

# The Earned Income Tax Credit and Young Adult Workers

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The federal Earned Income Tax Credit (EITC) is a powerful tool for fighting poverty that boosts the after-tax earnings for over a million eligible Georgians. The EITC has proven to help workers with low to moderate incomes all across the state cover the costs of basic needs, stay engaged in the labor force, and help children get off to a healthy and economically secure start.<sup>1</sup> Further, the credit currently lifts 400,000 Georgians above the poverty line each year.<sup>2</sup>

As successful as the credit is, hundreds of thousands of young workers, specifically childless adults under 25, currently miss out on the powerful boost the EITC provides due to ineligibility or lack of information. These young people reflect a wide range of economic statuses from individuals working their way through college to just simply working to survive.<sup>3</sup>

The EITC has a minimum age requirement of 25 for workers without dependent children, yet financial stress for young people under this age is common. Young workers face new obstacles not experienced by prior generations, such as high rates of student loan debt, difficult labor markets, high housing costs, a lack of savings to purchase a home, and much more. These realities are even more difficult to balance for young parents who often are unaware of the fact that they are eligible for the EITC.

Given these financial stressors, a renewed look at policies to support young adults is needed and the following recommendations can provide economic opportunity for more Georgians.

*Established by Congress in 1975, the **Earned Income Tax Credit (EITC)** is a tool that offsets payroll taxes owed for eligible workers. If a worker qualifies for a credit that exceeds taxes owed, the excess is received as a tax refund.*

*The EITC is a proven anti-poverty tool that helps eligible workers across the state cover the costs of basic needs, stay engaged in the labor force, and help children get off to a healthy and economically secure start.*

*Making the federal EITC available to childless workers as young as 18 would boost the incomes of **127,000 more** Georgians with an **average benefit of \$335** per eligible household, infusing an additional **\$42M** into the state.*

## Recommendations:

- Expand the federal EITC to provide much-needed relief to childless workers under the age of 25
- Innovate with a state-level EITC
- Invest in targeted EITC outreach programs for eligible parents under age 25

## Background on the EITC

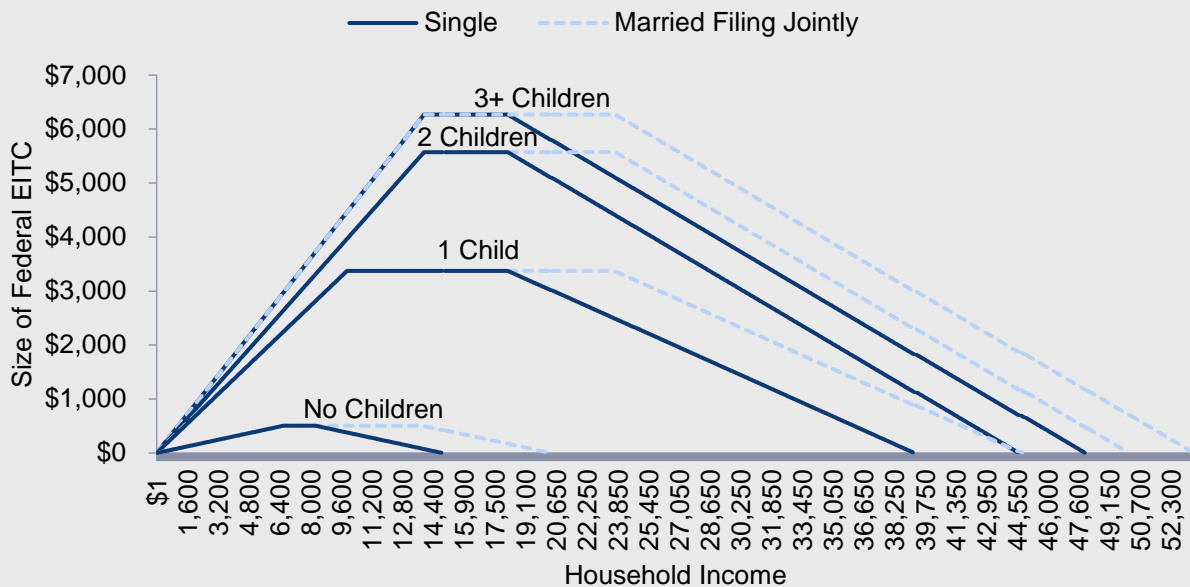
Created in 1975, the EITC is a federal policy that serves as one of the nation's most effective tools for families with low- to moderate-incomes. The EITC cuts federal taxes for low-wage workers like cashiers, mechanics and nurses – providing a wage enhancement for families striving toward the middle class. Additionally, the credit has had a phenomenal impact on child well-being. Decades of evidence show that children whose families receive more income from the EITC are more likely to grow up healthy, excel in school, graduate high school, attend college and earn more as adults.<sup>4</sup> Studies also indicate that young children, boys and children of color benefit the most.<sup>5</sup>

The EITC helps to ease the burden that comes with low wage work and regressive taxes through its unique structure.<sup>6</sup> The value of the credit rises to a certain threshold based on income and family size, at which point it plateaus and then begins to phase down. The largest credit goes to families with children making about \$10,000 to \$24,000 a year. It gradually phases out as workers begin to earn more, decreasing to zero at about double the poverty level of income. The credit fully phases out between \$39,000 and \$54,000, depending on marriage status and number of children. This structure helps families the most as they escape poverty by providing some value as they gain a firmer economic footing.

Over 1 million Georgia families claimed the federal EITC in 2018. The additional income from the EITC keeps about 400,000 Georgians above the federal poverty line each year according to national research.<sup>7</sup> In 2018, the EITC infused \$3 *billion* into local Georgia economies. The average benefit for EITC families in 2018 was \$2,807 per year, money which recipients often spend locally,<sup>8</sup> helping to provide families with the things they need while also strengthening the economy.

## EITC's Unique Structure Rewards and Encourages Work

Federal EITC value by income, marriage status and number of children, 2017



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## The Federal EITC + Young Workers: Policy Tweak Could Carry Significant Benefit

Congress excluded childless filers under 25 due to assumptions that the credit would benefit college and graduate students who depend primarily on their parents for support.<sup>9</sup> As a result, many low-income workers under age 25 who cannot rely on their parents for support are denied benefits. These assumptions, which are currently built into eligibility rules, overstate the economic security of young adults, particularly childless workers and puts those without parental help at a disadvantage. As a result, childless young adults are taxed deeper into poverty by the tax code. Nationally, an estimated 1.6 million childless workers just between the ages of 18 and 20 are taxed into poverty because they are ineligible for the EITC.<sup>10</sup>

Georgians in this age group are not a monolith. For example, this group includes many young adults transitioning out of foster care. Young people exiting the foster care system experience a much less-supported pathway to stability and independence than those who have not experienced foster care.

Despite 51 percent of Georgia's youth transitioning out of foster care by the age of 21 reporting employment, their earnings are less than half than those of their peers. Scores of research suggest that extending the powerful benefits of the EITC to childless young adults could have a very positive impact on this population.<sup>11</sup>

Many young adults are also working while in college. Research shows that college students whose parents can still claim them as dependents use tax credits to subsidize the costs of postsecondary education or training which in turn boosts employability and lifetime earnings for soon-to-be graduates. The studies show that having some extra cash-on-hand for students increases college completion rates for families with low incomes. In particular, the EITC can help students pay for last-minute, non-tuition costs for college, like books and housing, that might otherwise present as an obstacle to completion.<sup>12</sup>

Expanding the EITC to childless workers with low-incomes under the age of 25 would provide significant benefits beyond raising incomes and offsetting taxes. Research repeatedly shows that expanding the credit to these workers would boost the educational attainment of young adults and raise labor-force participation rates.<sup>13</sup>

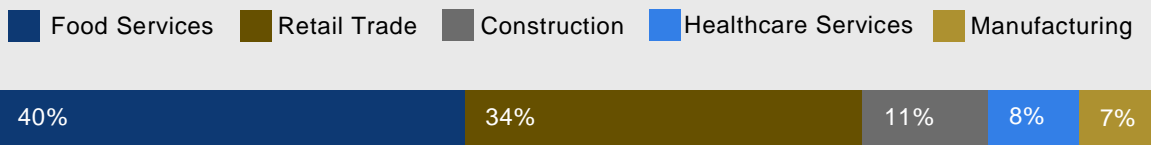
### ***Young Workers in Georgia, 18-24, have very diverse experiences:***

Young adults are working and contributing to the economy <sup>a</sup>	<b>309,000</b>
Many young adults are young parents <sup>b</sup>	<b>111,000</b>
Most young adult workers are people of color <sup>a</sup>	<b>51%</b>
Most young adult workers are considered low-income <sup>c</sup>	<b>77%</b>
Most children with young parents live in low-income families <sup>b</sup>	<b>85%</b>

Source: a) GBPI analysis of Current Population Survey data, March 2018; b) Opening Doors for Young Parents, Annie E. Casey Foundation. 2018; c) Population Reference Bureau analysis of American Community Survey microdata.

There is high poverty among young adult workers, many of whom begin their careers in low-wage jobs. While tax credits cannot supplant low wages, the credit's structure can and does play a vital role in encouraging individuals to stay employed longer and improve their earnings. Childless young workers would benefit tremendously from the EITC expansion, as they disproportionately work in service industries such as retail and fast food.<sup>14</sup>

## Young Workers, 18-24, are Overrepresented in Low-Wage Work



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Source: GBPI analysis of Current Population Survey data, March 2018.

Research also suggests the EITC would generate equitable outcomes for childless young workers of color. When Georgians of color are working even full-time, they make lower wages than their white counterparts. The biggest disparities are seen for black working young adults in the state, 87 percent of whom make less than \$24,000 a year.<sup>15</sup> EITC expansion would go a long way to minimize the burden of low wages for young workers of color. A recent study found that state-level EITCs lift a larger share of households of color out of poverty than white households.<sup>16</sup> Given the EITC's incentives to save, the credit can also accelerate asset-building opportunities for young workers of color even when they are starting out at low-income levels. Research shows that EITC recipients use their refunds to cover basic necessities like food, catch up on overdue bills, and establish savings.<sup>17</sup>

## Support Young Working Parents

Data show that, as a group, young parents 18 to 24 are more likely than nonparents to be working, yet the median income for young parents is \$23,000, slightly above the federal poverty level for a family of three.<sup>18</sup> Parents under 25 are eligible for the EITC, but many miss out on the income boost from the credit because of limited outreach. Even though a meaningful number of young workers could qualify as parents, only a small share in Georgia are tapping into the EITC and its benefits. Only 35 percent of Georgia's young working parents claimed an EITC in 2017.<sup>19</sup> This is much lower than the general population of filers across the U.S., where typically 4 in 5 eligible filers claim the EITC.<sup>20</sup>

According to the Annie E. Casey Foundation, an alarming 85 percent of children with young parents ages 18-24 in Georgia live in low-income families. Parents are a target group for tax credits for working families, as they provide a host of benefits for the child and the parent. With the additional boost from a refundable EITC, young parents see improved rates of childhood health and school performance.<sup>21</sup>



Likewise, the credit improves employability for single parents and enhances lifetime earnings. To date, the EITC has helped raise a quarter of a million children out of poverty, and with targeted outreach, would have an outsized impact on children of young parents.

## Recommendations

### Expand the federal EITC to provide much-needed relief to childless workers under the age of 25

EITC expansion would have a sizeable impact on childless workers under 25 since they are currently ineligible in Georgia: Nearly 127,000 new filers as young as 18 who are working full- or part-time but bringing home near-poverty wages would become eligible in 2020.<sup>22</sup> Given the EITC's promise to boost educational attainment, increase employment and earnings, and provide a firm financial footing to workers moving up the economic ladder, now is the time for expansion so these contributors to the state and federal economy do not get left further behind.

Years of bipartisan efforts have attempted to extend the EITC. In 2014, President Obama and Congressman Paul Ryan both put forth proposals that would have extended the credit to workers as young as 21. Others have also recently proposed legislation that would extend the EITC benefit to workers as young as 18 who are exiting the foster care system.<sup>23</sup> In April 2019, Ohio Senator Sherrod Brown proposed a measure in Congress that would extend the EITC to childless workers as young as 19 called the Working Families Relief Act (WFRA). WFRA is also crucial because it would help to mitigate existing racial disparities for young workers that are amplified in the current tax code. The bill targets benefits to the bottom 60 percent of all taxpayers, and young people of color make up a disproportionate share of this income groups due to historic and continuing systemic injustices.<sup>24</sup>



Lowering the EITC age to 18 would boost incomes for an additional **127,000 Georgians.**



This gives them an average benefit of **\$335 per eligible household.**



This would help an additional **\$42M** flow into the state.

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Source: Impact estimate analysis provided by the Institute on Taxation and Economic Policy (ITEP)

## Innovate with a state-level EITC

While the nation waits for Congress to strengthen the federal EITC, a state-level version of the credit can be established by lawmakers that includes young workers. States have opportunities to develop targeted tax credit programs that boost incomes and help young workers build assets. Currently 29 states and the District of Columbia enhance the value of the federal credit by providing their own state match, but Georgia is *not* one of them. State credits provide a critical boost for taxpayers who already receive the federal EITC. State EITCs are typically claimed as a percentage of the federal credit's value.

*29 states and D.C. have a state-level EITC. State EITCs match the federal credit at various levels.*

*Of those states with a state-level credit, three have extended their credit to workers ineligible for the federal credit:*

<b>California</b>	Workers 18 and older
<b>Maryland</b>	Workers under 24
<b>Minnesota</b>	Workers 21 and older

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Bipartisan momentum is growing in Georgia's state legislature for various proposals that establish non-refundable or refundable state-level credits, but none of them include childless workers under 25. Creating this bottom-up tax credit with young workers under 25 in mind would no doubt raise incomes and generate millions in economic activity while also addressing the challenges that young people have with building assets in our state. The momentum for expansion at the federal level offers considerable opportunity as Georgia lawmakers debate their own proposals.

## Invest in targeted EITC outreach programs for eligible parents under 25

In Georgia, the lack of participation by eligible young workers who are parents is concerning. The IRS reports that 4 in 5 of all filers claim and receive the EITC, while that mark sits at 35 percent of young parent workers in the Georgia data. Strong research shows that EITC participation is higher in areas with tax preparers that promote greater awareness of the credit. Bigger local, state and federal investments in EITC outreach programs that target eligible young parents would increase the program participation rate and ensure money does not get left on the table.

In recent years, Iowa and Virginia have provided state grants to local nonprofits to raise awareness of the EITC for eligible workers. The State of Arizona requires the Department of Economic Security to inform participants in the state's child care subsidy program about the EITC. Alabama appropriates funds in the state budget to support volunteers who promote and prepare tax returns for EITC-eligible individuals.

The existing network of Volunteer Income Tax Assistance (VITA) sites in Georgia is a strong place to boost outreach with additional public and philanthropic funding. Co-funded by the Internal Revenue Service and local nonprofits, VITA is a free tax preparation program for filers who generally earn less than \$55,000 annually, making the vast majority of Georgia’s young parents eligible for VITA during the tax season.

## Conclusion

The evidence is clear that the EITC is an effective tool for lifting workers with low wages to higher rungs on the economic ladder, but it remains imperfect. The opportunity exists to make the credit work even more equitably for workers who need it the most.

Youth and young adults are strong contributors to the economy, but are often overlooked in policy debates about issues that directly impact their lives. This was the case when the EITC was established decades ago. But today, lawmakers have an opportunity to correct this flaw in the tax code and extend the EITC benefit. Additionally, state innovation and targeted outreach programs provide opportunities for improved access to those who need it most. The EITC guarantees a significant boost in employment, health and wealth, and young workers with low wages deserve their fair share – especially when they worked for it.

## Endnotes

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<sup>1</sup> “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget & Policy Priorities. April 3, 2015.

<sup>2</sup> “Georgia Fact Sheet: Expand Tax Credits to Promote Work and Fight Poverty,” Center on Budget and Policy Priorities. 2019

<sup>3</sup> GBPI analysis of Current Population Survey Data, March 2018

<sup>4</sup> “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget & Policy Priorities. April 3, 2015.

<sup>5</sup> “State Earned Income Tax Credits Help Build Opportunity for People of Color and Women,” Center on Budget & Policy Priorities. 7/24/2018.

<sup>6</sup> Low- and middle-income Georgians pay a greater share of their income in state and local taxes than do the wealthy. This is known as a regressive tax structure. The poorest fifth of Georgia taxpayers pay an average 10.7 percent of their annual income in state and local taxes



and the middle fifth pays 9.8 percent, while the wealthiest 1 percent pays only 7 percent on average.

<sup>7</sup> “Georgia Fact Sheet: Expand Tax Credits to Promote Work and Fight Poverty,” Center on Budget and Policy Priorities. 2019

<sup>8</sup> “Using EITC to stimulate local economies,” Brookings Institution. 11/1/2006.

<sup>9</sup> “Opportunities to Improve the Earned Income Tax Credit”, House Budget Committee. 2018

<sup>10</sup> “Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty,” Center on Budget & Policy Priorities. April 6. 2016

<sup>11</sup> “Expanding the Earned Income Tax Credit for Youth Formerly in Foster Care”. 2015

<sup>12</sup> Turner and Manoli. 2018. Cash on Hand and College Enrollment: Evidence from Population Tax Data and the Earned Income Tax Credit.  
<https://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.20160298>

<sup>13</sup> “Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty,” Center on Budget & Policy Priorities. April 6. 2016

<sup>14</sup> GBPI analysis of Current Population Survey data, March 2018

<sup>15</sup> Ibid.

<sup>16</sup> “State EITC Programs Provide Important Relief to Households in Need”, Carson School of Public Policy. 2017.

<sup>17</sup> “The Rainy Day EITC,” Prosperity Now. 2015.

<sup>18</sup> “Open the Door for Young Parents”, Annie E. Casey Foundation. 2017.

<sup>19</sup> GBPI analysis of Current Population Survey data, 2018

<sup>20</sup> “EITC fast Facts”, Internal Revenue Service. 2018.

<sup>21</sup> “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget & Policy Priorities. April 3, 2015

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<sup>22</sup> Impact estimates of lowering the EITC age to 18 for childless workers provided by the Institute on Taxation and Economic Policy, [www.itep.org](http://www.itep.org)

<sup>23</sup> “H.R. 2681 – Foster EITC Act”. 2017.

<sup>24</sup> “Working Families Tax Relief Act”, Institute on Taxation and Economic Policy. 2019.