



Can Taxes Fight Child Poverty?

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As tax season comes to a close today, millions of low-income working families will have filed for the Earned Income Tax Credit (EITC), one of the nation's most effective government policies for promoting work and reducing child poverty.

What is the EITC?

The EITC is a refundable tax credit for low and moderate-income working families and individuals. It offsets taxes and supplements very low wages. The largest benefits are targeted to families with incomes between about \$10,000 and \$22,000. During the 2011 tax year, the average credit was \$2,905 for a family with children, increasing wages by about \$240 a month. It is credited with lifting 3.3 million children out of poverty in 2012.

In North Carolina, the federal EITC kept [298,000 North Carolinians](#)—half of whom were children—above the poverty line in 2010-2012. And more than 63,000 North Carolina military families received the EITC in 2012.

The federal EITC was enacted in 1975 under President Nixon and expanded in 1986 by President Reagan. Presidents from both parties have since expanded it.

Federal AND State

The EITC is one of the nation's most effective government policies for reducing poverty among children. Because of its success, many states also have enacted an EITC as part of their state tax policy. Currently, 26 states supplement the federal EITC with their own state EITC.

EITC and North Carolina

North Carolina enacted a state EITC in 2007. However, lawmakers did not renew the legislation and it will expire after the 2013 tax year. In 2012, nearly one million working households in North Carolina received the credit at an average amount of \$119.

EITC as a Birth to 8 Strategy

By raising family income, the EITC improves outcomes for children. [Research](#) indicates that children of EITC recipients, for instance, do better in school, are likelier to attend college, and

earn more as adults. A study published in the *American Economic Review* found an increase of \$1,000 in tax credit raises a child's math and reading test scores.

Families may use the additional income to purchase more goods and services such as food, clothing and books, which help maintain basic child welfare and enhance child development, according to [CLASP](#).

The [Center on Budget and Policy Priorities](#) reports that in 2011, the poverty rate among children would have been nearly one-quarter higher without the EITC. The EITC lifts more children out of poverty than any other single program or category of programs.

In addition, researchers from the [Center for Poverty Research](#) found that rates of low birth weight decrease with increased EITC income.

Sources and Resources

- [Policy Basics: The Earned Income Tax Credit, Center for Budget and Policy Priorities](#)
- [North Carolina Fact Sheet: Tax Credits Promote Work and Fight Poverty, Center on Budget and Policy Priorities](#)
- [EITC Fact Sheet, NC Budget and Tax Center](#)
- [IRS: EITC Home Page—It's easier than ever to find out if you qualify for EITC](#)
- [Qualifying For The State Earned Income Tax Credit, NC Department of Revenue](#)