When working families struggle to make ends meet with low wages, their health and well-being are adversely impacted. The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), which families can claim when they file taxes, are two of our nation’s most effective programs for addressing economic strain and lifting people out of poverty. Over the past forty-five years, research has shown that the EITC helps families meet basic needs, stimulates the economy, and promotes work. Research over the past few years has shown that in addition to economic benefits, the EITC also improves the health of children and adults both in the short term and throughout their lives. Though less studied, the CTC is similar in design to the EITC, and emerging evidence demonstrates its ability to improve financial stability and health. The EITC and CTC alleviate financial hardship and help families get ahead.

Key Takeaways

- The EITC and CTC are two successful federal tax credits for workers with low and moderate incomes that boost family financial resources and lift families out of poverty.
- Research shows that expansions of these working-family tax credits directed towards families with the lowest incomes would effectively lift children out of poverty, improve the health and well-being of families, decrease health care costs, and stimulate the economy.
- Expansions to the EITC and CTC have historically had a larger net positive impact for people of color – particularly Black and Latinx families – who are overrepresented among low income workers and disproportionately experience higher rates of poverty and poor health compared to white families.
- Permanent expansions to the EITC and CTC are critical for improving current and future health, especially as the economic crisis created by COVID-19 disproportionately pushed low-income families, immigrants, and communities of color deeper into poverty, with lasting impacts on health inequities.
The EITC and CTC alleviate financial hardship and help families get ahead

The EITC and CTC have a strong history of broad bipartisan support in Washington, DC and among many state legislatures due largely to their two-fold ability to lift millions of families out of poverty and improve the economy. The primary mechanism through which these credits alleviate financial hardship is through a tax deduction and in some cases a refund. Using the Supplemental Poverty Measure, in 2018, the combined income boosts of EITC and CTC together lifted 10.6 million Americans out of poverty — including 5.5 million children — and made 17.5 million less poor — of whom 6.4 million were children. While these tax credits serve a larger number of white households, they lift out of poverty a greater proportion of people of color who disproportionately live in poverty. The credits also have significant impacts for families with young children under six, the age group with the highest poverty rates.

Additionally, the EITC has been shown to effectively boost workforce participation, which is linked to further reductions in poverty in the short and long-term. While the success of the credits to directly bring families out of poverty and lessen poverty is well established (see figure 1), they do not include indirect effects on boosting earnings, and thus the credits’ anti-poverty impacts are likely understated.

Research demonstrates that children who live in households that received the EITC and/or CTC have better school performance, greater college enrollment, and increased work and earnings in adulthood. Research shows that these academic achievement benefits are amplified with the size of the EITC received for all children regardless of race and ethnicity, with some suggestion that the benefit of larger EITCs are greater for children of color. Furthermore, putting money back into the pockets of individuals enables increased spending in local economies as families use their credits to purchase healthy foods and...
Definitions

What is the EITC? The Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people that encourages and rewards work as well as offsets federal payroll and income taxes. The EITC is a refundable tax credit. Twenty-nine states and the District of Columbia have established state-specific EITCs to supplement the federal credit. The EITC is currently delivered in one sum when taxes are filed.

What is the CTC? The Child Tax Credit (CTC), which is available to tax payers across a broad income spectrum, helps working families offset the cost of raising children. The tax credit, which is worth up to $2,000 per eligible child under age 17 at the end of the tax year, is subtracted from the total amount of federal income taxes a filer would otherwise owe. The CTC includes a refundable component. Six states have enacted state-specific versions of this credit to supplement the federal credit. The CTC is currently delivered in one sum when taxes are filed.

What is a “refundable” tax credit? A refundable tax credit means that if the amount of the credit is greater than the amount of tax owed, the Internal Revenue Service (IRS) sends a tax refund for the difference. Most tax credits are nonrefundable – meaning a refund is given only up to the amount of tax owed – but some are fully or partially refundable. Currently the EITC is a fully refundable tax credit, while the CTC is partially refundable up to $1,400.

Average EITC Amount per Tax Filer in 2017

$2,488

Which recipients often use for

<table>
<thead>
<tr>
<th>Groceries or medicine</th>
<th>Transportation, utilities, or childcare</th>
<th>Larger expenses like housing security deposits</th>
</tr>
</thead>
</table>

How do the EITC and CTC increase economic stability and improve health outcomes?

<table>
<thead>
<tr>
<th>INDIVIDUALS</th>
<th>COMMUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enable families to pay for basic needs</td>
<td>Help local economies</td>
</tr>
<tr>
<td>Boost long-term earnings</td>
<td>Improve maternal health outcomes</td>
</tr>
<tr>
<td>Increase ability to pay backend rent and avoid eviction</td>
<td>Improve child health outcomes</td>
</tr>
<tr>
<td>Provide money for healthy food</td>
<td>Improve educational outcomes</td>
</tr>
</tbody>
</table>

Children in families who receive the EITC experience better

+ Birth weight
+ Cognitive development
+ Mental health
+ Behavioral health

17.5 Million
Less poor after receiving EITC and CTC
Lifted out of poverty after receiving EITC and CTC

10.6 Million
6.4 Million
5.5 Million

ALL MEMBERS of families who received EITC and CTC
CHILDREN in families who received EITC and CTC

Enable families to pay for basic needs
Boost long-term earnings
Increase ability to pay backend rent and avoid eviction
Provide money for healthy food
Help local economies
Improve maternal health outcomes
Improve child health outcomes
Improve educational outcomes

Average EITC amount per tax filer in 2017

$2,488

Which can be used for

$50/week for groceries or medicine
$200/month for transportation, utilities, or childcare
$2000/year for larger expenses like housing security deposits
basic goods, make necessary home or car repairs, pay bills including rent and utility arrearages, and save for the future.28

The EITC and CTC are evidence-based solutions for improving health

The benefits of the EITC and CTC extend well beyond financial stability for families. Previous expansions in the EITC have been strongly associated with a decrease in infants born with low birth weights among pregnant women eligible for the credit.9 This relationship is notable because low birth weight is damaging to the long-term health and developmental potential of children and costly to the health system, yet few medical interventions are available that effectively reduce the risk of low birth weight. In addition to benefits for infants, children in families receiving the EITC have fewer behavioral health problems, such as anxiety and depression.10 Given these positive health benefits, the Centers for Disease Control and Prevention recently categorized the EITC as one of the 14 key evidence-based, cost effective interventions for improving health in early childhood.11 Mothers receiving the EITC are more likely to have signs of good health, including lower risk of high blood pressure and inflammation and reduced reports of depression and stress.12,13 Further, research shows that the EITC may even improve life expectancy among people with low incomes in the U.S.14

While the CTC has fewer studies directly linking it to health improvement, its structure is similar to that of the EITC and its documented effectiveness in reducing child poverty make it highly probable that it has similar health benefits for children and families. Research shows that boosting working families’ incomes improves opportunities for their children and is associated with improvements in children’s educational outcomes.5

Disrupting racial income and wealth disparities

Racial barriers to economic opportunities, driven by historical and continued discriminatory policies and practices, have played a significant role in determining present wealth and income distribution. Racial income and wealth disparities are particularly staggering between white and Black households; an examination of wealth in the US found the net worth of a typical white family is nearly ten times greater than that of a Black family.15 This racial wealth gap remains even for families with the same income, demonstrating that although wealth is influenced by present income, it is significantly tied to past earnings and generational inheritances.15

People of color are more likely than white workers to be employed in low-wage jobs, to be paid poverty wages, and to be paid less for comparable work.16 A recent analysis of government data showed Black and Latinx house-
holds at the 90th percentile of their income distribution earned only sixty-eight and sixty-five percent as much as white households at their 90th percentile, respectively.\textsuperscript{17} In other words, when occupying the same percentile on income distributions by race and ethnicity, people of color earn less. Although the EITC and CTC benefit many white households, because people of color earn less and are more likely to work low-wage jobs — reflecting both the legacy and continuation of discrimination and structural barriers to opportunity — these credits have predominately benefited Black and Latinx households, in particular women of color.\textsuperscript{19} While policies that dismantle structures of racism and increase economic opportunities for people of color in the long term are urgently needed to significantly reduce the racial wealth gap, the EITC and CTC are critical and existing tools that can offset racial income disparities. With higher proportions of people of color living in poverty, expansions to the EITC and CTC — alongside systemic policy change to address root causes of racial inequity — will greatly improve families’ daily financial circumstances.

**Building on success: The need to strengthen and expand the EITC and CTC**

The EITC and CTC have long been considered bipartisan, evidence-based, and effective programs to improve the health and financial stability of families. However, both credits fall short of reaching some of the workers and families who need them the most, limiting their potential anti-poverty impacts.

Currently, the EITC’s potential is only realized for families raising children in their homes since the credit does not provide enough support for workers without dependent children — even though many may be non-custodial parents or young adults preparing to start families. For some workers not claiming children, the EITC benefit is so low that many are even taxed into poverty.\textsuperscript{19} Given the important role of non-custodial parents in the lives of children and the challenges many of these parents with low-incomes face in providing support to their children,\textsuperscript{20} ensuring these workers are not taxed into poverty will better ensure they have financial resources to adequately support their children. Further, recognizing the positive health effects of the EITC on birth outcomes, expansions of the credit prior to the birth of a child may further improve infant health and decrease health care costs and utilization.

While the EITC is available and fully refundable for eligible workers beginning with the first dollar earned, the effects of the CTC are diminished by its current structure of the credit. Presently, the CTC is phased in with parents’ annual earnings beginning at $2,500 such that families with very low incomes that would benefit the most actually receive only a partial credit or no credit at all. While this phase-in approach is seen as a way to incentivize work, it results in inequitable access to the credit and its benefits. Due to this structure, over one-third of all children in the U.S. do not receive the full benefit of the CTC because their families earn too little to access the maximum credit.\textsuperscript{21} Consequently, Black, Latinx, and young children, along with children in families headed by single parents, are disproportionately left behind by the CTC.\textsuperscript{19} Furthermore, the structure of both the EITC and CTC exclude unpaid caregivers who stay at home to care for their children, often due to difficulties accessing high-quality, affordable child care. Research from Children’s HealthWatch demonstrates that for many caregivers, particularly those of color, difficulties accessing child care constrain their ability to work, which in turn increase their likelihood of reporting poor health outcomes and economic hardships without additional support.\textsuperscript{22}

Researchers and policy makers have demonstrated that changes to the CTC structure, including making the credit fully refundable and allowing for monthly payments, would drastically improve the credit’s ability to eliminate
the most extreme forms of poverty and support families with the lowest incomes. A consensus report by the National Academies of Science, Medicine, and Engineering shows that making the CTC fully refundable would cut in half the number of children living in deep poverty — those living in families with incomes less than half of the federal poverty level. This expansion would particularly benefit people of color who are historically impacted by low wages and increased hardship and could be used as an effective tool — in concert with other policies — to decrease the racial wealth gap.

Although the EITC and CTC benefit millions of families and children every year, it is unfortunately not claimed by all who are eligible. This is particularly true for the EITC; currently one in five eligible families do not claim the EITC, largely due to lack of knowledge about the tax credit and how to access it. One opportunity to address this barrier and increase EITC claims is through Volunteer Income Tax Assistance (VITA) sites. These evidence-based services streamline families’ access to tax refunds by providing free, IRS-certified, and highly accurate tax preparation to low and moderate-income taxpayers. This, in turn, generates income tax returns that benefit the health and financial stability of families and their communities.

**Conclusion**

Expansions to the EITC and CTC as well as steps to decrease access barriers will effectively improve the health and well-being of families and the economy and lift millions of children out of poverty. The described policy improvements will appropriately target families who are struggling the most and people of color who disproportionately experience poverty and poor health. Additionally, states can adopt or expand working-family tax credits to increase the impact. Permanent expansions and improvements to these anti-poverty credits are particularly important now, as the recession precipitated by COVID-19 has exacerbated health disparities and pushed families with children deeper into poverty, both of which highlight and deepen existing racial inequities. Commitment to economic justice through these tax credit expansions as well as other policy tools that accelerate racial, income, and wealth equity are essential for the health and well-being of families with children and society as a whole.
Policy Recommendations
TO SUPPORT HEALTHY CHILDREN AND FAMILIES

**Child Tax Credit (CTC)**

1. Ensure families, including those with the lowest incomes, are able to access a fully refundable CTC. Research shows that increasing the credit amount and decoupling it from earnings would cut child poverty by 42% overall, 52% among Black children, 41% among Latinx children, and 36% among white children.²⁵

2. Increase the value of the CTC for young children to offset the higher cost of raising young children who are at a critical stage of development and experience higher rates of poverty.

3. Expand the CTC to dependents under age 18. Currently the CTC is only available for dependents under age 17, limiting its ability to reach all children.

4. Index the CTC for inflation to respond to the changes in costs of living.

**Earned Income Tax Credit (EITC)**

5. Provide families with the option to receive CTC and EITC payments on a monthly basis to help families manage finances throughout the year and prevent debt or arrearages.

6. Enable taxpayers and their children who file with an Individual Tax Identification Number (ITIN) to access the EITC and CTC. Expanding eligibility to taxpayers who file with an ITIN would allow tax-paying immigrants who are currently excluded from these credits to claim and benefit from the EITC and CTC.

7. Include a lookback provision in both the EITC and CTC that allows the use of prior incomes to make credits more responsive to recessions. This would provide a vital lifeline to workers and families whose incomes dissipate during economic downturns.

**Earned Income Tax Credit (EITC)**

8. Include family care giving as a type of activity that constitutes work to allow those that stay at home to care for children to access the tax credit.

9. Lower the age eligibility, raise the upper age limit, and expand benefits of the EITC for workers not raising children in their home to enable non-custodial parents to better support their families and allow individuals to receive adequate credit amounts.

**Volunteer Income Tax Assistance (VITA)**

10. Increase funding for Volunteer Income Tax Assistance (VITA) sites. Increased funding for VITA sites, which offer free, highly accurate tax help to low and moderate-income filers, would decrease filing barriers and enable more families to access the credit.
About Children’s HealthWatch

Children’s HealthWatch is a nonpartisan network of pediatricians, public health researchers, and children’s health and policy experts. Our network is committed to improving children’s health in America. We do that by first collecting data in urban hospitals across the country on infants and toddlers from families facing economic hardship. We then analyze and share our findings with academics, legislators, and the public. These efforts help inform public policies and practices that can give all children equal opportunities for healthy, successful lives.

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