on low annual earnings and was to have been available only for wages subject to Social Security taxation.

The Senate approved the work bonus plan in 1972, 1973, and 1974, but the House did not accept it until 1975.

Enactment of EITC in 1975

The Tax Reduction Act of 1975 (P.L. 94-12) included a provision that established, in Section 32 of the Internal Revenue Code, a refundable credit to tax filers with incomes below $8,000. This “earned income credit” was to equal 10% of the first $4,000 of any earnings (including earnings not subject to Social Security taxation) and thus could not exceed $400 per year. The credit was to be phased out, at a rate of 10%, for an AGI above $8,000.

Extensions of EITC (1975-1977 Laws)


Permanent Status for EITC and Rise in Maximum Credit (1978 Law)

The Revenue Act of 1978 (P.L. 95-600) made the EITC permanent and increased the maximum credit to $500 and the eligibility limit to $10,000, provided for EITC payments in advance of the annual tax filing, and simplified eligibility determinations.

Under the 1978 law, the EITC was set at 10% of the first $5,000 of earnings (including net earnings from self-employment). The maximum credit of $500 was received for earnings between $5,000 and $6,000. For each dollar of AGI above $6,000, the EITC was reduced by 12.5 cents, reaching $0 at an AGI of $10,000.
Rise in Maximum Credit (1984 Law)

The Deficit Reduction Act of 1984 (P.L. 98-369) raised the maximum credit by 10%, from $500 to $550, by establishing the EITC at 11% of the first $5,000 of earnings. Earnings between $5,000 and $6,500 qualified for the maximum credit of $550. For each dollar of AGI above $6,500, the law required that the EITC be reduced by 12.22 cents. As a result, the credit was completely phased out when AGI reached $11,000.

Indexation of EITC and Rise in Maximum Credit (1986 Law)

Effective with tax year 1987, the Tax Reform Act of 1986 (P.L. 99-514) increased the EITC from 11% of the first $5,000 of earnings to 14% of the first $5,714 of earnings. The act also began indexing the credit for inflation. This was done by indexing the maximum earned income eligible for the credit and phase-out income level by using the change in the average Consumer Price Index (CPI) for the 12-month period ending August 31 of each year, from the CPI for the 12-month period ending August 31, 1984. In addition, the starting point of the phase-out income level was increased for 1987 and 1988. The 1986 act also lowered the phase-out rate from 12.22% to 10% beginning with the 1987 tax year.

The increase in the maximum earned income for the credit and the credit rate raised the EITC, while the reduction in the phase-out rate reduced the marginal tax rate on recipient earnings. The combination of a higher EITC and a lower phase-out rate increased the income eligibility level from $11,000 in 1984 to $14,500 (in 1984 dollars) for 1987. During debate on the Tax Reform Act of 1986, it was said that “the liberalization of the earned income credit will help to assure that low-income citizens are no longer taxed into poverty.”

Rise in Maximum Credit and Establishment of Family-Size Adjustment and Supplemental Credits (1990 Law)

Basic EITC

Because the EITC was originally established as a work bonus and advertised as an offset to the Social Security tax, it had not been designed to vary by family size. Thus, the larger the family, the less it met the family’s needs. Proposals were introduced in the 101st Congress to vary EITC credit amounts by number of children, up to a maximum of two, three, or four children depending on the bill. These proposals intended to increase the welfare role of the EITC while continuing its provision of payroll tax relief and work bonuses. However, no one proposed that EITC family-size variations be modeled after AFDC, which varied for much larger family sizes.

The EITC expansion enacted in the Omnibus Budget Reconciliation Act (OBRA) of 1990 (P.L. 101-508) took effect in 1991 and was to be completed in 1994. An adjustment for family size was introduced and the credit and phase-out rates for each of the family sizes (one child, two or more children) were increased each year. However, the planned rate increases for 1994 were superseded by a 1993 law. (See below.)

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Supplemental Young Child Credit

Numerous proposals were introduced in the 101st Congress to establish refundable tax credits for families with young children. These proposals would have set credit amounts based on earned income and number of qualifying children. Both the House and Senate passed such provisions in competing versions of child care legislation. These measures were seen as aiding lower-income families in need of child care for preschool children.

Final action in OBRA of 1990 limited additional credits for young children to those under one year of age. Eligible families with such children had an extra 5.0 percentage points added to their credit rate in computing the EITC amount. This extra credit had a maximum amount in 1993 of $388, and was phased out by adding 3.57 percentage points to the family’s phase-out rate. Thus, in 1993 families with one or more children under age 1 had a combined credit rate of 23.5% or 24.5%, depending on total number of children, and a combined phase-out rate of 16.78% or 17.50%.

This extra credit was ended effective for tax year 1994 by OBRA of 1993 (P.L. 103-66).

Supplemental Health Insurance Credit

A new refundable credit aimed at helping parents finance health insurance for their children was included in the Senate-passed OBRA of 1990. The House did not include such a provision, but it was accepted by House-Senate conferees. The supplemental health insurance credit applied to earnings up to the maximum amount to which the EITC applied and was then reduced over the same income range used for the EITC phase-out. The rates set for the child health insurance credit and its phase-out were 6.0% and 4.285%, respectively. These percentages were added to those that applied to a family for the basic EITC and, if eligible, the young child credit. The maximum amount of the supplemental health insurance credit in 1993 was $465. The credit could not exceed the health insurance premiums actually paid by a family during the tax year. Unlike the basic EITC, this supplemental credit could not be received in advance of the annual tax filing.

The health insurance credit was ended, effective in 1994, by OBRA of 1993.

Expansion of Credits, Coverage of Childless Adults, and Repeal of Supplemental Credits (1993 Law)

President Clinton began his term in office in 1993 with a pledge to use the EITC to eliminate poverty for families with a member working full-time at the minimum wage in order to “make work pay.” Fulfillment of his pledge required a proposal to raise the EITC credit rates, especially for families with two or more children. His proposal was enacted as part of OBRA of 1993 (P.L. 103-66) with little change by Congress. President Clinton also proposed extending the EITC for the first time to low-income working adults with no children to offset tax increases in OBRA of 1993, and Congress adopted this proposal with only minor changes. To offset part of the EITC expansion’s cost, and to meet the criticism of the growing complexity of the EITC, Congress also passed the President’s proposal to repeal the supplemental credits for young children and for child health insurance premiums as part of OBRA of 1993.
Credit for Families

The EITC parameters for families were significantly changed by OBRA 1993. The credit rates were increased from 23% to 34% in 1996 for a family with one child, and from 25% to 40% for a family with two or more children. The phase-out rate for families with one child was slightly lowered (from 16.43% to 15.98%) and the phase-out rate for families with two or more children was increased from 17.86% to 21.06%.

Extension of EITC to Childless Households

The Clinton Administration proposal enacted in OBRA of 1993 extended the EITC for the first time to workers who have no children. The main rationale for this credit was to offset partly the effect on low-income workers of a gasoline tax increase included in OBRA of 1993. The 1993 law provided, effective in 1994, a credit of 7.65% of the first $4,000 of annual earnings, for a $306 maximum credit. It is phased out at a 7.65% rate, beginning at an income level of $5,000 and ending at $9,000. The maximum earned income and the phase-out income level are adjusted annually for inflation.

This credit applies to adults aged 25 to 64 who are not claimed as dependents on anyone’s tax return. The age limits were imposed by Congress to exclude two groups (students under age 25, retirees over age 64) whose incentive to work was not regarded as an important priority.


Before 1995, the EITC had always been restricted to families residing in the United States. This rule excluded from EITC otherwise eligible lower-income American military families living in foreign countries. A provision in the 1994 legislation to implement the General Agreement on Tariffs and Trade (P.L. 103-465) provides EITC eligibility for qualifying families outside the United States if their foreign residence is because of a U.S. military assignment. This provision became effective in 1995.

This law also included measures to (1) deny the EITC for wages earned by prison inmates; and (2) deny eligibility to anyone who spent part of the tax year as a nonresident alien.

Eligibility Limit Based on Investment Income (1995 Law)

Limitation of EITC eligibility by a filing unit’s income has always been based on the greater of AGI or earnings. However, following up on a proposal in President Clinton’s FY1996 budget, Congress enacted in 1995 (P.L. 104-7) a new limitation tied to investment income. This provision prohibits EITC claims by tax filers whose annual investment income exceeds $2,350. Investment income is defined to include taxable interest and dividend income, tax-exempt interest income, and net income from rent and royalties not derived in the normal course of the filer’s business. This provision took effect in 1996. (It was modified in August 1996 action. See discussion below.)
Revisions of EITC in the Welfare Reform Bill (1996 Law)

Although not proposing specific legislation, the FY1997 congressional budget resolution (H.Con.Res. 178) “assumes reforms of the Earned Income Credit ... to eliminate fraud and abuse within the program, to better target to low-income working families with children, and to coordinate the credit with the $500 per child tax credit that also is assumed in this budget.” In follow-up, Congress included EITC savings in the welfare reform measure (H.R. 3734) signed by President Clinton on August 22, 1996 (P.L. 104-193). These provisions are described below.

Deny EITC to Undocumented Workers

This provision requires tax filers to have valid taxpayer identification numbers (usually Social Security numbers) to be eligible for the EITC. Social Security numbers are issued only to persons who can document their age, identity, and U.S. citizenship or legal alien status. It becomes effective for tax returns due more than 30 days after the enactment date. This measure helps the Internal Revenue Service (IRS) gain compliance from tax filers lacking valid numbers before accepting their EITC claims.

Disqualified Income

Congress acted in March 1995 (see earlier discussion) to exclude from EITC eligibility all filers with “disqualified income,” defined as income in excess of $2,350 a year from interest (taxable and tax-exempt), dividends, and net rents and royalties. The welfare reform bill broadened this definition to include net capital gains and net passive income. The maximum allowance for disqualifying income was reduced from $2,350 to $2,200 for 1996 and indexed for inflation in later years.

Broaden Income Used in EITC Phase-out

The EITC is phased out when the greater of earnings or AGI exceeds a certain level ($11,610 in 1996 for families with children). Broadening the definition of income used for EITC phase-out reduces the EITC for persons with income from the sources to be included. Effective for 1996, the welfare reform bill expanded the income used to phase out the EITC by netting out certain losses that are normally taken into account in calculating AGI. These losses are net capital losses, net losses from estates and trusts, net losses from nonbusiness rents and royalties, and half of net business losses.

Allow State Welfare Programs to Count EITC

The 1996 welfare reform bill (Personal Responsibility and Work Opportunity Reconciliation Act, P.L. 104-193) repealed AFDC, and in its place created the Temporary Assistance to Needy Families (TANF) program, a state-run system funded partly by federal block grants. This conversion to state control altered the EITC-welfare relationship. Federal law had required that the EITC be disregarded as income in determining eligibility for AFDC, Food Stamps, Medicaid, Supplemental Security Income (SSI), and housing aid. Lump-sum EITC payments had to be ignored in comparing applicants’ assets to program asset limits for the month of receipt and the next month. (The Food Stamp program must ignore lump-sum EITC payments for one year.)
Ending AFDC eliminated federal restrictions on states’ treatment of the EITC for cash welfare (TANF) recipients.

Under this provision, states were permitted to count the EITC as income available to families aided by TANF programs and reduce their welfare accordingly. Lump-sum EITC receipt was permitted to be counted by states as assets immediately available to state-aided families, thereby denying them that aid if counting the EITC causes their assets to exceed state asset limits. States that adopted such policies spent less on aid to needy families from their federal grants, in effect substituting the federal EITC for state welfare and lowering the income of those affected.

Note that legislation in 2010 made tax refunds, including those resulting from the EITC, disregarded in the administration of federal programs and federally assisted programs, including TANF.

**Denying Credit Based on Prior Claims (1997 Laws)**

To improve compliance related to the EITC, the Taxpayer Relief Act of 1997 (P.L. 105-34), denied the EITC to tax filers for a specified period of time if the tax filers had previously made a fraudulent or reckless EITC claim. A tax filer is denied the EITC for two years after it has been determined that the tax filer made a reckless claim, and 10 years after a determination that a tax filer has made a fraudulent claim. The Balanced Budget Act of 1997 (P.L. 105-33) provided initial funding for a five-year initiative by the IRS to improve compliance for the EITC.

**Reduction of Marriage Penalty and Simplification of the EITC (2001 Law)**

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16), to reduce the marriage penalty, increased the phase-out income levels for married couples filing a joint return by $1,000 for tax years 2002 through 2004, $2,000 for tax years 2005 through 2007, and $3,000 beginning in tax year 2008 (indexed for inflation). The bill also simplified the definition of earned income to reflect only compensation included in gross income; based the phase-out of the credit on adjusted gross income instead of expanded (or modified) gross income; and eliminated the reduction in the EITC for the alternative minimum tax.

**Uniform Definition of a Child and Combat Pay (2004 Law)**

The Working Families Tax Relief Act of 2004 (P.L. 108-311) created a more uniform definition of a child for tax purposes. The EITC, along with other tax provisions used by families (child tax credit, head of household filing status, and dependent care tax provisions) are linked to this more uniform definition of a child under the personal exemption tax provision. The definition of a child and the rules for when more than one party may claim a child for these tax provisions are the same as the rules for the EITC in tax year 2004. In effect, the changes in the tax code for a more uniform definition of a child will not impact eligibility for the EITC. In addition, P.L. 108-311 allowed members of the Armed Forces to include combat pay for purposes of computing the earned income credit for tax years that ended after October 4, 2004, and before January 1, 2006 (generally tax years 2004 and 2005).
Hurricane Relief (2005 Law)
The Katrina Emergency Relief Act (P.L. 109-73) provided that taxpayers affected by Hurricane Katrina may use their tax year 2004 earned income to compute their 2005 EITC.

Extension of Combat Pay & Hurricane Relief (2005 Law)
The Gulf Opportunity Zone Act of 2005 (P.L. 109-135) extended the option to include combat pay for calculating the credit for another year (tax year 2006, or tax years ending before January 1, 2007).

P.L. 109-135 also extended the option of using 2004 income to compute 2005 EITC to taxpayers affected by Hurricane Rita, and clarified that to use this election, the taxpayer’s 2005 income had to be less than the taxpayer’s 2004 income.

Extension of Combat Pay (2006 Law)
The Tax Relief and Health Care Act of 2006 (P.L. 109-432) extended the option to include combat pay for calculating the credit through tax year 2007.

Permanent Inclusion of Combat Pay (2008 Law)
The Heroes Earnings Assistance and Relief Tax Act of 2008 (P.L. 110-245) made permanent the option to include combat pay for calculating the credit.

Clarifications to the Definition of a Qualifying Child (2008 Law)
The Fostering Connections to Success and Increasing Adoptions Act of 2008 (P.L. 110-351) clarified the uniform definition of qualifying child for purposes of the dependency exemption, the child credit, the earned income credit, the dependent care credit, and head of household filing status to ensure that such an individual is unmarried and is younger than the taxpayer claiming the individual on his or her tax return. P.L. 110-351 also provided that for purposes of the child credit, a qualifying child must be the dependent of the taxpayer claiming the credit. In addition, P.L. 110-351 provided that if a taxpayer claiming a qualifying child is not the parent of the individual claimed as a qualifying child, the taxpayer must have an adjusted gross income that is higher than either of the child’s parents.

The American Recovery and Relief Act of 2009 (ARRA; P.L. 111-5) created a new credit rate for taxpayers with three or more eligible children. For tax years 2009 and 2010 only, taxpayers with three or more eligible children will use a credit rate of 45% to calculate their EITC.

In addition, the ARRA increased, for married taxpayers filing a joint tax return, the income level at which the EITC begins to phase out. The phase out income level for married taxpayers filing a joint tax return will be $5,000 higher than for unmarried taxpayers in tax year 2009. For tax year 2010 this amount will be $5,010.
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Tax Relief Extension (2010 Law)

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) extended the EGTRRA and ARRA provisions for two years (through 2012). It also included a provision which made tax refunds, including those resulting from the EITC, disregarded in the administration of federal programs and federally assisted programs. At the end of 2012, this provision was made permanent by the American Taxpayer Relief Act of 2012 (P.L. 112-240).

Tax Relief Extension (2012 Law)

The American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) made permanent the EGTRRA changes and extended the ARRA changes five years (through tax year 2017).
Appendix B. History of the EITC Parameters

Since its inception in 1975, the EITC has evolved from a small program to refund a portion of social security taxes to the largest anti-poverty entitlement program. The credit has been modified through changes in eligibility and in the values of the parameters used to calculate the credit. Table B-1 shows the changes to the parameters for the EITC for tax years 1975 through 2014.

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit Rate (%)</th>
<th>Maximum Earned Income</th>
<th>Maximum Credit</th>
<th>Phase-Out Rate (%)</th>
<th>Phase-Out Income Level</th>
<th>Income Where EITC=$0</th>
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For families with one child:

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<tr>
<th>Year</th>
<th>Credit Rate (%)</th>
<th>Maximum Earned Income</th>
<th>Maximum Credit</th>
<th>Phase-Out Rate (%)</th>
<th>Phase-Out Income Level</th>
<th>Income Where EITC=$0</th>
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* The credit values in 1987, 1993, 1999, and 2001 are not reported.
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<tr>
<th>Year</th>
<th>Credit Rate (%)</th>
<th>Maximum Earned Income</th>
<th>Maximum Credit</th>
<th>Phase-Out Rate (%)</th>
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For families with two or more children:

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<th>Phase-Out Income Level</th>
<th>Income Where EITC=$0</th>
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The Earned Income Tax Credit (EITC): An Overview

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<th>Maximum Earned Income</th>
<th>Maximum Credit*</th>
<th>Phase-Out Rate (%)</th>
<th>Phase-Out Income Level</th>
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For families with three or more children:

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<th>Phase-Out Rate (%)</th>
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</table>

Source: Table prepared by the Congressional Research Service (CRS).

a. The credit maximums for 1991-1993 do not include the two supplemental credits that were available to some EITC recipients in those years. The young child supplement added 5 percentage points to a family’s credit rate; the child health insurance supplement added up to 6 points.

b. For this tax year the phase-out income level for a married couple filing a joint tax return is $1,000 higher than shown in the table.
For this tax year the phase-out income level for a married couple filing a joint tax return is $2,000 higher than shown in the table.

For this tax year, the phase-out income level for a married couple filing a joint tax return is $3,000 higher than shown in the table.

For this tax year, the phase-out income level for a married couple filing a joint tax return is $5,000 higher than shown in the table.

For this tax year, the phase-out income level for a married couple filing a joint tax return is $5,010 higher than shown in the table.

For this tax year, the phase-out income level for a married couple filing a joint tax return is $5,080 higher than shown in the table.

For this tax year, the phase-out income level for a married couple filing a joint tax return is $5,210 higher than shown in the table.

For this tax year, the phase-out income level for a married couple filing a joint tax return is $5,340 higher than shown in the table.

For this tax year, the phase-out income level for a married couple filing a joint tax return is $5,430 higher than shown in the table.

**Author Contact Information**

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**Acknowledgments**

Christine Scott, formerly of the Congressional Research Service (CRS), authored a previous version of this report.