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SUMMARY

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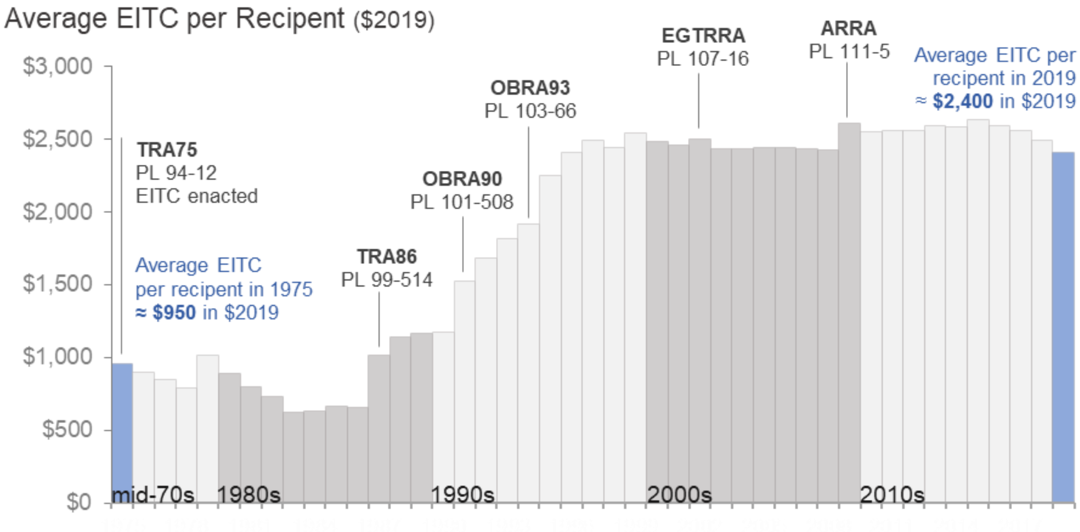
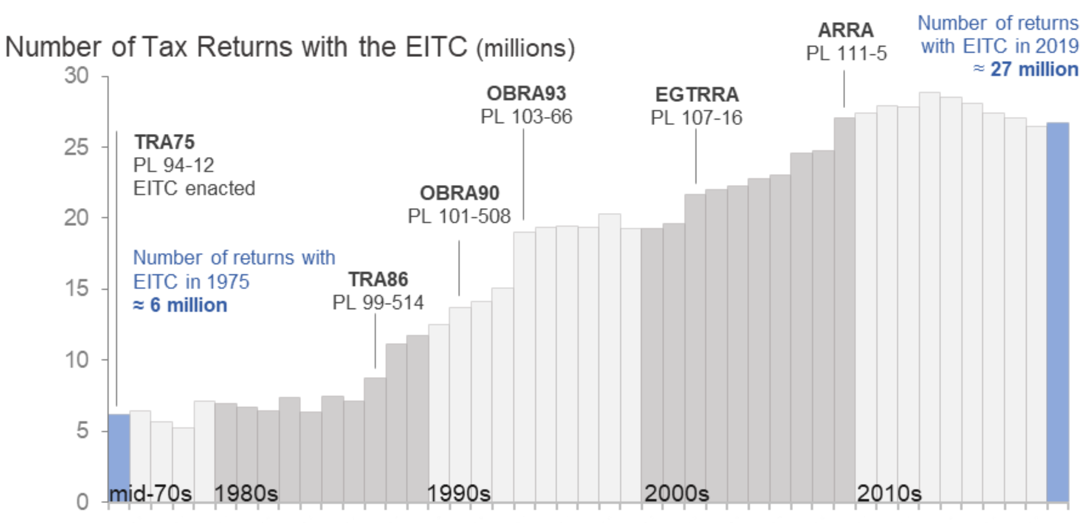
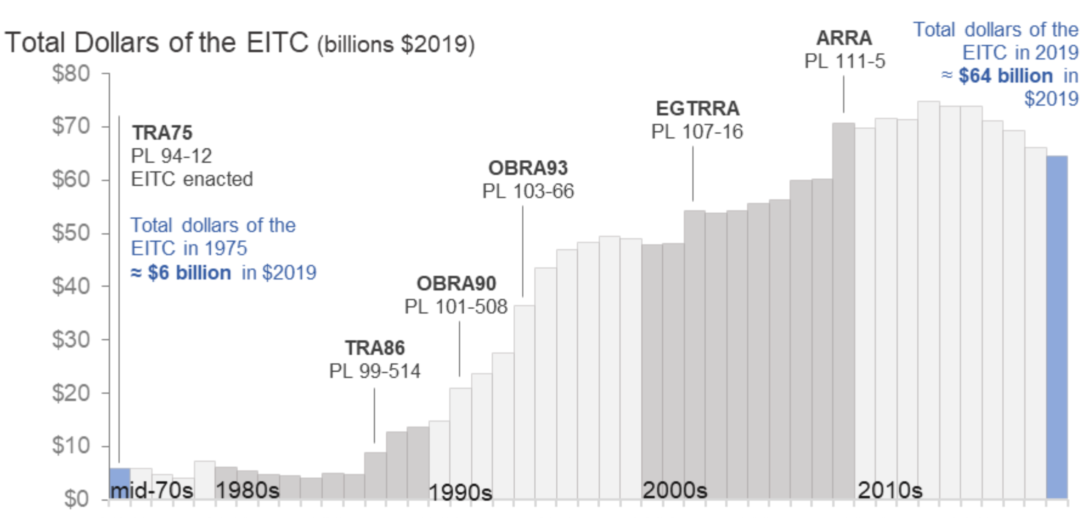
The Earned Income Tax Credit (EITC): Legislative History

The earned income tax credit (EITC), when first enacted on a temporary basis in 1975, was a modest tax credit that provided financial assistance to low-income, working families with children. After various legislative changes over the past 45 years, the credit is now one of the federal government's largest antipoverty programs providing cash assistance to low-income working families, illustrated in the figure on the following page. A summary of major legislative changes over the past five decades is provided below.

Law Year First in Effect	**Summary of Legislative Change**
Tax Reduction Act of 1975 (TRA75; P.L. 94-12) 1975	The EITC was enacted on a temporary basis (1975 only) as part of TRA75. The maximum credit amount was $400. The credit was extended several times before being made permanent by the Revenue Act of 1978 (P.L. 95-600). P.L. 95-600 also increased the maximum amount of the credit to $500.
Tax Reform Act of 1986 (TRA86; P.L. 99-514) 1987	TRA86 modified the credit formula, resulting in a larger credit—a maximum statutory credit of $800. The bill also permanently adjusted the credit's monetary parameters for inflation beginning in 1987 (so the maximum credit in 1987 was $851).
The Omnibus Budget Reconciliation Act of 1990 (OBRA90; P.L. 101-508) 1991	OBRA90 modified the EITC formula for family size: one formula for families with one qualifying child and a slightly larger credit for those with two or more qualifying children. As a result, in 1991 the maximum credit was $1,192 for families with one qualifying child and $1,235 for families with two or more qualifying children.
The Omnibus Budget Reconciliation Act of 1993 (OBRA93; P.L. 103-66) 1994	OBRA93 further increased the maximum credit for households with one qualifying child and two or more qualifying children. The law also created a new credit formula for low-income workers with no qualifying children (sometimes referred to as the "childless" EITC). As a result of these changes, the maximum credit in 1994 for a family with no qualifying children was $306; one qualifying child, $2,038; and two or more qualifying children, $2,528. The larger credit for taxpayers with qualifying children phased in to permanent levels over two to three years, depending on the number of qualifying children.
The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA; P.L. 104-193) 1996	PRWORA required taxpayers to provide Social Security numbers (SSNs) for work purposes for themselves, spouses if married filing jointly, and any qualifying children, in order to receive the credit.
The Economic Growth and Tax Relief Reconciliation Act (EGTRRA; P.L. 107-16) 2002	EGTRRA temporarily increased the income level at which the credit began to phase out for married taxpayers in comparison to unmarried taxpayers (the additional amount is referred to as "marriage penalty relief"). Marriage penalty relief was equal to $1,000 between 2002 and 2004, $2,000 between 2005 and 2007, and $3,000 between 2008 and 2010.
The American Recovery and Reinvestment Act (ARRA; P.L. 111-5) 2009	ARRA temporarily created a new larger credit for families with three or more children. As a result, in 2009, the maximum credit for a family with three or more qualifying children was $5,657 (in comparison, prior to ARRA it would have been $5,028 in 2009). The law also temporarily expanded the marriage penalty relief enacted as part of P.L. 107-16 to $5,000 (adjusting this amount for inflation). These changes were extended several times and made permanent beginning in 2016 by P.L. 114-113.
The American Rescue Plan Act (ARPA; P.L. 117-2) 2021	ARPA temporarily expanded the amount of and eligibility for the childless EITC (for 2021 only), with the maximum childless EITC increasing from $543 to $1,052 in 2021. The law also included other temporary and permanent changes.


Average EITC per Recipent ($2019)
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$0
TRA75
PL 94-12
EITC enacted
Average EITC
per recipent in 1975
≈ $950 in $2019
TRA86
PL 99-514
OBRA90
PL 101-508
OBRA93
PL 103-66
EGTRRA
PL 107-16
ARRA
PL 111-5
Average EITC per
recipent in 2019
≈ $2,400 in $2019
mid-70s
1980s
1990s
2000s
2010s


Number of Tax Returns with the EITC (millions)
30
25
20
15
10
5
0
TRA75
PL 94-12
EITC enacted
Number of returns with
EITC in 1975
≈ 6 million
TRA86
PL 99-514
OBRA90
PL 101-508
OBRA93
PL 103-66
EGTRRA
PL 107-16
ARRA
PL 111-5
Number of returns
with EITC in 2019
≈ 27 million
mid-70s
1980s
1990s
2000s
2010s


Total Dollars of the EITC (billions $2019)
$80
$70
$60
$50
$40
$30
$20
$10
$0
TRA75
PL 94-12
EITC enacted
Total dollars of the
EITC in 1975
≈ $6 billion in $2019
TRA86
PL 99-514
OBRA90
PL 101-508
OBRA93
PL 103-66
EGTRRA
PL 107-16
ARRA
PL 111-5
Total dollars of the
EITC in 2019
≈ $64 billion in
$2019
mid-70s
1980s
1990s
2000s
2010s

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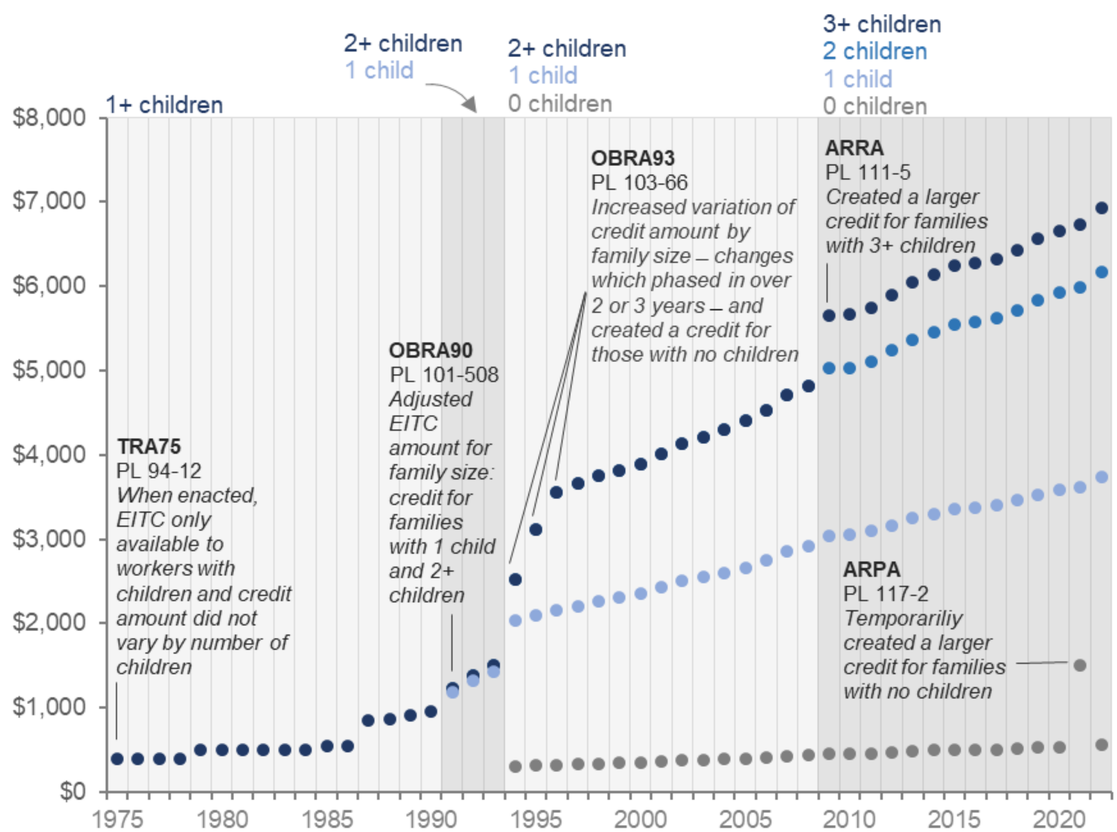
Introduction

The earned income tax credit (EITC), when first enacted in 1975, was a modest tax credit of up to $400 for low-income working families with children. (It was also initially a temporary tax provision.) Today, as a result of numerous legislative changes over the past 45 years—some of which are identified in **Figure 1**—the EITC is the largest permanent federal needs-tested antipoverty program that provides cash assistance. (Some of the annual increases in the maximum benefit, especially in recent years, have been due to the statutory inflation adjustment of the credit.)

Figure 1. Maximum EITC Amount by Number of Qualifying Children, 1975-2022



Source: See **Table B-1.**

Notes: These amounts reflect actual maximum amounts in a given year and reflect inflation indexing of the credit's parameters.

This report summarizes the EITC's origins, outlines key legislative changes to the credit, and analyzes some of the congressional intentions behind these changes. An overview of the current structure of the EITC can be found in **Appendix A**. An overview of how the credit formula has changed over time can be found in **Appendix B**.

Before Enactment

The origins of the EITC can be found in the debate in the late 1960s and 1970s over how to reform welfare—known at the time as Aid to Families with Dependent Children (AFDC).[1] During this time, there was increasing concern over the growing numbers of individuals and families receiving welfare.[2] In 1964, fewer than 1 million families received AFDC. By 1973, the AFDC rolls had increased to 3.1 million families. Some policymakers were interested in alternatives to cash welfare for the poor. Some welfare reform proposals relied on the "negative income tax" (NIT) concept. The NIT proposals would have provided a guaranteed income to families who had no earned income (the "income guarantee" that was part of these proposals). For families with earned income, the NIT would have been gradually reduced as earnings increased.[3] Influenced by the idea of a NIT, President Nixon proposed in 1971 the "family assistance plan" (FAP)[4] that "would have helped working-poor families with children by means of a federal minimum cash guarantee."[5]

Senator Russell Long, then chairman of the Senate Finance Committee, did not support FAP because it provided "its largest benefits to those *without* earnings"[6] and would, in his opinion, discourage people from working. Instead, Senator Long proposed a "work bonus" plan that would supplement the wages of poor workers. Senator Long stated that his proposed "work bonus plan" was "a dignified way" to help poor Americans "whereby the more he [or she] works the more he [or she] gets."[7] Senator Long also believed his "work bonus plan" would "prevent the social security tax from taking away from the poor and low-income earners the money they need for support of their families."[8]

1975-1986: An Earnings-Based Credit for Workers with Children

The "work bonus plan" proposal was passed by the Senate in 1972, 1973, and 1974, but the House did not pass it until 1975. The "work bonus plan" was renamed the earned income tax

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[1] For more information on the legislative history of welfare in the United States, see CRS Report R44668, *The Temporary Assistance for Needy Families (TANF) Block Grant: A Legislative History*, by Gene Falk.

[2] According to Ventry, "In 1960, before President Johnson deployed his forces for a war on poverty, 3.1 million received [Aid to Families with Dependent Children] AFDC. By 1969, that number had risen to 6.7 million, and would jump again to 9.0 million by 1970." Dennis J. Ventry, "The Collision of Tax and Welfare Politics: The Political History of the Earned Income Tax Credit, 1969-1999," *National Tax Journal*, vol. 53, no. 4 (December 2000), p. 988.

[3] In a negative income tax system, the amount of income below a given threshold is refunded to the taxpayer at a given rate. For example, if a threshold was set at $10,000 for an individual, with a tax or refund rate of 10%, a taxpayer with $11,000 of income would pay $10 in tax ($1,000 of income x 10%). A taxpayer with $9,000 in income would receive a $10 refund ($1,000 of "negative income" x 10%). Hence, a taxpayer with zero income would receive a $1,000 refund ($10,000 of negative income x 10%). For more information on the negative income tax, see Robert A. Moffitt, *The Negative Income Tax and the Evolution of U.S. Welfare Policy*, NBER Working Paper Series, Working Paper 9751, June 2003.

[4] Robert J. Lampman, *Nixon's Family Assistance Plan*, Institute for Research on Poverty Discussion Paper, November 1969, http://www.irp.wisc.edu/publications/dps/pdfs/dp5769.pdf.

[5] CRS Report 95-542, *The Earned Income Tax Credit: A Growing Form of Aid to Low-Income Workers,* by James R. Storey, p. 2, available to congressional clients upon request. While the Nixon plan never became law, it was twice approved by the House.

[6] V. Joseph Hotz and John Karl Scholz, "The Earned Income Tax Credit," in *Means-Tested Transfer Programs in the United States*, ed. Robert A. Moffitt, (University of Chicago Press, 2003), http://www.nber.org/chapters/c10256.pdf, p. 142.

[7] Congressional Record, Senate, in remarks by Mr. Long. September 30, 1972, pp. 33010-33011.

[8] Congressional Record, Senate, in remarks by Mr. Long. September 30, 1972, p. 33010.

credit and enacted on a temporary basis as part of the Tax Reduction Act of 1975 (P.L. 94-12). As originally enacted, the credit was equal to 10% of the first $4,000 in earned income. Hence, the maximum credit amount was $400 (which would have equaled about $950 in 2019 dollars, as illustrated in **Figure 2**). The credit phased out between incomes of $4,000 and $8,000. The credit was originally a temporary provision that was only in effect for one year, 1975.

In addition to encouraging work and reducing dependence on cash welfare, the credit was also viewed as a means to encourage economic growth in the face of the 1974 recession and rising food and energy prices. As the Finance Committee Report on the Tax Reduction Act of 1975 stated:[9]

> This new refundable credit will provide relief to families who currently pay little or no income tax. These people have been hurt the most by rising food and energy costs. Also, in almost all cases, they are subject to the social security payroll tax on their earnings. Because it will increase their after-tax earnings, the new credit, in effect, provides an added bonus or incentive for low-income people to work, and therefore, should be of importance in inducing individuals with families receiving Federal assistance to support themselves. Moreover, the refundable credit is expected to be effective in stimulating the economy because the low-income people are expected to spend a large fraction of their disposable incomes.

The same report also emphasized that the EITC's prime objective should be "to assist in encouraging people to obtain employment, reducing the unemployment rate, and reducing the welfare rolls."[10] One indication of the extent to which this credit was meant to replace cash welfare was that the bill had originally included a provision that would have required states to reduce cash welfare by an amount equal to the aggregate EITC benefits received by their residents. This provision was ultimately dropped in the conference committee.[11] In addition, since the EITC was viewed in part as an alternative to cash welfare, it was generally targeted to the same recipients—single mothers with children.[12] (Low-income workers without qualifying children would not be eligible for the EITC until the 1990s, as discussed subsequently and illustrated in **Table 1**.)

[9] Senate Committee on Finance, *Tax Reduction Act of 1975*, Report to Accompany H.R. 2166, 94th Cong., 1st sess., March 17, 1975, S. Rept. 94-36, p. 11.

[10] Senate Committee on Finance, S. Rept. 94-36, p. 33.

[11] CRS Report 95-542, *The Earned Income Tax Credit: A Growing Form of Aid to Low-Income Workers,* by James R. Storey, available to congressional clients upon request.

[12] For more information, see "Brief History of Cash Assistance" in CRS Report R43187, *Temporary Assistance for Needy Families (TANF): Size and Characteristics of the Cash Assistance Caseload*, by Gene Falk.

Table 1. Key Characteristics of the EITC Under Selected Laws, 1975-2009

Law (PL)	94-12	95-600	98-369	99-514	101-508	103-66	107-16	111-5
Year Enacted	1975	1978	1984	1986	1990	1993	2001	2009
Year First in Effect	1975	1979	1985	1987	1991	1994	2002	2009
Credit Formula Based on:								
Earned Income	X	X	X	X	X	X	X	X
Number of Children ((i.e., credit amount varied based on family size))					X	X	X	X
Marital Status (i.e., phaseout varies based on marital status)							X	X
Credit Available to Workers without Qualifying Children						X	X	X
Credit Adjusted Annually for Inflation				X	X	X	X	X

Source: CRS analysis of Internal Revenue Code (IRC) §32, P.L. 94-12, P.L. 95-600, P.L. 98-369, P.L. 99-514, P.L. 101-508, P.L. 103-66, P.L. 107-16, and P.L. 111-5.

The credit was extended several times before being made permanent by the Revenue Act of 1978 (P.L. 95-600).[13] This law also increased the maximum amount of the credit to $500.[14] In summary materials of that bill, the Joint Committee on Taxation (JCT) stated that the credit was made permanent because "Congress believed that the earned income credit is an effective way to provide work incentives and relief from income and Social Security taxes to low-income families who might otherwise need large welfare payments."[15] The modest increase in the amount of the credit in 1978 was seen as a way to take into account the increase in the cost of living since 1975 (the credit was not adjusted for inflation). Subsequent increases in the amount of the credit in 1984 (P.L. 98-369) and 1986 (P.L. 99-514) were also viewed as a way to adjust the credit for cost-of-living increases, as well as increases that had occurred to Social Security taxes.[16] (The 1986 law also permanently adjusted the credit annually for inflation going forward.)

[13] The credit was extended through 1976 by P.L. 94-164; through 1977 by P.L. 94-455; and through 1978 by P.L. 95-30.

[14] Under the 1978 law, the EITC was set at 10% of the first $5,000 of earnings (including net earnings from self-employment). The maximum credit of $500 was received for earnings between $5,000 and $6,000. For each dollar of AGI above $6,000, the EITC was reduced by 12.5 cents, reaching $0 at an AGI of $10,000.

[15] Joint Committee on Taxation, *General Explanation of the Revenue Act of 1978*, March 12, 1979, JCS-7-79, p. 51.

[16] Joint Committee on Taxation, *General Explanation of the Tax Reform Act of 1986*, May 4, 1987, JCS-10-87, p. 27.

1990s: Expanding the Credit Amount While Limiting Eligibility

In the early 1990s, legislative changes again increased the amount of the EITC. Eligibility for the credit was also expanded to include childless workers. Several years later, in light of concerns related to the increasing cost of the EITC, as well as concerns surrounding noncompliance, additional changes were made to the credit with the intention of reducing fraudulent claims, better targeting benefits, and improving administration.

Adjusting the Credit for Family Size and Expanding Availability to Childless Workers

Over time, policymakers began to turn to the EITC as a tool to achieve another goal: poverty reduction. A 1989 *Wall Street Journal* article described the EITC as "emerging as the antipoverty tool of choice among poverty experts and politicians as ideologically far apart as Vice President Dan Quayle and Rep. Tom Downey, a liberal New York Democrat."[17] Unlike other policies targeted to low-income workers, like the minimum wage, the EITC was viewed by some as better targeted to the working poor with children.[18] In addition, unlike creating a new means-tested benefit program, the EITC was administered by the IRS. This may have appealed to some policymakers who did not wish to create additional bureaucracy when administering poverty programs.[19]

In order to function more as a poverty reduction tool, the formula used to calculate the credit was modified. As previously discussed, the EITC as originally designed *did not* vary by family size. Thus, as family size increased, the credit became less effective at helping families meet their needs. The EITC was restructured to vary based on family size beginning with the Omnibus Budget Reconciliation Act of 1990 (OBRA90; P.L. 101-508) and greatly expanding with the Omnibus Budget Reconciliation Act of 1993 (OBRA93, P.L. 103-66).[20] The OBRA93 formula changes for taxpayers with children phased in to their permanent levels over time.[21] Following these legislative changes, the EITC was calculated such that at any given level of earned income, the credit was one size for a taxpayer with one child and larger for taxpayers with two or more children.[22]

[17] David Wessel, "Expanded Earned-Income Tax Credit Emerges As the Anti-Poverty Program of Choice for Many," *The Wall Street Journal*, July 13, 1989, p. A16.

[18] In a 1989 floor statement, Rep. Petri implored his colleagues to "Reform the earned income tax credit! Target the aid directly to poor workers who are supporting families." Thomas Petri, "Working Poor Would Benefit by Earned Income Tax Credit Reform," *Congressional Record*, daily edition, vol. 135, part 26 (March 13, 1989), p. H585.

[19] David Wessel, "Expanded Earned-Income Tax Credit Emerges As the Anti-Poverty Program of Choice for Many," *The Wall Street Journal*, July 13, 1989, p. A16.

[20] As part of the 1990 law, beginning in 1991, the credit was made larger for families with two or more children versus one child. However, these size differences were modest in comparison to what was enacted as part of the Omnibus Budget Reconciliation Act of 1993. For example, in 1992 the maximum credit for a household with one child was $1,324. For families with two children the maximum credit was $1,384, $60 more. By contrast, in 1994 the maximum credit for a taxpayer with one child was $2,038, while the maximum credit for a taxpayer with two children was $2,528.

[21] The formula for taxpayers with no qualifying children was in effect beginning in 1994, the formula for taxpayers with one qualifying child phased in to its permanent level by 1995, and the formula for taxpayers with two or more qualifying children phased in to its permanent level by 1996.

[22] In addition, OBRA90 included two supplemental credits that were available to some EITC recipients between 1991 and 1993. The young child supplement added five percentage points to a family's credit rate; the child health insurance supplement added up to six percentage points. These supplemental credits were ended, effective in 1994, by OBRA93.

OBRA93 also—for the first time—extended the credit to workers without qualifying children, often referred to as "childless" workers. Unlike the expansion of the credit to workers with more than one child, the main rationale for this "childless EITC" was not poverty reduction.[23] Instead the credit was intended to partly offset a gasoline tax increase included in OBRA93.[24] The credit for childless workers was smaller than the credit for individuals with children—a maximum of $306 as opposed to $2,038 for those with one child and $2,528 for those with two or more children in 1994. The childless EITC was also only available to adults aged 25 to 64 who were not claimed as dependents on anyone's tax return. Notably, until its temporary expansion under the American Rescue Plan Act in 2021 (ARPA; P.L. 117-2), the formula for the childless EITC had not been modified (parameters were annually adjusted for inflation). The EITC for individuals with one or two children has also remained unchanged since OBRA93, save for automatic annual inflation adjustments.

Targeting the Credit

Other legislation passed later in the 1990s—The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA; P.L. 104-193) and the Taxpayer Relief Act of 1997 (P.L. 105-34)—included modifications to the EITC intended to reduce fraud, limit eligibility to individuals authorized to work in the United States, prevent certain higher-income taxpayers from claiming the credit, and improve administration of the credit.

Before and during consideration of PRWORA, Congress was increasingly concerned with the rising cost of the credit. Some policymakers attributed the increasing cost of the program to the significant legislative expansions that had occurred earlier in the decade and the expansion of EITC eligibility to childless workers.[25] In addition, there were concerns, as Speaker of the House Newt Gingrich stated, that "as the EITC becomes more generous, it invite[s] fraud and abuse."[26] A 1994 GAO report had identified significant amounts of the credit claimed in error.[27] Other policymakers were concerned that the credit was available to certain higher-income taxpayers—specifically those with little earned income, but significant unearned income (like interest income,

[23] Some policymakers disagreed with expanding the EITC to childless workers. For example, Rep. Dave Camp stated that "we should not give the EITC to childless workers. For 18 of the EITC's 19-year existence, both Republicans and Democrats agreed its benefits should go to working families with dependent children, because the whole purpose of the EITC was to help working families with young children stay off the welfare rolls." Rep. Camp, "The 7-Year Balanced Budget Reconciliation Act of 1995," *Congressional Record*, October 25, 1995, p. H10802.

[24] CRS Issue Brief, *Earned Income Tax Credit: Should It Be Increased to End Poverty for the Working Poor,* August 10, 1993, by James R. Storey, available to congressional clients upon request.

[25] For example, Rep. Camp stated, "Mr. Chairman, when the earned income tax credit was enacted in 1975, its concept was to help families move from welfare to the work force by increasing their after-tax earnings and providing relief from the burden of payroll taxes. Since then, three legislative revisions have expanded the program's cost tenfold to almost $25 billion a year and rising." Rep. Camp, "The 7-Year Balanced Budget Reconciliation Act of 1995," *Congressional Record*, October 25, 1995, p. H10802.

[26] Speaker Gingrich, "Taming the EITC," *Congressional Record*, October 17, 1995, p. E1952.

[27] This GAO report reported on an IRS study of a sample of EITC returns during a two-week period in January 1994. The "IRS' preliminary analysis of the returns showed that an estimated 29 percent of the 1.3 million EIC returns filed electronically during the period had claimed too large a refund, and about 13 percent of the returns filed was estimated by the IRS as having intentionally claimed too much EIC." General Accounting Office, *Tax Administration: Earned Income Credit—Data on Noncompliance and Illegal Alien Recipients*, GAO/GGD-95-27, October 1994, p. 1.

dividends, and rent and royalty income).[28] Finally, "Congress did not believe that individuals who are not authorized to work in the United States should be able to claim the credit."[29]

Ultimately, PRWORA addressed these concerns by "tighten[ing] compliance tax rules and mak[ing] it harder for some people to qualify for the credit."[30] These changes included expanding the definition of "investment income" above which an individual would be ineligible for the credit,[31] expanding the definition of income used to phase out the credit so certain taxpayers with capital losses would be ineligible for the credit,[32] and denying the EITC to individuals who did not provide an SSN for work purposes for themselves, their spouses (if married), and any qualifying children.[33] These changes were effective beginning with the credit claimed on 1996 returns.

One year after PRWORA, Congress modified the EITC again with the intention of both improving administration and further limiting the ability of certain higher-income taxpayers to claim the credit. The Taxpayer Relief Act of 1997 (TRA97; P.L. 105-34) created penalties for taxpayers who claimed the credit incorrectly; the penalties were intended to improve administration of the credit. These included denying the credit to individuals for 10 years if they claimed the credit fraudulently and denying the credit for 2 years if an improper claim was due to reckless or intentional disregard of the rules. If, after these periods of time, the taxpayer ultimately was eligible for the credit and wished to claim it, they would need to provide the IRS with additional information to prove eligibility (currently on IRS Form 8862). According to the JCT, these new penalties were enacted because "Congress believed that taxpayers who fraudulently claim the EITC or recklessly or intentionally disregard EITC rules or regulations should be penalized for doing so."[34] In addition, TRA97 included new requirements on paid tax preparers that were also meant to improve administration and reduce errors.

Finally, TRA97 expanded the definition of income used in phasing out the credit, by including additional categories of passive (i.e., unearned) income. The rationale for this change, according to the JCT, was that "Congress believed that the definition of AGI used currently [prior to

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[28] In describing his support for a bipartisan proposal ("Castle-Tanner") to modify the EITC, Rep. Stenholm stated "I simply want to reiterate that Castle-Tanner ensures that scarce EITC dollars go to the working poor who need it, not to the individuals with substantial business income who do not need it." Rep. Stenholm, "Welfare and Medicaid Reform Act of 1996," *Congressional Record*, July 18, 1996, p. H7982.

[29] Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in the 104th Congress*, December 18, 1996, JCS-12-96, p. 394.

[30] Jeffrey L. Katz, "Welfare: Provisions of Welfare Bill," *CQ Weekly*, August 3, 1996, http://www.cq.com/doc/weeklyreport-WR402516?13&search=dVNjp7ZR.

[31] See Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in the 104th Congress*, December 18, 1996, JCS-12-96, p. 390.

[32] According to the JCT, "Congress believed it can improve the targeting of the credit by expanding the definition of income used in phasing out the credit." See Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in the 104th Congress*, December 18, 1996, JCS-12-96, pp. 391-392.

[33] The statutory language requiring individuals (and if applicable their spouses and children) to provide a work-related SSN also included math error authority (MEA). The MEA, related to the EITC's SSN requirement (which is still in effect), means that "if an individual fails to provide a correct taxpayer identification number, such omission will be treated as a mathematical or clerical error." Hence the IRS will be able to summarily recalculate the credit or if applicable, deny the credit entirely. See Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in the 104th Congress*, December 18, 1996, JCS-12-96, p. 394.

[34] Joint Committee on Taxation, JCS-23-97, p. 278.

TRA97] in phasing out the credit [was] too narrow and disregard[ed] other components of ability-to-pay."[35]

2000s: Adjusting the Credit for Marital Status and Family Size

In the 2000s, additional changes to the EITC credit formula were enacted by Congress. These legislative changes expanded the credit for certain recipients—namely married couples and larger families.

Reducing the "Marriage Penalty"

At the beginning of 2000, there was bipartisan congressional interest in reducing tax burdens of married couples generally (although the means by which they intended to achieve this goal varied).[36] For low-income taxpayers with little or no tax liability, a marriage penalty is said to occur when the refund the married couple receives is smaller than the combined refund of each partner filing as unmarried. (Marriage bonuses also arise in the U.S. federal income tax code.[37]) In 2001, the JCT identified the structure of the EITC as one of the primary causes of the marriage penalty among low-income taxpayers.[38] Specifically, the JCT found that the phaseout range of the credit and its variation based on number of children could result in smaller credits among married EITC recipients than the combined credits of two singles. As the JCT stated in 2001,[39]

> Because the [earned income credit] EIC increases over one range of income and then is phased out over another range of income, the aggregation of incomes that occurs when two individuals marry may reduce the amount of EIC for which they are eligible. This problem is particularly acute because the EIC does not feature a higher phase out range for married taxpayers than for heads of households. Marriage may reduce the size of a couple's EIC not only because their incomes are aggregated, but also because the number of qualifying children is aggregated. Because the amount of EIC does not increase when a taxpayer has more than two qualifying children, marriages that result in families of more than two qualifying children will provide a smaller EIC per child than when their parents were unmarried. Even when each unmarried individual brings just one qualifying child into the marriage there is a reduction in the amount of EIC per child, because the maximum credit for two children is generally less than twice the maximum credit for one child.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) reduced the EITC marriage penalty by increasing the income level at which the credit phased out for married couples. This "marriage penalty relief" was scheduled to gradually increase to $3,000

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[35] Joint Committee on Taxation, JCS-23-97, p. 281.

[36] For a contemporaneous account of the varying approaches to reduce the marriage penalty debated in 2000, see "Senate Panel Approves Marriage Penalty Relief," *New York Times*, March 31, 2000.

[37] For more information on marriage penalties and bonuses more generally in the tax code, see Joint Committee on Taxation, *Overview of Present Law and Economic Analysis Relating to the Marriage Tax Penalty, the Child Tax Credit, and the Alternative Minimum Tax*, March 7, 2001, JCX-8-01, pp. 2-6 and CRS Report RL33755, *Federal Income Tax Treatment of the Family*, by Jane G. Gravelle.

[38] The other major factor that the Joint Committee on Taxation identified as causing a marriage penalty among low-income taxpayers was the size of the standard deduction. At the time, the standard deduction for married taxpayers was less than twice the standard deduction for two singles. See Joint Committee on Taxation, *Overview of Present Law and Economic Analysis Relating to the Marriage Tax Penalty, the Child Tax Credit, and the Alternative Minimum Tax*, March 7, 2001, JCX-8-01, p. 3.

[39] Joint Committee on Taxation, *Overview of Present Law and Economic Analysis Relating to the Marriage Tax Penalty, the Child Tax Credit, and the Alternative Minimum Tax*, March 7, 2001, JCX-8-01, p. 4.

by 2008. In 2009, the American Recovery and Reinvestment Act (ARRA; P.L. 111-5) temporarily increased EITC marriage penalty relief to $5,000.

Expanding the EITC for Families with Three or More Children

In addition to expanding marriage penalty relief, ARRA also temporarily created a larger credit for families with three or more children by increasing the credit rate for these families from 40% to 45%. A larger credit rate of 45% (as opposed to 40%), while leaving other EITC parameters unchanged (earned income amount and phaseout threshold), resulted in a larger credit for families with three or more children.

These two ARRA modifications to the EITC were originally enacted as part of legislation meant to provide temporary economic stimulus. There was debate surrounding whether these temporary modifications should be further extended. After these changes were enacted in 2009, the Obama Administration proposed making these provisions permanent as part of its budget proposals.[40,41] During negotiations on the "fiscal cliff" legislation at the end of 2012 (The American Taxpayer Relief Act [ATRA; P.L. 112-240]), some Senators expressed a desire to have the EITC modification made permanent.[42] ATRA extended these modifications for five years, through the end of 2017. Ultimately, increased marriage penalty relief and the larger credit for families with three or more children were made permanent by the Protecting Americans from Tax Hikes Act (PATH Act; Division Q of P.L. 114-113) effective beginning in 2016.[43]

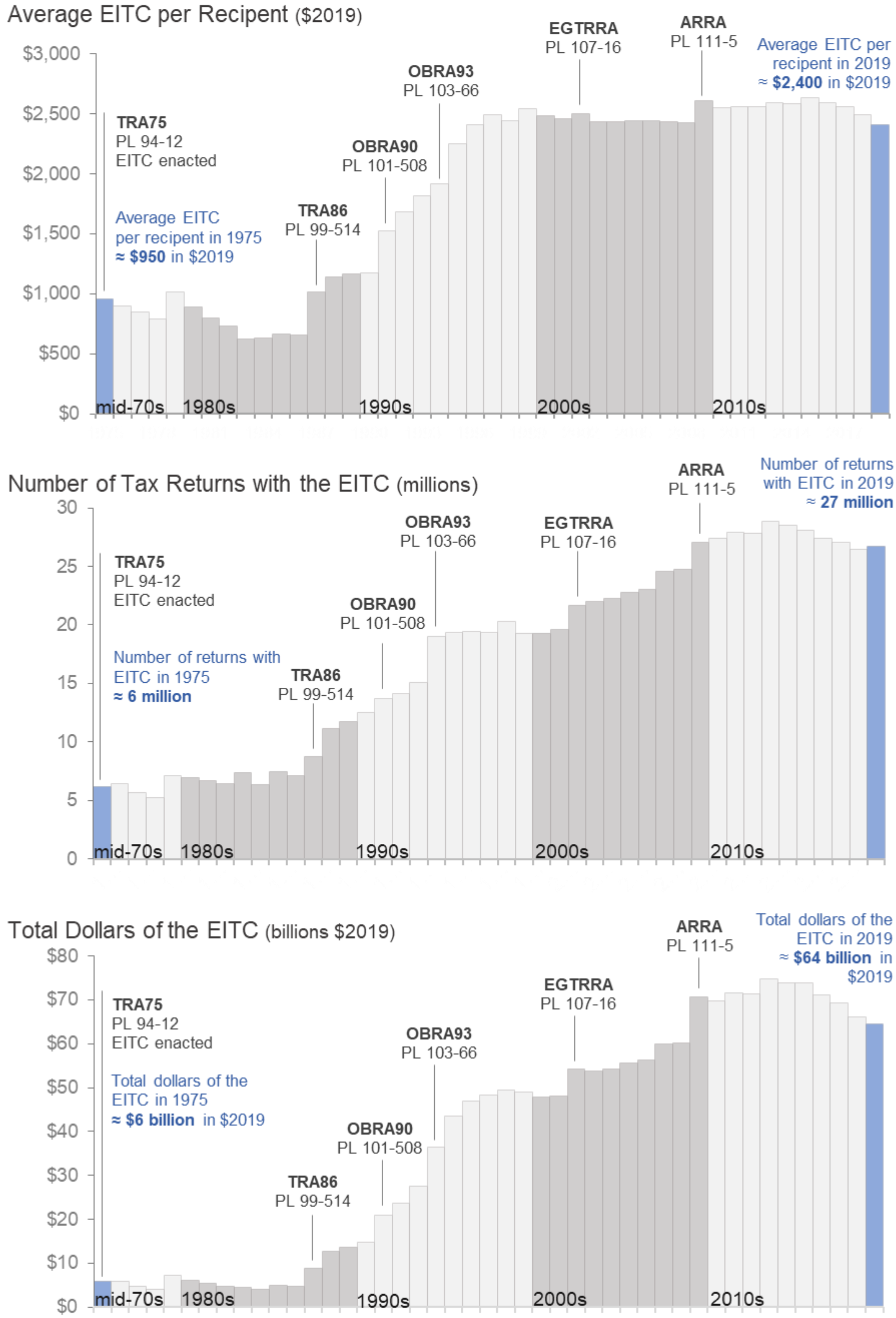
[40] The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) extended these ARRA provisions for two years (2011 and 2012). The American Taxpayer Relief Act (ATRA; P.L. 112-240) extended the ARRA provisions for five more years (2013-2017).

[41] These proposals were included in the FY2010-FY2016 Treasury Green Books. In the FY2012 and FY2013 Greenbooks, the Obama Administration proposed making the 45% credit rate for families with three or more children permanent, but did not propose extending enhanced marriage penalty relief. For more information, see U.S. Department of the Treasury, *Administration's Fiscal Year Revenue Proposals*, Green Book, https://www.treasury.gov/resource-center/tax-policy/Pages/general_explanation.aspx.

[42] After passage of ATRA, Senator Durbin stated "The other thing that was part of it [ATRA] was a 5-year extension—I wish it had been permanent—but a 5-year extension of the Recovery Act expansion of the earned income tax credit." Senator Durbin, "The Fiscal Cliff," Senate Speeches and Inserts, *Congressional Record*, January 1, 2013, p. S8612.

[43] Press reports at the time indicated the permanent extension of these modifications to the EITC (as well modifications to the American opportunity tax credit and the child tax credit) was primarily done to attract enough votes to ensure passage of the broader bill. According to one report in *Roll Call*, "Democrats won permanent expansions of the child and earned income tax credits, as well as a permanent credit for higher education expenses. Those provisions, which were first enacted in the 2009 stimulus bill and not scheduled to expire until the end of 2017, were key to buying support from the White House and Senate Democrats." Lindsey McPherson, "GOP Went Big With Tax Deal," *Roll Call*, December 16, 2015, http://www.rollcall.com/218/gop-went-big-tax-deal/.

Figure 2. EITC Dollar Amounts and Recipients Over Time, 1975-2019



Sources: Congressional Research Service. For pre-2003 data, U.S. Congress, House Committee on Ways and Means, 2004 Green Book, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, 108th Congress, 2nd session, WMCP 108-6, March 2004, pp. 13-41. For 2003 and later data, Internal Revenue Service (IRS) Statistics of Income Table 2.5.

Notes: Laws are represented according to the date they went into effect, and not the date they were enacted, which could have been one year earlier.

2010s: Addressing Some of the Administrative and Compliance Challenges with the EITC

Additional changes were made to the administration of the EITC with the intention of reducing improper payments of the credit. Improper payments are an annual fiscal year measure[44] of the amount of the credit that is erroneously claimed and *not recovered* by the IRS. Improper payments can be due to honest mistakes made by taxpayers as well as fraudulent claims of the credit.

Reducing Improper Payments of Refundable Credits

The Protecting Americans from Tax Hikes Act (PATH Act; Division Q of P.L. 114-113) included a variety of provisions intended to reduce improper payments of refundable credits, including improper payments of the EITC.[45] First, the law included a provision that prevented retroactive claims of the EITC after the issuance of Social Security numbers.[46] As previously discussed, a taxpayer must provide an SSN for themselves, their spouses (if married), and any qualifying children. The PATH Act stated that the credit will be denied to a taxpayer if the SSNs of the taxpayer, their spouse (if married), and any qualifying children were issued after the due date of the tax return for a given taxable year. For example, if a family had SSNs issued in June 2017, the family could (if otherwise eligible) have claimed the EITC on its 2017 income tax return (which was due in April 2018), but could not have amended its 2016 income tax return and claimed the credit on its 2016 return (which was due in April 2017).[47]

In addition, the law also included a provision requiring the IRS to hold income tax refunds until February 15 if the tax return included a claim for the EITC (or the refundable portion of the child tax credit).[48] This provision was coupled with a requirement that employers furnish the IRS with W-2s and information returns on nonemployee compensation (e.g., 1099-NECs) earlier in the filing season. These legislative changes were made "to help prevent revenue loss due to identity

[44] Improper payments and the improper payment rate must by law be reported annually by a variety of agencies for a variety of programs (P.L. 107-300 as amended by P.L. 111-204 and P.L. 112-248). For more information about the legal requirements of agencies concerning improper payments, see U.S. Government Accountability Office, Improper Payments: Government-Wide Estimates and Reduction Strategies, GAO-14-737T, July 9, 2014, pp. 2-3, http://www.gao.gov/assets/670/664692.pdf.

[45] For more information on improper payments of the EITC, see CRS Report R43873, *The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges*, by Margot L. Crandall-Hollick.

[46] Section 204 of P.L. 114-113.

[47] In internal agency memoranda issued in 2000, the IRS Office of Chief Counsel concluded that amendments made to the EITC statute by the Internal Revenue Service Restructuring and Reform Act of 1998 (P.L. 105-206) allowed taxpayers who received an SSN to retroactively claim the EITC for any open tax years, assuming all other criteria for claiming the credit were met. See IRS Office of Chief Counsel Memorandum 200032013 (May 9, 2000), https://www.irs.gov/pub/irs-wd/0032013.pdf; IRS Office of Chief Counsel Memorandum 200028034 (June 9, 2000), https://www.irs.gov/pub/irs-wd/0028034.pdf.

[48] See Section 201 of P.L. 114-113.

theft and refund fraud related to fabricated wages and withholdings."[49] It was believed that allowing the IRS more time to cross-check income on information returns with income used to determine the amount of the EITC would help reduce erroneous EITC payments. Previous research by the IRS has indicated that the *most frequent* EITC error was incorrectly reporting income, and the largest error (in dollars) was incorrectly claiming a child for the credit.[50]

Did the Tax Cuts and Jobs Act (TCJA; P.L. 115-97) Modify the EITC?

At the end of 2017, then-President Trump signed into law P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act or TCJA[51], which made numerous changes to the federal income tax for individuals and businesses.[52] However, the final law *did not* make any direct changes to the EITC.

The TCJA did, however, indirectly affect the credit's value in future years. Parameters of the EITC (see **Table A-1**) are indexed to inflation. Prior to P.L. 115-97, this measure of inflation was based on the consumer price index for urban consumers (CPI-U). The TCJA changed this inflation measure to be permanently based on the chained CPI-U (C-CPI-U).[53] In comparison to CPI-U, chained CPI-U tends to grow more slowly. Hence, over time, the monetary parameters of the EITC will increase more slowly in comparison to what they would have been if the TCJA had not been enacted.

2020s: Temporary Income Lookbacks and Temporary Expansion of the Credit for Childless Workers During the COVID-19 Pandemic

In response to the economic fallout from the COVID-19 pandemic, Congress passed several laws that included provisions designed to provide financial relief to individuals and families. Two laws—P.L. 116-260 and P.L. 117-2—included provisions that expanded the amount of and eligibility for the EITC.

Income Lookbacks

The Consolidated Appropriations Act, 2021 (CAA21; P.L. 116-260) included an income-lookback rule that temporarily allowed taxpayers to use their prior year's earned income if it would result in a larger EITC.[54] Specifically, if a taxpayer's earned income in 2020 was less than their earned income in the preceding year (i.e., 2019), the taxpayer could elect to use 2019 earned income for the purposes of determining their 2020 EITC (this lookback also applied to taxpayers calculating

[49] IRS Taxpayer Advocate, *Expediting a Refund*, January 11, 2018, https://taxpayeradvocate.irs.gov/get-help/expediting-a-refund. In addition, see Internal Revenue Service, *New Federal Tax Law May Affect Some Refunds Filed in Early 2017; IRS to Share Details Widely with Taxpayers Starting This Summer*, March 9, 2018, https://www.irs.gov/tax-professionals/new-federal-tax-law-may-affect-some-refunds-filed-in-early-2017.

[50] For more information see CRS Report R43873, *The Earned Income Tax Credit (EITC): Administrative and Compliance Challenges*, by Margot L. Crandall-Hollick.

[51] The original title of the law, the Tax Cuts and Jobs Act, was stricken before final passage because it violated what is known as the Byrd rule, a procedural rule that can be raised in the Senate when bills, like the tax bill, are considered under the process of reconciliation. The actual title of the law is "To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018." For more information on the Byrd rule, see CRS Report RL30862, *The Budget Reconciliation Process: The Senate's "Byrd Rule"*, by Bill Heniff Jr.

[52] For more information on the changes made to the tax code by P.L. 115-97, see CRS Report R45092, *The 2017 Tax Revision (P.L. 115-97): Comparison to 2017 Tax Law*, coordinated by Molly F. Sherlock and Donald J. Marples.

[53] For more information, see Michael Ng and David Wessel, *Up Front | The Hutchins Center Explains: The Chained CPI*, The Brookings Institution, December 7, 2017, https://www.brookings.edu/blog/up-front/2017/12/07/the-hutchins-center-explains-the-chained-cpi/.

[54] For more information about the tax provisions of this law, see CRS Report R46649, *The COVID-Related Tax Relief Act of 2020 and Other COVID-Related Tax Provisions in P.L. 116-260*, by Molly F. Sherlock et al.

the refundable portion of the child credit for 2020). The American Rescue Plan Act (ARPA; P.L. 117-2) included a similar income-lookback provision for the EITC for 2021. Specifically, taxpayers whose earned income at the end of 2021 was less than their 2019 earned income could elect to use the 2019 figure to calculate the EITC on their 2021 income tax returns. These income lookbacks applied to both those with and without qualifying children.[55] The income lookback provisions in CAA21 and ARPA were designed to benefit taxpayers who earned less income in 2020 or 2021 than in 2019 due to pandemic-related economic disruptions and for whom that reduction in earned income would reduce their credit amount. As Senator Brown noted, these provisions aimed to ensure that workers were not "penalized for financial challenges brought on by the COVID-19 pandemic."[56] Similar temporary lookbacks have been enacted in the past in response to other disasters.[57]

Temporary Expansion of the Childless EITC

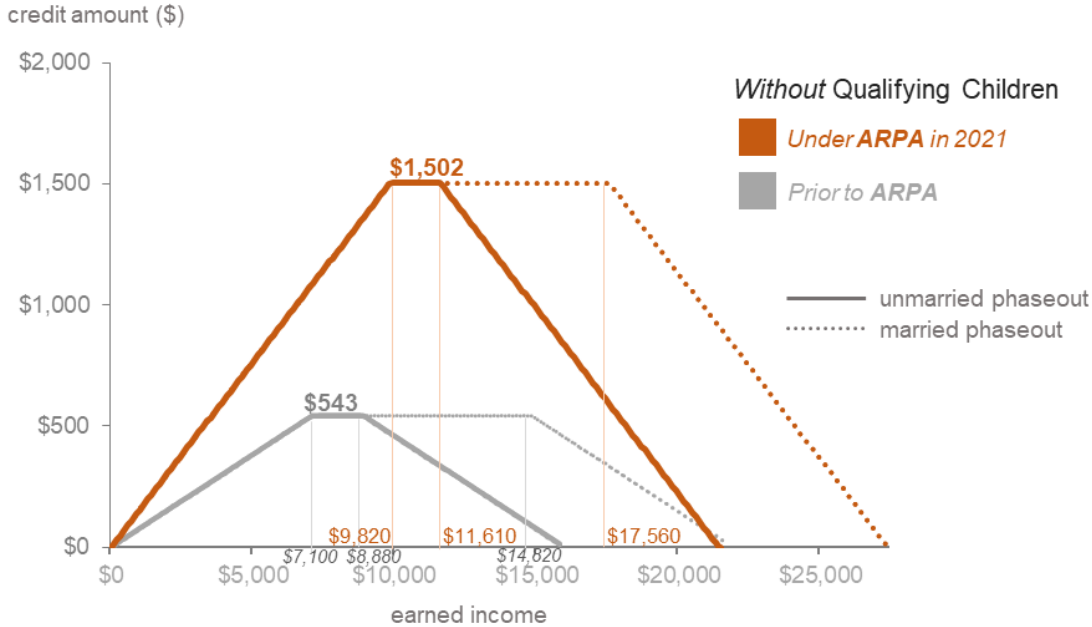
ARPA temporarily expanded the childless EITC for 2021 by adjusting the formula and expanding the age range for eligible workers. Specifically, for 2021 the law increased the credit rate from 7.65% to 15.3%, increased the earned income amount (i.e., the range of income over which the credit phases in) from $7,100 to $9,820, increased the phaseout threshold (the income level at which the credit begins to phase out) from $8,880 to $11,610 if unmarried and from $14,820 to $17,560 if married, and increased the phaseout rate from 7.65% to 15.3%. These changes nearly tripled the maximum credit amount in 2021, as illustrated in **Figure 3**.

[55] In the case of married taxpayers filing jointly, their 2019 earned income for these lookbacks would be their combined earned income for 2019.

[56] Senator Sherrod Brown, "BROWN SECURES KEY PROVISIONS TO PUT MORE MONEY IN THE POCKETS OF WORKING OHIOANS & HELP CURB CHILD POVERTY IN AMERICAN RESCUE PLAN," press release, April 1, 2021, https://www.brown.senate.gov/newsroom/press/release/brown-secures-money-pockets-working-ohioans-curb-child-poverty-american-rescue-plan.

[57] For example, see "EITC/CTC Credit Computation Look-Back" in CRS Report R45864, *Tax Policy and Disaster Recovery*, by Molly F. Sherlock and Jennifer Teefy.

Figure 3. Childless EITC Amount by Income, 2021



Sources: Internal Revenue Code (IRC) Section 32, Internal Revenue Service Revenue Procedure 21-23, Internal Revenue Service Revenue Procedure 20-45, and the American Rescue Plan Act (ARPA; P.L. 117-2).

Notes: The EITC phases out for each additional dollar of earned income or adjusted gross income (AGI), whichever is greater. For simplicity, it is assumed that earned income and AGI are the same in this figure.

The law also temporarily modified the age limits of the childless EITC. Under permanent law, a taxpayer without qualifying children is eligible to claim the EITC if they are ages 25 to 64. In other words, a 24-year-old or a 65-year-old without qualifying children is not eligible for this credit under permanent law. ARPA temporarily reduced the minimum age from 25 to 19 for most childless workers in 2021.[58] The law also temporarily eliminated the upper age limit, so childless workers aged 65 and older were eligible for the credit in 2021. Although these changes were enacted to help workers in response to the economic fallout from the COVID-19 pandemic,[59] some policymakers indicated a desire to make the changes permanent.[60] Supporters noted that permanently increasing childless EITC amounts and expanding eligibility would extend the credit's antipoverty impact to workers without children.[61] The childless EITC had not been

[58] For students who were attending school at least part-time in 2021, the age limit was temporarily reduced from 25 to 24. For former foster children and youth who were homeless in 2021, the minimum age was temporarily reduced from 25 to 18.

[59] As Senator Kaine noted, "The expanded earned income tax credit in Virginia will affect nearly 420,000 adults, enabling them to work with more dignity, with less financial stress, as they try to manage the challenges of their life in this tough time." Sen. Kaine, remarks in the Senate, *Congressional Record*, March 10, 2021, p. S1450.

[60] See for example, a March 26, 2021, letter to President Biden signed by 41 Senators which, among other requests, urged President Biden to permanently extend the expanded childless EITC. March 26, 2021, https://www.brown.senate.gov/imo/media/doc/EITC%20CTC%20letter%20March%202021__.pdf.

[61] As Senator Brown noted, "Currently [prior to the ARPA expansion], workers with children can be pulled under the poverty line by taxes. Expanding the EITC would fix that." Senator Sherrod Brown, "BROWN SECURES KEY PROVISIONS TO PUT MORE MONEY IN THE POCKETS OF WORKING OHIOANS & HELP CURB CHILD POVERTY IN AMERICAN RESCUE PLAN," press release, April 1, 2021, https://www.brown.senate.gov/newsroom/press/release/brown-secures-money-pockets-working-ohioans-curb-child-poverty-american-rescue-plan.

designed in OBRA93 as a way to reduce poverty. Historically, it did not have a significant impact in reducing poverty among workers who did not live with children.[62]

Permanent Changes to the EITC

While most of the changes enacted during the pandemic were temporary, ARPA made several permanent changes, which were effective beginning in 2021. First, ARPA permanently eliminated a provision that prohibited taxpayers with qualifying children for whom they could not provide identifying information from claiming the childless EITC.[63] For example, if an eligible taxpayer had two children who met the EITC qualifying child eligibility requirements but neither child had an SSN, the taxpayer could not have claimed the childless EITC under prior law. As a result of this change, this taxpayer can claim the childless EITC (as long as they meet all other eligibility requirements). Second, the law permanently allowed an individual who is married and files their tax return separately from their spouse to claim the EITC if the individual lives with a child for whom they can claim the EITC for more than half the year and either (1) does not have the same principal place of abode as their spouse for the last six months of the year; or (2) has a decree, instrument, or agreement and does not live with their spouse at the end of the year. Under prior law, married taxpayers who filed separately were generally ineligible for the EITC. Third, ARPA permanently modified the disqualified investment income test. Prior to ARPA, taxpayers with investment income over a certain threshold—$3,650 in 2020 and 2021—were ineligible for the EITC.[64] This provision permanently raised this amount to $10,000 beginning in 2021 and annually adjusts it for inflation beginning in 2022. Finally, the law permanently provided the U.S. Treasury with the authority to make payments to Puerto Rico, American Samoa, and mirror-code territories for amounts those territories pay out in their own territorial EITCs.[65]

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[62] Under permanent law, married and unmarried childless workers with pretax income at the federal poverty line (FPL) tend to see their income remain below the poverty line after taxation, even when including the EITC. In contrast, married and unmarried workers with children whose pretax income is at the FPL will have posttax income above the FPL because the EITC is greater than their payroll tax liability. CRS Report R44057, *The Earned Income Tax Credit (EITC): An Economic Analysis*, by Margot L. Crandall-Hollick and Joseph S. Hughes.

[63] Under prior law, IRC Section 32(c)(1)(F) read, "No credit shall be allowed under this section to any eligible individual who has one or more qualifying children if no qualifying child of such individual is taken into account under subsection (b) by reason of paragraph (3)(D)." IRC Section 32(c)(3)(D) reads "A qualifying child shall not be taken into account under subsection (b) unless the taxpayer includes the name, age, and TIN of the qualifying child on the return of tax for the taxable year." As a result of this provision, if the taxpayer had children who met the EITC qualifying child requirements (IRC §32(c)(3)), but none of those children had SSNs (IRC §32(m)), the taxpayer could not have claimed the childless EITC under prior law. ARPA struck IRC Section 32(c)(1)(F).

[64] Disqualified investment income is defined as interest income (including tax-exempt interest), dividends, net rent, net capital gains, and net passive income. It also includes royalties from sources other than the filer's ordinary business activities.

[65] For Puerto Rico and American Samoa, such payments are contingent upon those territories increasing the amount of their EITC or enacting an EITC, respectively. The law also provided Puerto Rico with matching funds, up to $600 million per year, to provide a larger credit to its residents.

Appendix A. Current Structure of the EITC

There are eight formulas currently in effect to calculate the EITC (four for unmarried individuals and four for married couples, depending on the number of children they have), illustrated in **Table A-1**. These parameters include the temporary changes to the EITC for taxpayers with no qualifying children—the "childless" EITC—enacted as part of the American Rescue Plan Act (ARPA; P.L. 117-2). For more information on what the parameters of the childless EITC would have been in 2021 absent the ARPA changes, see Table 1 in CRS Insight IN11823, *The Earned Income Tax Credit (EITC) in the House-Passed Build Back Better Act: Summary Table*, by Margot L. Crandall-Hollick.

Table A-1. EITC Tax Parameters by Marital Status and Number of Qualifying Children for 2021

Number of Qualifying Children	0	1	2	3 or more
Unmarried Taxpayers (single and head of household filers)				
credit rate	15.3%[a]	34%	40%	45%
earned income amount	$9,820[b]	$10,640	$14,950	$14,950
maximum credit amount	$1,502[c]	$3,618	$5,980	$6,728
phaseout amount threshold	$11,610[d]	$19,520	$19,520	$19,520
phaseout rate	15.3%[a]	15.98%	21.06%	21.06%
income where credit = 0	$21,430[e]	$42,158	$47,915	$51,464
Married Taxpayers (married filing jointly)				
credit rate	15.3%[a]	34%	40%	45%
earned income amount	$9,820[b]	$10,640	$14,950	$14,950
maximum credit amount	$1,502[c]	$3,618	$5,980	$6,728
phaseout amount threshold	$17,560[f]	$25,470	$25,470	$25,470
phaseout rate	15.3%[a]	15.98%	21.06%	21.06%
income where credit = 0	$27,380[e]	$48,108	$53,865	$57,414

Sources: Internal Revenue Code (IRC) Section 32, Internal Revenue Service Revenue Procedure 21-23, Internal Revenue Service Revenue Procedure 20-45, and the American Rescue Plan Act (ARPA; P.L. 117-2).

a. The credit rate and phaseout rate of 15.3% reflects a temporary change for 2021 only enacted as part of ARPA. Prior to the temporary ARPA change, the credit rate and phaseout rate would have been 7.65% in 2021.

b. The earned income amount of $9,820 reflects a temporary change for 2021 only enacted as part of ARPA. Prior to the temporary ARPA change, the earned income amount under permanent law would have been $7,100 in 2021.

c. The maximum credit amount of $1,502 reflects a temporary change for 2021 only enacted as part of ARPA. Prior to the temporary ARPA change, the maximum credit amount under permanent law would have been $543 in 2021.

d. The phaseout threshold amount of $11,610 for unmarried taxpayers reflects a temporary change for 2021 only enacted as part of ARPA. Prior to the temporary ARPA change, the phaseout threshold amount for unmarried taxpayers under permanent law would have been $8,880 in 2021.

e. The income where the credit = 0 of $21,430 and $27,380 reflects temporary changes made to other aspects of the formula for 2021 only enacted as part of ARPA (the statute does not explicitly set these levels, instead they are a function of other parameters). Prior to the temporary ARPA change, the income where credit = 0 would have been $15,980 for unmarried taxpayers and $21,920 for married taxpayers in 2021.

f. The phaseout threshold amount of $17,560 for married taxpayers reflects a temporary change for 2021 only enacted as part of ARPA. Prior to the temporary ARPA change, the phaseout threshold amount for married taxpayers under permanent law would have been $14,820 in 2021.

For any of the eight formulas, the credit has three value ranges similar to those illustrated in **Figure A-1**. First, the credit increases to its maximum value from the first dollar of earned income until earned income reaches the "earned income amount." Over this "phase-in range" the credit value is equal to the credit rate multiplied by earned income. When earned income is between the "earned income amount" and the "phaseout amount"—referred to as the "plateau"—the credit amount remains constant at its maximum level. For each dollar over the "phaseout amount," the credit is reduced by the phaseout rate until the credit equals zero. This final range of income over which the credit falls in value is referred to as the "phaseout range."

Figure A-1. EITC Amount by Income, 2021

Sources: Internal Revenue Code (IRC) Section 32, Internal Revenue Service Revenue Procedure 21-23, Internal Revenue Service Revenue Procedure 20-45, and the American Rescue Plan Act (ARPA; P.L. 117-2).

Appendix B. EITC Formula Parameters 1975-2022

The amount of EITC a taxpayer receives depends on several factors, including the taxpayer's marital status, the number of qualifying children they have, their earned income, and in some cases their adjusted gross income (if greater than their earned income). Under the EITC formula for a taxpayer with a given number of qualifying children and marital status, the credit formula has three ranges:

Phase-in Range: The EITC increases with earned income from the first dollar of earned income up to the "earned income amount." In other words, the *earned income amount* is the minimum amount of earned income a taxpayer must have in order to be eligible for the maximum EITC. The earned income amount is provided for in statute (column (d) in **Table B-1**) and since 1987 has been annually adjusted for inflation by the IRS, per statute. The inflation-adjusted earned income amount for a given year is generally published by the IRS in a Revenue Procedure and is not provided in **Table B-1**. The credit rate is also set in statute (column (c) in **Table B-1**).

Plateau at maximum credit: The maximum credit amount is not directly stipulated in statute. Instead, the maximum credit based on the statutory parameters (column (g) in **Table B-1**) is the product of the credit rate (column (c) in **Table B-1**) and the earned income amount (column (d) in **Table B-1**). Inflation adjustment of the earned income amount leads to an inflation adjustment of the maximum credit (column (h) in **Table B-1**). The EITC remains at its maximum level between the earned income amount and the phaseout amount. Hence, the earned income amount and phaseout amount represent the range of income over which taxpayers are eligible for the maximum credit. Like the earned income amount, the phaseout amount is provided for in statute and annually adjusted for inflation (hence the "statutory phaseout amount" in column (e) in **Table B-1** does not reflect automatic annual inflation adjustments).

Phaseout Range: Once a taxpayer's adjusted gross income (or if greater, earned income) exceeds the phaseout amount, the maximum EITC amount is reduced in value by the phaseout rate (column (f) in **Table B-1**). Specifically, the maximum credit amount is reduced by an amount equal to AGI (or earned income, if greater) above the phaseout amount multiplied by the phaseout rate. Because the phaseout amount (column (e) in **Table B-1**) is adjusted for inflation, the income level at which the credit equals zero will generally increase from year to year.

Table B-1. EITC Formula Parameters, 1975-2022

Public Law (a)	Year in Effect (b)	Credit Rate (c)	Statutory Earned Income Amount (not adjusted for inflation)[a] (d)	Statutory Phaseout Amount (not adjusted for inflation)[a] (e)	Phaseout Rate (f)	Maximum Credit Amount (not adjusted for inflation) (g)	Inflation-Adjusted Maximum Credit Amount (h)
Number of Formulas: One Formula for those with 1 or more qualifying children							
P.L. 94-12	1975	10%	$4,000	$4,000	10%	$400	No inflation adjustment.
P.L. 94-164[b] & P.L. 94-455	1976						
P.L. 94-455	1977						
P.L. 95-30	1978						
P.L. 95-600[c]	1979	10%	$5,000	$6,000	12.5%	$500	No inflation adjustment
	1980						
	1981						
	1982						
	1983						
	1984						
P.L. 98-369	1985	11%	$5,000	$6,500	12.22%	$550	No inflation adjustment
	1986						
P.L. 99-514	1987	14%	$5,714	$6,500	10%	$800	$851
	1988			$9,000			$874
	1989						$910
	1990						$953

Public Law (a)	Year in Effect (b)	Credit Rate (c)	Statutory Earned Income Amount (not adjusted for inflation)[a] (d)	Statutory Phaseout Amount (not adjusted for inflation)[a] (e)	Phaseout Rate (f)	Maximum Credit Amount (not adjusted for inflation) (g)	Inflation-Adjusted Maximum Credit Amount (h)
Number of Formulas Two Formulas: One for those with 1 qualifying child (1) and one for those with 2 or more qualifying children (2+)							
P.L. 101-508[d]	1991	(1) 16.7% (2+) 17.3%	(1) $5,714 (2+) $5,714	(1) $9,000 (2+) $9,000	(1) 11.93% (2+)12.36%	(1) $954 (2+) $989	(1) $1,192 (2+) $1,235
	1992	(1)17.6% (2+) 18.4%			(1) 12.57% (2+)13.14%	(1) $1,006 (2+) $1,051	(1) $1,324 (2+) $1,384
	1993	(1) 18.5% (2+) 19.5%			(1) 13.21% (2+)13.93%	(1) $1,057 (2+) $1,114	(1) $1,434 (2+) $1,511
Number of Formulas Three Formulas: One for those with no qualifying children (0), one for those with 1 qualifying child (1), and one for those with two or more qualifying children (2+)							
P.L. 103-66	1994	(0) 7.65% (1) 26.3% (2+) 30%	(0) $4,000 (1) $7,750 (2+) $8,425	(0) $5,000 (1) $11,000 (2+) $11,000	(0) 7.65% (1) 15.98% (2+) 17.68%	(0) $306 (1) $2,038 (2+) $2,528	(0) $306 (1) $2,038 (2+) $2,528
	1995	(0) 7.65% (1) 34% (2+) 36%	(0) $4,000 (1) $6,000 (2+) $8,425		(0) 7.65% (1) 15.98% (2+) 20.22%	(0) $306 (1) $2,040 (2+) $3,033	(0) $314 (1) $2,094 (2+) $3,110
P.L. 103-66 *(credit and phase out rate)*	1996	(0) 7.65% (1) 34% (2+) 40%	(0) $4,220 (1) $6,330 (2+) $8,890	(0) $5,280 (1) $11,610 (2+) $11,610	(0) 7.65% (1) 15.98% (2+) 21.06%	(0) $323 (1) $2,152 (2+) $3,556	(0) $323 (1) $2,152 (2+) $3,556
P.L. 104-193 *(earned income*	1997						(0) $332 (1) $2,210 (2+) $3,656

Public Law (a)	**Year in Effect** (b)	**Credit Rate** (c)	**Statutory Earned Income Amount** (not adjusted for inflation)[a] (d)	**Statutory Phaseout Amount** (not adjusted for inflation)[a] (e)	**Phaseout Rate** (f)	**Maximum Credit Amount** (not adjusted for inflation) (g)	**Inflation-Adjusted Maximum Credit Amount** (h)
and phaseout threshold)	1998						(0) $341 (1) $2,271 (2+) $3,756
	1999						(0) $347 (1) $2,312 (2+) $2,816
	2000						(0) $353 (1) $2,353 (2+) $3,888
	2001						(0) $364 (1) $2,428 (2+) $4,008
Number of Formulas Six Formulas: Two for those with no qualifying children (0)-unmarried and married; two for those with 1 qualifying child (1)-unmarried and married; and two for those with two or more qualifying children (2+)-unmarried and married.							
P.L. 107-16	2002	(0) 7.65% (1) 34% (2+) 40%	(0) $4,220 (1) $6,330 (2+) $8,890	unmarried (0) $5,280 (1) $11,610 (2+) $11,610 married *$1,000 more if married*[e]	(0) 7.65% (1) 15.98% (2+) 21.06%	(0) $323 (1) $2,152 (2+) $3,556	(0) $376 (1) $2,506 (2+) $4,140
	2003						(0) $382 (1) $2,547 (2+) $4,204
	2004						(0) $390 (1) $2,604 (2+) $4,300

Public Law (a)	Year in Effect (b)	Credit Rate (c)	Statutory Earned Income Amount (not adjusted for inflation)[a] (d)	Statutory Phaseout Amount (not adjusted for inflation)[a] (e)	Phaseout Rate (f)	Maximum Credit Amount (not adjusted for inflation) (g)	Inflation-Adjusted Maximum Credit Amount (h)
	2005			unmarried (0) $5,280 (1) $11,610 (2+) $11,610 married *$2,000 more if married*[e]			(0) $399 (1) $2,662 (2+) $4,400
	2006						(0) $412 (1) $2,747 (2+) $4,536
	2007						(0) $428 (1) $2,853 (2+) $4,716
	2008			unmarried (0) $5,280 (1) $11,610 (2+) $11,610 married *$3,000 more if married*[e]			(0) $438 (1) $2,917 (2+) $4,824
Number of Formulas Eight Formulas: Two for those with no qualifying children (0)—unmarried and married; two for those with 1 qualifying child (1)—unmarried and married; two for those with two qualifying children (2)—unmarried and married; and two for those with three or more qualifying children (3+)—unmarried and married.							
P.L. 111-5	2009	(0) 7.65% (1) 34% (2) 40% (3+) 45%	(0) $4,220 (1) $6,330 (2) $8,890	unmarried (0) $5,280 (1) $11,610 (2) $11,610	(0) 7.65% (1) 15.98% (2) 21.06% (3+) 21.06%	(0) $323 (1) $2,152 (2) $3,556 (3+) $4,001	(0) $457 (1) $3,043 (2) $5,028 (3+) $5,657

Public Law (a)	**Year in Effect** (b)	**Credit Rate** (c)	**Statutory Earned Income Amount** (not adjusted for inflation)[a] (d)	**Statutory Phaseout Amount** (not adjusted for inflation)[a] (e)	**Phaseout Rate** (f)	**Maximum Credit Amount** (not adjusted for inflation) (g)	**Inflation-Adjusted Maximum Credit Amount** (h)
	2010		(3+) $8,890	(3+) $11,610 married *$5,000 more if married*[e]			(0) $457 (1) $3,050 (2) $5,036 (3+) $5,666
P.L. 111-312	2011						(0) $464 (1) $3,094 (2) $5,112 (3+) $5,751
	2012						(0) $475 (1) $3,169 (2) $5,236 (3+) $5,891
P.L. 112-240	2013						(0) $487 (1) $3,250 (2) $5,372 (3+) $6,044
	2014						(0) $496 (1) $3,305 (2) $5,460 (3+) $6,143
	2015						(0) $503 (1) $3,359 (2) $5,548 (3+) $6,242

Public Law (a)	**Year in Effect** (b)	**Credit Rate** (c)	**Statutory Earned Income Amount** (not adjusted for inflation)[a] (d)	**Statutory Phaseout Amount** (not adjusted for inflation)[a] (e)	**Phaseout Rate** (f)	**Maximum Credit Amount** (not adjusted for inflation) (g)	**Inflation-Adjusted Maximum Credit Amount** (h)
P.L. 114-113	2016						(0) $506 (1) $3,373 (2) $5,572 (3+) $6,269
	2017						(0) $510 (1) $3,400 (2) $5,616 (3+) $6,318
	2018[f]						(0) $519 (1) $3,461 (2) $5,716 (3+) $6,431
	2019						(0) $529 (1) $3,526 (2) $5,828 (3+) $6,557
	2020						(0) $538 (1) $3,584 (2) $5,920 (3+) $6,660

Public Law (a)	**Year in Effect** (b)	**Credit Rate** (c)	**Statutory Earned Income Amount** (not adjusted for inflation)[a] (d)	**Statutory Phaseout Amount** (not adjusted for inflation)[a] (e)	**Phaseout Rate** (f)	**Maximum Credit Amount** (not adjusted for inflation) (g)	**Inflation-Adjusted Maximum Credit Amount** (h)
P.L. 117-2	2021	(0) 15.3% (1) 34% (2) 40% (3+) 45%	(0) $9,820 (1) $6,330 (2) $8,890 (3+) $8,890	unmarried (0) $11,610 (1) $11,610 (2) $11,610 (3+) $11,610 married *$5,000 more if married*[e]	(0) 15.3% (1) 15.98% (2) 21.06% (3+) 21.06%	(0) $1,502 (1) $2,152 (2) $3,556 (3+) $4,001	(0) $1,502 (1) $3,618 (2) $5,980 (3+) $6,728
	2022	(0) 7.65% (1) 34% (2) 40% (3+) 45%	(0) $4,220 (1) $6,330 (2) $8,890 (3+) $8,890	unmarried (0) $5,280 (1) $11,610 (2) $11,610 (3+) $11,610 married *$5,000 more if married*[e]	(0) 7.65% (1) 15.98% (2) 21.06% (3+) 21.06%	(0) $323 (1) $2,152 (2) $3,556 (3+) $4,001	(0) $560 (1) $3,733 (2) $6,164 (3+) $6,935

Sources: CRS analysis of public laws listed in table, Internal Revenue Code Sections 43 and 32, IRS Publication 1040 Instructions 1976-2021, and IRS Revenue Procedure 21-45.

Notes:

a. Beginning in 1987, these amounts were annually adjusted for inflation. The result was that the maximum credit amount and the income level at which the credit equaled zero were also annually adjusted for inflation.

b. P.L. 94-164 extended the temporary tax reductions provided in P.L. 94-12 through the end of 1976, but effectively halved the credit amount taxpayers could receive in 1976 by halving the credit rate and phaseout rate from 10% to 5%. P.L. 94-455 reinstated the 10% credit rate and phaseout rate for 1976 and also extended the credit through the end of 1977.

c. P.L. 95-600 extended the credit permanently.

d. OBRA90 (P.L. 101-508) effectively created a "basic" EITC and a larger credit for those taxpayers with at least one infant. For taxpayers with an infant (child under age 1), the credit rate increased by 5 percentage points above the basic amount and the phaseout rate increased by 3.57 percentage points above the basic amount. OBRA90 also created a separate health insurance credit for taxpayers with at least one qualifying child. The credit was calculated as 6% of the EITC earned income amount (statutorily $5,714, adjusted for inflation beginning in 1987), and phased out at rate of 4.285% of income above the EITC phaseout threshold. The health credit could not exceed expenses paid by the taxpayer. Only the parameters of the basic credit are presented in this table. These supplemental credits were ended, effective in 1994, by OBRA93 (P.L. 103-66).

e. These amounts are annually adjusted for inflation.

f. Beginning in 2018, the Tax Cuts and Jobs Act (TCJA; P.L. 115-97) permanently indexed a variety of provisions in the tax code to inflation using chained consumer price index, including the EITC.

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