

# **Expanding the Earned Income Tax Credit to Reduce Working Poverty**

**PIVOT**

**November, 2025**

**Written by: Julien Baison**

**Department: Economics**

**Table of Contents**

<b>Executive Summary</b>	<b>3</b>
<b>Issue Overview/ Background</b>	<b>3</b>
<b>Current Policy Landscape</b>	<b>4</b>
<b>Problem Analysis</b>	<b>4</b>
<b>Policy Recommendations</b>	<b>5</b>
<b>Impact Assessment</b>	<b>5</b>
<b>Conclusion</b>	<b>6</b>
<b>Works Cited</b>	<b>6</b>

## **Executive Summary**

The Earned Income Tax Credit (EITC) is a widely successful U.S. anti-poverty policy. It supports low- and moderate-income workers and encourages labor force participation by linking benefits to earned income rather than traditional cash assistance. The EITC has consistently reduced poverty, increased employment, and improved economic stability among working-class families, helping millions of households rise above the federal poverty line each year.

Despite its effectiveness, the structure of the EITC leaves a significant gap. Most notably, childless workers receive far smaller benefits than families with children, despite facing similar economic pressures, including rising housing costs, stagnant wages, and limited access to employer-provided benefits. As a result, many full-time workers remain in economic insecurity despite steady employment.

This policy brief evaluates the economic rationale for expanding the EITC, reviews the current policy landscape, and analyzes the consequences of maintaining the status quo. It argues that a targeted expansion of the EITC, particularly for childless workers, would reduce working poverty, strengthen labor force participation, and generate positive spillover effects for local economies. This brief concludes that EITC expansion represents a fiscally responsible and evidence-based approach to addressing income insecurity among low-wage workers.

## **Issue Overview/ Background**

Over the past few decades, structural changes in the U.S. economy have reshaped labor markets, particularly for low-wage workers. While employment rates have generally remained strong, wage growth at the bottom of the income distribution has failed to keep pace with rising living costs. Housing, healthcare, transportation, and childcare expenses now consume a growing share of household income, leaving many workers financially vulnerable despite being employed.

This reality challenges the assumption that work alone ensures economic security. Many low-income workers face unstable schedules, unpredictable earnings, and limited benefits, while policymakers continue to struggle with supplementing income without discouraging employment.

The Earned Income Tax Credit was designed to respond to these challenges. Enacted in the 1970s, the EITC boosts after-tax income for low-wage workers while incentivizing labor force participation. Its phased structure increases benefits as earnings rise, up to a threshold. Although

the program has expanded over time, it does not fully address modern economic conditions, particularly for workers without dependent children.

## **Current Policy Landscape**

The federal EITC provides refundable tax credits to eligible workers based on income, filing status, and the number of qualifying children. Families with children receive the largest benefits, while childless workers qualify for only a small credit and must meet more restrictive age and income requirements. As a result, the distribution of benefits is heavily skewed toward households with dependents.

In addition to the federal program, many states have implemented supplemental EITCs that mirror the federal structure and provide additional support. These state-level credits vary widely in generosity and coverage, contributing to uneven outcomes across regions. Workers in states without supplemental credits often receive significantly less support than similarly situated workers elsewhere.

Recent policy discussions have focused on temporary expansions of the EITC during periods of economic disruption. These expansions increased benefit levels and broadened eligibility, particularly for workers without children, and were associated with reductions in financial hardship. However, most of these reforms were temporary and have since expired. The current policy landscape reflects a return to a more limited and uneven system of support for low-income workers.

## **Problem Analysis**

From an economic perspective, the existing EITC structure raises concerns related to both efficiency and equity. Childless workers, who make up a large share of the low-wage labor force, receive minimal benefits despite facing cost-of-living pressures similar to those of families with children. This limits the program's overall effectiveness in reducing poverty and income volatility among working adults.

Additionally, low-wage workers often face high effective marginal tax rates as earnings increase, particularly when payroll taxes rise and other benefits phase out. While the EITC offsets this effect for families with children, childless workers receive far less relief. This disparity weakens the program's ability to promote broad-based economic security.

Maintaining the status quo also represents a missed opportunity to support labor market participation. Economic research consistently shows that income supplements tied to work can

increase employment, particularly among marginalized populations. Expanding the EITC offers a targeted way to address wage stagnation and economic insecurity without adopting policies that risk discouraging work.

## **Policy Recommendations**

This policy brief recommends a targeted expansion of the Earned Income Tax Credit, with a particular emphasis on improving outcomes for workers without children. Policymakers should increase the maximum credit available to childless adults and raise income eligibility thresholds to better reflect contemporary labor market conditions and living costs.

In addition, policymakers should encourage broader adoption and expansion of state-level EITCs. State supplements can enhance the effectiveness of the federal program and allow policymakers to tailor benefits to regional economic conditions. Improved coordination between federal and state efforts would strengthen consistency and equity across jurisdictions.

These reforms would preserve the EITC's incentive-based structure while modernizing the program to address current economic realities. By focusing on underserved workers, policymakers can maximize the program's impact without significantly increasing administrative complexity.

## **Impact Assessment**

Expanding the EITC is expected to yield substantial economic and social benefits. Higher benefit levels would increase after-tax income for millions of low-wage workers, reducing working poverty and improving financial stability. Greater income security is also associated with improved health outcomes and reduced reliance on emergency assistance programs.

From a labor market perspective, expanded EITC benefits are likely to encourage higher labor force participation, particularly among workers with weaker attachments to employment. Because recipients tend to spend a large share of additional income, expanded credits would also stimulate local economic activity and support small businesses.

Fiscal analyses consistently find that the EITC delivers strong returns relative to its cost. When long-term benefits such as increased employment and reduced reliance on other safety net programs are considered, EITC expansion represents an efficient use of public funds.

## Conclusion

The Earned Income Tax Credit has a proven record of reducing poverty while promoting work, making it a cornerstone of U.S. economic policy. However, its current structure leaves many low-income workers, particularly those without children, without adequate support at a time of persistent wage stagnation and rising living costs. These gaps undermine the program's effectiveness.

A targeted expansion of the EITC is essential. Policymakers must modernize the program and extend its benefits more equitably across the workforce. Taking decisive action would strengthen efforts to reduce working poverty, improve labor market outcomes, and support economic growth. Ensuring that work provides a true pathway to economic security should remain a central policy goal.

## Works Cited

Congressional Budget Office. (2019). *The effects of the Earned Income Tax Credit on employment and income*. <https://www.cbo.gov>

Internal Revenue Service. (2023). *Earned Income Tax Credit (EITC) overview*. <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit>

National Bureau of Economic Research. (2018). *Tax policy and labor supply*. <https://www.nber.org>

U.S. Department of the Treasury. (2022). *EITC participation and distributional effects*. <https://home.treasury.gov>