

D.C. Tax Revision Commission Policy Options
Policy Option #12: Increase EITC Benefits for Childless Workers

MEMORANDUM

Proposal: Increase the Earned Income Tax Credit (EITC) for childless workers

Tax Type: Income

Origin: Councilmember Mary Cheh

Commission Goal: Fairness

Current Law

The federal Earned Income Tax Credit (EITC) is a refundable credit for low- and moderate- income workers, especially those with qualifying children. D.C. permits an additional EITC that piggybacks the federal program. The D.C. EITC is 40% of the federal credit.

The size of the federal EITC, and by extension the D.C. credit, is determined by income, marital status and number of children. For example, in 2013:

- A childless taxpayer's credit phases out at \$14,340 (single) or \$19,680 (married). Childless workers age 25 and younger are not eligible for the EITC.
- A taxpayer with children is eligible for the credit with income ranging from below \$37,870 (not married with one child) to \$51,567 (married with three or more children).
- The max federal credit is solely based on number of children:
 - No children: \$487
 - One child: \$3,250
 - Two Children: \$5,372
 - Three or more children: \$6,044

The average federal EITC in 2010 was \$2,805 for a family with children and \$262 for a family without children. The D.C. EITC is a simple calculation: federal EITC x 0.4. For example, a family receiving \$2,805 from the federal government receives \$1,122 from D.C. and a childless worker receiving \$262 from the federal EITC receives \$104.80 from D.C.

Proposed Change

Decouple from the federal formula so that childless workers in D.C. receive benefits at higher income levels and the maximum benefit for these taxpayers is increased.

One possibility is to follow the formula proposed in a recent Senate bill¹ that has the same goals as this policy option. Under that proposal, D.C.'s childless EITC formula would make the following changes:

¹ Working Families Tax Relief Act of 2013 (S. 836, introduced by Sen. Sherrod Brown).

- Change the phase-in/phase-out formula² so that the maximum D.C. EITC increases from \$194.80 to \$540. (That is, the hypothetical maximum federal EITC credit increases from \$487 to \$1,350, and that hypothetical credit is then multiplied by 0.4)
- Raise the maximum eligibility income for single workers from \$14,340 to \$19,245—133% of full-time earnings at the federal minimum wage. (This maximum would be higher for married, childless workers.)
- Lower the eligibility age for childless workers from age 25 to 21.

Reason for Change

While the EITC is a powerful anti-poverty tool, the credit is not available to childless workers who earn more than \$14,340 (single) or \$19,680 (married). This means that a childless worker earning the federal minimum wage does not receive the credit. Furthermore, the few childless workers eligible for a credit can only receive a max benefit that is 15% of the EITC available to a worker with one child and 8% of what a worker with three or more children can receive.

Pros

- D.C. income tax would become fairer by expanding an effective and broad form of tax relief to a population that is currently not eligible for it or adequately benefiting from it.
- The credit encourages and rewards work by offsetting D.C. income taxes for low- and moderate-wage earners and may also encourage economic spending/growth in the District.

Cons

- Decoupling from the federal program would complicate the individual income tax both for taxpayers and tax administrators.
- Expanding the D.C. EITC for childless workers would decrease tax revenue.

Revenue Impact

The Office of Revenue Analysis estimates that in the first year of implementation increasing EITC benefits to childless workers in the manner described above would cost \$36,623,253 in tax revenue.

² The current formula gives workers an EITC of 7.65 cents for each dollar of earnings until the credit is fully phased in. The legislation calls for increasing that rate to 15.3 cents for each dollar of earnings. The income levels at which the credit is fully phased in and at which it begins to phase out are also adjusted.