



## OPTIONS TO INCREASE THE EITC FOR WORKERS WITHOUT CHILDREN AT HOME

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Workers without children living at home, called “childless” for tax purposes, are eligible for relatively small benefits from the earned income tax credit (EITC). We analyze the effect of increasing the EITC for this group and extending benefits to workers ages 19 and older, rather than restricting benefits for childless workers to those aged 25 to 64 as is the case under current law. Increasing the size of the EITC could provide substantial assistance to low-income, childless workers. Extending the credit to younger workers would affect more people in the bottom fifth of the income distribution than extending the credit to older workers since younger workers tend to have few other sources of income.

In 2021, the federal earned income tax credit (EITC) will deliver about \$68.2 billion in refundable tax credits to low- and middle-income working families with children at home and about \$2.3 billion to workers without children at home (i.e., workers considered “childless” for tax purposes). Annually, the credit lifts 5 to 6 million people out of poverty, including about 3 million children (CBPP 2019). Childless workers ages 25 to 64 are eligible for much smaller benefits than are families with children, and benefits for this former group are available over a very limited income range relative to the income range for workers with children.<sup>1</sup> Absent a substantial childless EITC, federal income and payroll taxes put millions into poverty each year (Marr and Huang 2020).

In May 2020, the House of Representatives passed the Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES Act). The HEROES Act would expand the EITC in several ways. Its biggest changes would be (1) phasing the credit in and out at a higher rate and (2) phasing the credit in and out over more annual earnings and income. Together, these two changes would increase the maximum credit for workers without children at home from \$543 to \$1,487 in 2021. Rather than phasing out completely once income reaches about \$15,980 for single people or \$21,920

<sup>1</sup> Some “childless” workers have children who they cannot claim on their federal income tax form for the EITC. These include parents whose children live the majority of the year with someone else, are age 19 or older and not in school full time for at least five months of the year, or are age 24 or older.

for married couples, the credit would not be fully phased out until income reaches \$21,170 for single people or \$27,110 for married couples. Similarly, President Biden proposed roughly tripling the childless EITC to close to \$1,500 and raising the income limit a similar amount in his American Rescue Plan.<sup>2</sup> Increasing the credit phase-in and phase-out rates and extending the income range that the credit applies to by these amounts would increase childless benefits by \$7.5 billion for 11.3 million childless workers in 2021.

The HEROES Act would also extend the credit to workers as young as age 19.<sup>3</sup> Biden's proposal would do this and eliminate the upper age limit for eligibility. Absent any other changes, reducing the age of eligibility for the childless EITC to 19 would deliver about \$1.3 billion in benefits to 3.5 million workers in 2021. Eliminating the older age limit would deliver an additional \$1.0 billion in benefits in 2021, benefiting about 2.8 million workers age 65 and older. Younger workers tend to have a larger share of their income from wages. As a result, extending benefits to younger workers increases benefits to more of the lowest-income workers than does extending benefits to older workers (figure 1).

Implementing all of the above changes would increase childless EITC benefits by \$11.8 billion to 16.5 million workers, representing about 13.5 percent of all childless tax filers in 2021. Benefits would be highly concentrated among the bottom 20 percent of the income distribution. Still, childless workers would receive a modest share of all benefits from the EITC, about 14 percent.

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<sup>2</sup> See "President Biden Announces American Rescue Plan," White House Briefing Room, January 20, 2021, <https://www.whitehouse.gov/briefing-room/legislation/2021/01/20/president-biden-announces-american-rescue-plan/>.

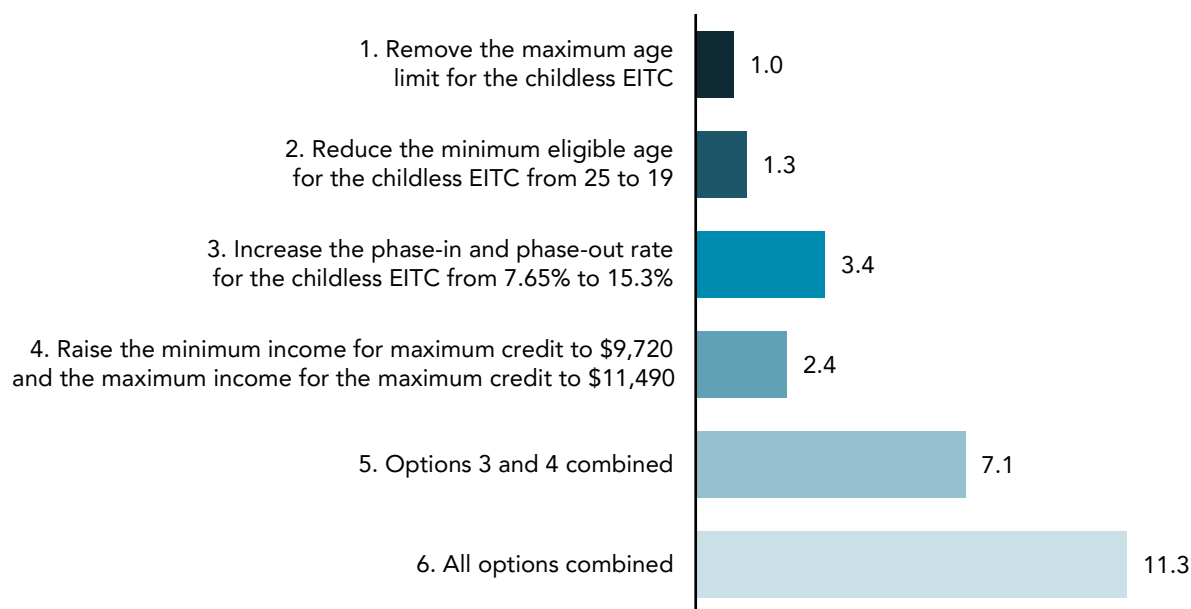
<sup>3</sup> The HEROES Act would exclude full-time students under age 25 from eligibility for the EITC. The proposal modeled here would allow full-time students to receive benefits in recognition of the large number of students who struggle to complete college (often because of financial barriers). For a deeper discussion see Maag et al. (2020).

FIGURE 1



# Revenue Cost of Options to Expand the EITC for Childless Workers

Billions of dollars, 2021



**Source:** Tax Policy Center Microsimulation Model version (version 0920-1).

**Note:** Baseline is the law currently in place as of March 17, 2020. Policies assumed effective January 1, 2021.

All of the proposals could be important boosts to some people. Extending the credit to older workers could improve retirement security for some low-income workers and could encourage older workers to stay in the workforce (Shvedov and Schramm 2020; Maag 2019). But helping younger workers who face unique employment hurdles now because of their concentration in hard-hit industries and occupations such as leisure and hospitality (Loh, Goger, and Liu 2020) is equally critical. Moreover, boosting incomes of the broad group of low-income workers who have seen their hours reduced during the pandemic could provide critical assistance to people who are struggling (Kinder and Ross 2020).

We describe the EITC and the proposals and then analyze the revenue cost of each of the proposals separately and together, describing who would benefit, how large benefits would be, and why each change matters.

## DESCRIPTION OF THE EITC AND PROPOSALS

The EITC primarily subsidizes low- and moderate-income working parents, providing little support to childless workers. Workers receive a credit equal to a percentage of their earnings up to the maximum credit. Both the credit rate (how fast the credit phases in) and the maximum credit vary by family size. After the credit reaches its maximum, it remains flat until income reaches the phase-out point. Thereafter, the credit declines with additional income until no more credit is available (figure 2). The credit begins to phase out at higher income levels for married couples.

Workers without children at home will qualify for a maximum benefit of \$543 in 2021.<sup>4</sup> This is well below the maximum benefit for families with children, which varies from \$3,618 for a family with one child at home to \$6,728 for families with

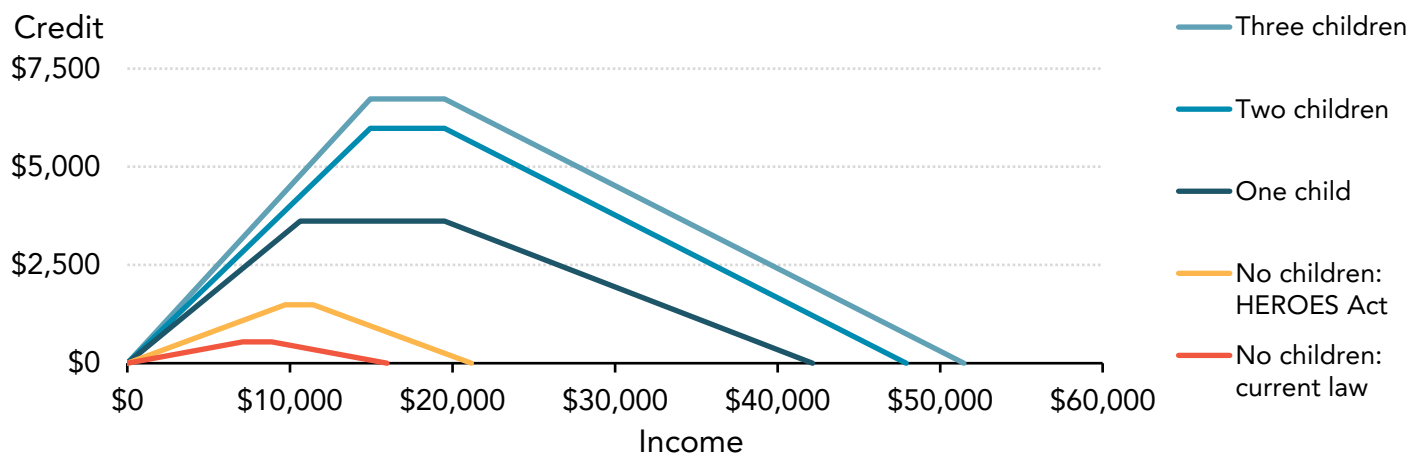
<sup>4</sup> See "IRS Revenue Procedure 2020-45," Internal Revenue Service, accessed February 1, 2021, <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>.

at least three children at home. Benefits for workers without children at home also end at much lower incomes than those for workers with children. A single worker will stop receiving benefits once his or her income reaches \$15,980; a single parent with one child at home stops receiving benefits once his or her income reaches \$42,158.<sup>5</sup>

The HEROES Act would increase benefits for many current childless recipients by doubling the rate at which the credit phases in, from 7.65 percent to 15.3 percent. The credit would also phase in until earnings reached \$9,720 rather than stopping to phase in once earnings reach \$7,100. Together, this would increase the maximum childless benefit from \$543 to \$1,487. The bill would phase the credit out at a rate of 15.3 percent and be fully phased out at incomes of \$21,170 for single people and \$27,110 for married couples (figure 2). Although not specified in legislation yet, the expansion proposed by President Biden would presumably be similar.

**FIGURE 2**

## EITC Current Law and HEROES ACT Expansion 2021



**Source:** "HEROES Act," H.R. 6800, 116th Cong. (2020); IRS Revenue Procedure 2020-45; and authors' calculations.

**Note:** Under current law, childless filers younger than 25 and older than 64 are ineligible for the EITC; we model lowering the minimum age to 19 and removing the maximum age limit. Assumes EITC provisions would be enacted in 2021 as written in HEROES Act, and all income comes from earnings. Credit for married couples phases out \$5,940 higher than shown for married couples with no children and \$5,950 for married couples with children.

Workers with children can qualify for EITC benefits at any age. Childless workers must be between ages 25 and 64 to qualify for benefits.

## RESULTS

Under current law, the childless EITC is scheduled to deliver \$2.3 billion in benefits to childless workers in 2021. Extending the credit to older workers would increase benefits by \$1.0 billion. Dropping the minimum age of the credit for childless workers would add \$1.3 billion in benefits. If the credit phased in and phased out at a rate of 15.3 percent, an additional \$3.6 billion in benefits would be delivered to childless workers. Allowing the credit to phase in until earnings reached \$9,720 and waiting to phase the credit out until income reached \$11,490 if single and \$17,430 if married would increase credit benefits by \$2.4 billion. If the latter two options were combined, total benefits would

<sup>5</sup> These amounts are \$5,950 higher for married couples with children and \$5,940 for married couples with no children.

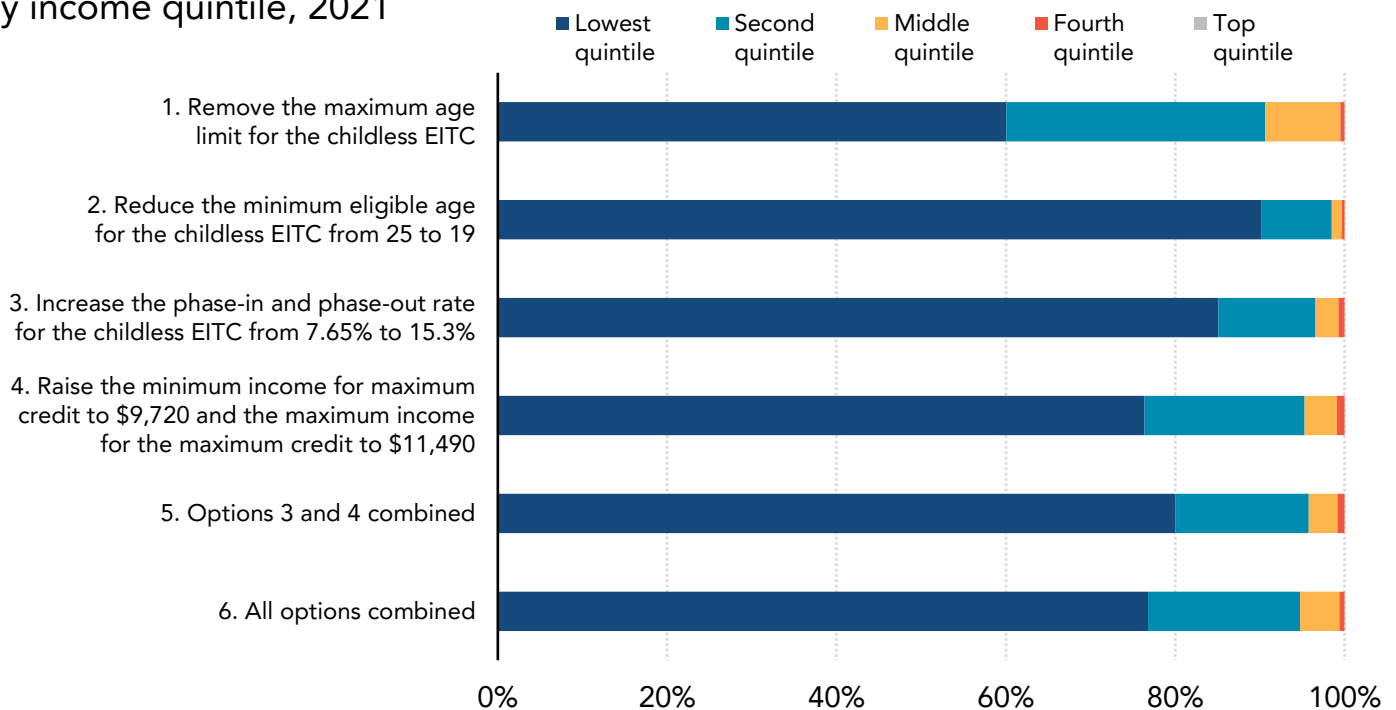
increase by \$7.5 billion in 2021. Combining all of these proposals would deliver an additional \$11.8 billion in benefits to childless workers (figure 1).<sup>6</sup>

Benefits from all of the proposals are concentrated among low-income workers. Over half of all benefits would flow to people in the bottom 20 percent of the income distribution. Estimates of the share of benefits from the proposal that go to those people vary from a high of 90 percent (reducing the age of credit eligibility to 19) to a low of 60 percent (removing the maximum age limit; figure 3). Although all credit recipients will have relatively low earnings, older workers tend to have additional income sources that put credit beneficiaries slightly higher up the income scale than their younger peers.

**FIGURE 3**

## Distribution of Benefits from Proposed Childless EITC Expansions

By income quintile, 2021



**Source:** Tax Policy Center Microsimulation Model (version 0920-1)

**Note:** Baseline is the law currently in place as of March 17, 2020. Policies assumed effective January 1, 2021.

The proposals to alter the age ranges of who would be eligible for the credit do not change the maximum value of credit. Recipients would go from receiving no credit to receiving a credit of up to \$543. Many childless workers would still be ineligible for benefits because their incomes are too high to be eligible to receive the credit (single workers with incomes above \$15,980 or married couples with incomes above \$21,920) or, in some cases, they have investment income that exceeds the maximum allowed to be eligible for the credit. Among people who would benefit from the credit if it were extended to workers age 65 and older or if it were extended to people as young as 19, the average benefit would be about \$370 or \$390, respectively. This would be slightly higher than the average benefit for childless workers ages 25 to 64, which is about \$330. Increasing the phase-in and phase-out rates would add an additional \$423 to people who would benefit from the increase. Raising the maximum earnings that the credit would phase in over and

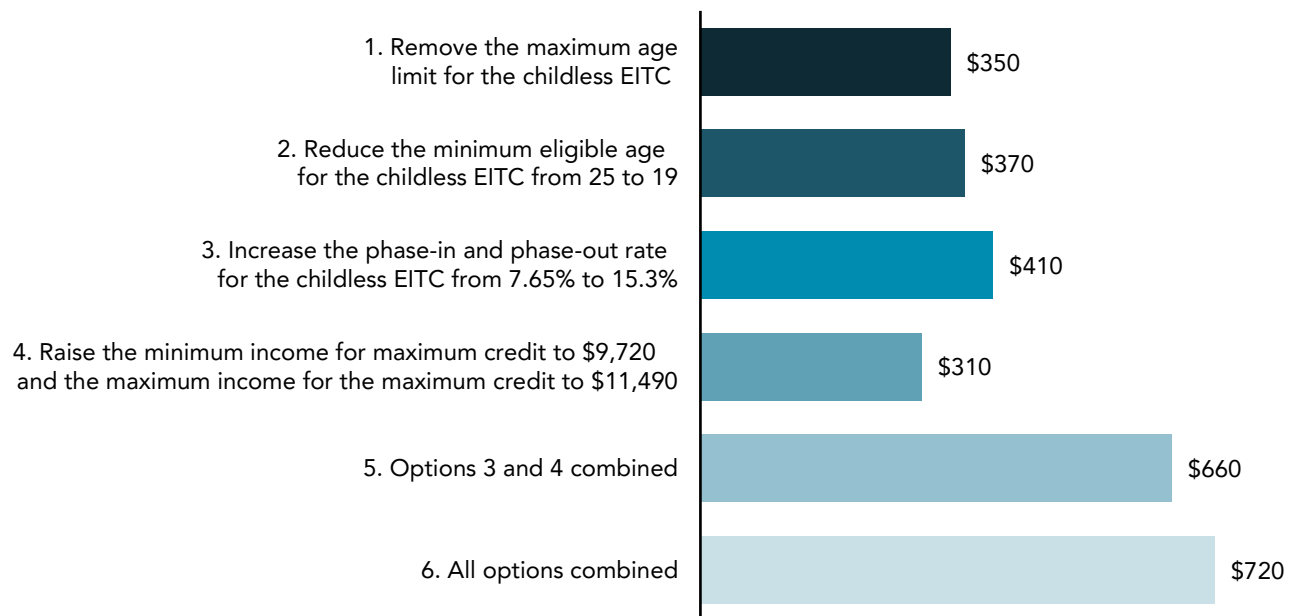
<sup>6</sup> We provide estimates for 2021 here but include 10-year revenue estimates at “Options to Expand the Childless EITC (January 2021),” Urban-Brookings Tax Policy Center, accessed February 1, 2021, <https://www.taxpolicycenter.org/simulations/options-expand-childless-eitc-january-2021>.

shifting the phase-out to higher incomes would increase benefits for those who would benefit by about \$322. If the latter two options were combined, benefits would increase by an average of about \$650 among people who received a benefit. Adding in the expanded age range would increase benefits, on average, by just over \$700 for people who would benefit (figure 4).

**FIGURE 4**



## Average Tax Cut in Dollars among Those Who Benefit from Proposed Expansions to the Childless EITC 2021



**Source:** Tax Policy Center Microsimulation Model version (version 0920-1).

**Note:** Baseline is the law currently in place as of March 17, 2020. Policies assumed effective January 1, 2021.

### DISCUSSION

Each of the proposals discussed here would assist very low-income childless workers and reduce the chance that they would be taxed into poverty by federal income and payroll taxes. If all of the options cannot be adopted, policymakers would need to think through trade-offs associated with each policy, and issues such as job loss and reduced income during the COVID-19 pandemic could provide important guidance.

Extending the credit to younger workers would have only a moderate impact unless the credit was also expanded more broadly. Young workers have been hit particularly hard by the pandemic. Almost half of workers ages 16 to 24 were employed in higher-risk industries before the pandemic compared with 24 percent of workers overall (Kochhar 2020). Underemployed workers (those who are either unemployed or are working in part-time jobs but want to work and are available to work full-time jobs) are also more likely to be under age 25 than over age 25. The group that is working part time could be particularly helped by a childless EITC expansion because they are more likely to have incomes in the relevant income range. Over one-third of workers under age 25 are now considered underemployed because of the pandemic (Gould and Kassa 2020).

Exposure to a recession can be bad for all workers, but the effects may be worst for young workers who likely have many years of work ahead of them. Early career interruptions can lead to lifelong damages (Gould and Kassa 2020). Boosting employment among this group and offsetting lost wages may be particularly critical to helping the economy rebound. Expanding the credit to workers as young as age 19, including students who may be working to cover unmet need from financial assistance (Maag et. al 2020), would be a step in the right direction. If the credit were extended to younger workers without any other changes, the EITC would deliver an average benefit of about \$390 for 3.5 million workers.

Among people age 65 and older—the additional group that would be helped by the proposal floated by President Biden—labor force participation has steadily increased since the 1990s, with most older workers citing economic reasons for remaining in the workforce (Shvedov and Schramm 2020). In 2018, about 14 percent of people age 65 and older lived below or near the federal poverty level (Administration on Aging 2020). Not all of them are working, but some may be encouraged to work if they were to receive an additional subsidy, and those who have income below the federal poverty level and are working would see an immediate effect from extending the EITC to them. The literature on the EITC being an effective work incentive (Schanzenbach and Strain 2020; Eissa and Hoynes 2006) largely applies to workers with children, so the size of the effect if the credit were not also increased is unclear.

Some older workers have experienced recent job losses because of the COVID-19 pandemic, but fewer people in this group lost jobs than in younger age groups. About 25 percent of all adults reported living in a household where they or someone in their household had lost a job because of the pandemic, ranging from 14 percent for people ages 65 and older to 32 percent for people ages 18 to 29 (Parker, Minkin, and Bennet 2020). Moreover, workers age 65 and above experience difficulties in reentering the workforce following recessions and attaining a similar level of pay (Johnson 2020), which may dampen response to the credit in the very near term. Clearly, some older workers would benefit from being eligible for the EITC. If the credit were extended to older workers without any other changes, the EITC would deliver an average benefit of just over \$360 for 2.8 million workers.

A broad expansion of the EITC could be necessary to meaningfully help the many childless workers who have been affected by the current recession. A recent analysis simulating a similar expansion of the EITC for childless workers found that workers in the retail trade and accommodation and food services sectors would benefit in the greatest numbers (Maag, Werner, and Wheaton 2019), industries that have been particularly hard hit in this recession. It could also meaningfully reduce poverty rates. Because the EITC currently delivers relatively small benefits to this group, childless adults begin to owe taxes while still having income under the federal poverty level. A larger EITC could lift childless workers out of poverty (Marr and Huang 2020).

Childless workers receive few government supports, but they are eligible (to a limited extent) for the EITC. That support could be buttressed substantially by adopting some of the provisions of the HEROES Act that was passed by the House of Representatives and by extending benefits to older workers. We estimate this could deliver \$11.8 billion in benefits to 16.5 million childless workers. This would increase the total share of EITC benefits for this group from about 3 percent to 14 percent.

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