Center on Budget and Policy Priorities

Alabama

Fact Sheet: Tax Credits Promote Work and Fight Poverty

The Earned Income Tax Credit (EITC) for low- and moderate-income workers encourages and rewards work, offsets federal payroll and income taxes, and helps meet basic needs. The Child Tax Credit (CTC) also helps low-income working families offset part of the cost of child-rearing.[1]

Together, the EITC and low-income CTC are among the nation's strongest tools to promote work and help workers escape poverty and achieve self-sufficiency. Yet if policymakers fail to act, key provisions of the credits will expire at the end of 2017, and millions of working families will lose all or part of their tax credits. Policymakers also need to fill a glaring hole in the EITC: working childless adults — that is, adults without children and non-custodial parents — receive little or nothing from the EITC and are the only group that the federal tax code taxes into poverty.

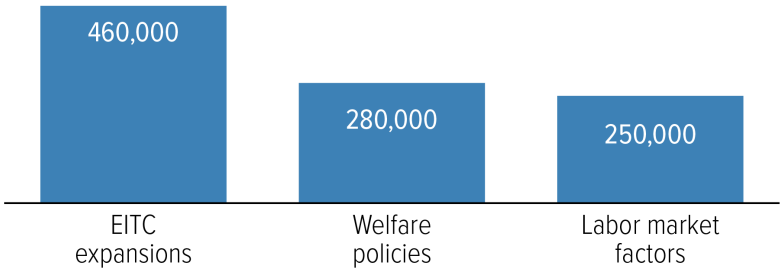
Encouraging Work and Reducing Poverty

- 537,000 Alabama households received the EITC in 2012.
- 382,000 Alabama households received the low-income part of the CTC in 2012.
- 153,000 Alabamians were lifted out of poverty by the EITC and CTC, including 80,000 children, each year, on average, during 2011 to 2013.
- The EITC put about $1.4 billion into Alabama's economy in 2012.

Extensive research finds that the EITC encourages work, especially in a strong labor market. During the 1990s, EITC expansions did more to raise employment among single mothers with children than either welfare reform or the strong economy (see chart).

EITC Biggest Factor Boosting Single Mothers' Employment, Research Finds

Increase in employed female heads of households in 1999 due to changes since 1993



Note: Categories from study were combined for simplicity. Categories "time limits," "other reforms," and "maximum benefits" were combined into "welfare policies." Categories "minimum wage" and "unemployment rate" were combined into "labor market factors."

Source: CBPP analysis of results from Jeffrey Grogger, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families," 2003, and data from March 1999 Current Population Survey.

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Research has also found that children in families who get an income boost from the EITC and CTC quickly show improvements in health and school performance relative to other low-income children who did not receive this extra help. In addition, children whose families receive that boost have higher school test scores, on average, and are more likely to go to college and to work and earn more as adults.

Policymakers Should Save Key Provisions of the EITC and CTC

Key provisions of these tax credits ensure that low-income working families receive the CTC, boost the EITC for families with more than two children, and reduce the "marriage penalty" that some two-earner families face in the EITC. If policymakers fail to act, these key provisions will expire at the end of 2017, and:

- 480,000 children in 280,000 Alabama families will lose some or all of their working-family tax credits; these families will lose a total of $312 million in their tax credits.
- 90,000 children, and 184,000 Alabamians overall, will be pushed into -- or deeper into -- poverty.

[1] The EITC is refundable, meaning that recipients whose credit exceeds their federal income tax liability can receive the difference as a refund. The low-income part of the CTC is refundable.

Veteran and Military Families

In 2012, about 42,000 Alabama veteran and military families received the EITC or the low-income part of the CTC. If policymakers fail to save the key provisions of the EITC and CTC set to expire at the end of 2017, 23,000 of these Alabama veteran and military families will lose some or all of their credits.

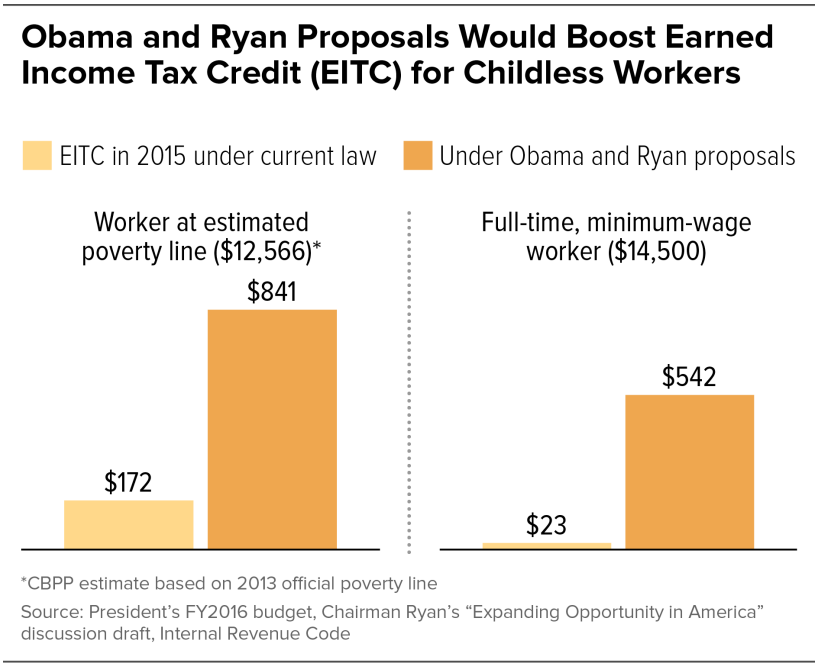
Rural Families

In 2013, nearly 141,000 families outside of metropolitan areas in Alabama received the EITC or the low-income part of the CTC. If policymakers fail to save the expiring provisions of the EITC and CTC, more than 83,000 Alabama rural families will lose some or all of their credits.

Policymakers Should Also Fill the Glaring Hole in the EITC

Policymakers should also fill the glaring hole in the EITC so it no longer mostly excludes some of the most vulnerable working people, including low-income adults without children at home and young people just starting out. Often referred to as "childless workers," they are the lone group the federal tax code taxes into or deeper into poverty, in part because they receive little or nothing from the EITC.

The President, House Ways and Means Committee Chairman Paul Ryan (R-WI), and other lawmakers propose to make more childless workers eligible for the EITC and to expand the credit for those already eligible. These changes could boost employment and reduce poverty among childless workers.



Under the President's and Ryan's proposals, the credit for a childless adult with wages right at the poverty line would rise from just $172 to $841 in 2015. For a childless adult working full time at the minimum wage, the credit would jump from just $23 to $542 in 2015 (see chart).

About 200,000 childless workers would become eligible for an EITC or receive a larger EITC in 2015 under the President's proposal.

States Can Supplement the Federal EITC

Twenty-six states plus the District of Columbia offer a state tax credit based on the federal EITC, but Alabama is not now one of them.

Figures on number of recipients and dollars from IRS. Number of families and children benefiting from provisions set to expire and dollar amounts from "Making the EITC and CTC Expansions Permanent Would Benefit 13 Million Working Families," http://bit.ly/1MojGWI. Number benefiting from President's EITC proposal from Treasury Department, http://1.usa.gov/OX9XNJ. Figures for veteran and military families from "Pro-Work Tax Credits Help 2 Million Veteran and Military Households," http://bit.ly/1BUqjOE. Figures for rural families from "Pro-Work Tax Credits Help 4.8 Million Rural Households," http://bit.ly/1fExYpi. Antipoverty impact of EITC/CTC from "Fighting Poverty at Tax Time through the EITC," http://brook.gs/1392sJG. Antipoverty impact of EITC and CTC provisions set to expire from CBPP analysis of the Census Bureau's March 2010-2014 Current Population Survey and Supplemental Poverty Measure public use files for 2009-2013. For more information, see: Policy Basics on the EITC (http://bit.ly/1IcHK9u) and CTC (http://bit.ly/1FgRopJ).

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