

# Use of the Earned Income Tax Credit among People with Disabilities

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## 1. Introduction

The Earned Income Tax Credit (EITC) is the largest cash assistance program in the US and has become the centerpiece of anti-poverty initiatives. In 2011, 26.5 million people received \$60.7 billion in the form of reduced taxes and tax refunds (Internal Revenue Service, 2013).

Beginning with its inception in 1975 and through a number of expansions in both Democratic and Republican administrations, the EITC has been promoted to achieve four goals: (1) Reduce poverty, especially childhood poverty (2) Reduce reliance on welfare programs, (3) Provide an incentive to work by subsidizing low wages, and (4) provide relief from regressive payroll taxes. Current discussions suggest expanding the EITC rather than raising the minimum wage as a way to help the working poor (Roemer, 2013).

However, the structure of the EITC does not serve the needs of low-income people with disabilities as well as it serves low income people without disabilities and any changes to the program must recognize the disparate impact it may have on them. The EITC could be refined to become a more effective vehicle for reducing poverty or encouraging work among people with disabilities.

Based on an analysis of the Current Population Survey, we find that people with disabilities are almost as likely to claim the EITC as those without disabilities but get a much lower average benefit. While the average annual benefit for people without disabilities is \$2,072, the average for people with disabilities is \$1,301 and more than 60 percent benefit by less than \$500.

This disparity is caused by a mismatch between the structure of the program and two important socio-economic characteristics of the disability population: First, the EITC is designed to reduce poverty, especially childhood poverty, and discourage the use of welfare programs such as Temporary Aid to Needy Families (TANF). As a result, the EITC offers a much larger benefit for workers with “qualifying children” than for those with either no children or children who are older than 19. People with disabilities tend to be older and are less likely to have qualifying children.

Second, the credit is designed to encourage work and accordingly the amount of the credit is calculated as a percentage of wages or “earned income.” Low income people with disabilities are more likely to receive income from Social Security,

Supplemental Security Income and Veterans benefits and other sources that cannot be counted in the calculation so the benefits are a much lower percentage of their total income.

This paper provides an overview of the EITC, describes the methodology and limitations of our approach, reports findings from our analysis of the Current Population Survey, and discusses recommendations to modify the program so that the program's structure corresponds more closely to the needs of people with disabilities.

## 1. Purpose and Structure of the EITC

The EITC has been used to promote four main objectives:

- Increase the incentive to work by supplementing earnings from low-paid work.
- Reduce poverty, especially childhood poverty.
- Reduce reliance on welfare programs.
- To a lesser extent, to offset the rising Social Security and Medicare payroll taxes for low-income families.

Tension exists between the EITC's role as an antipoverty program and its role as a work incentive. As an antipoverty program alternative to welfare, it makes sense to target the benefit to families with children because (1) low-income single people may live in households that are not low-income and (2) families are more likely to qualify for other welfare programs. However, as a work incentive or an attempt to offset payroll taxes, the EITC would be more effective if it included a more significant benefit for childless workers (Gitterman et al., 2007)

### a. History of the EITC

The EITC was developed in 1975 as the result of two compromises. First, the Nixon administration had proposed a negative income tax that would provide a refundable credit to all low-income individuals and families as an alternative to a welfare system. Concerned that this approach would reduce the incentive to work, the House and Senate focused on limiting the credit to workers. Second, the House saw the credit predominantly as a way to offset the payroll taxes of low-income workers and increase the compensation from low-wage work and thus proposed that it be available to all low-wage workers. The Senate on the other hand saw the credit in terms of welfare reform and argued to limit the credit to workers with children in order to more effectively target the program and limit its cost.

For most of its history, the EITC has enjoyed bipartisan support. Congress made the EITC permanent in 1978 and expanded it in 1986 and 1990. President Reagan called

it “the best antipoverty, the best pro-family, the best job creation measure to come out of Congress.” The Omnibus Reconciliation Act of 1993 doubled the size of the credit and a small credit. In addition, in response to evidence that the marginal tax rate of poor childless workers had grown sharply from 1980 to 1993 due to increases in Social Security, gasoline and excise taxes, the Act included a small credit workers without qualifying children (Greenstein and Shapiro, 1998; Hotz, 2003).

President Clinton touted the EITC as a central element to the 1996 welfare reform. The larger increase for taxpayers with two or more children was necessary to meet President Clinton's 1992 campaign promise that no family with a fulltime worker would be poor.

In 2001, the structure of the EITC was modified to relieve the marriage penalty by extending the phase-out range for married couples. In 2009, the American Recovery and Reinvestment Act temporarily increased the credit for families with 3 or more children and expanded eligibility for married couples. Neither modification expanded the credit for childless workers.

In 2011, 26.5 million people claimed the credit and received \$60.7 billion in reduced taxes or refunds (Internal Revenue Service, 2012) and it has shown positive results. It has lifted an estimated 6.6 million people above the poverty line (half of whom were children) (Wancheck and Greenstein, \_\_\_\_). In addition, studies have found evidence that the EITC has resulted in increased work effort among single mothers but has a less clear impact on the work effort of men and married women (Hotz et al., 2006). People with disabilities show a similar pattern. The EITC increased labor force participation among single mothers with disabilities, decreased labor force participation among married women with disabilities and did not affect the participation among men with disabilities (Huang and Schmeiser, 2009).

Other studies argue that although the EITC raises families up to the poverty level in the short-term, it does not provide the support needed to enable recipients to build assets, allow for upward mobility or make a meaningful improvement in the wellbeing of low-income families and workers (Jeroslow 2012, Alsott 2009).

## **b. Structure**

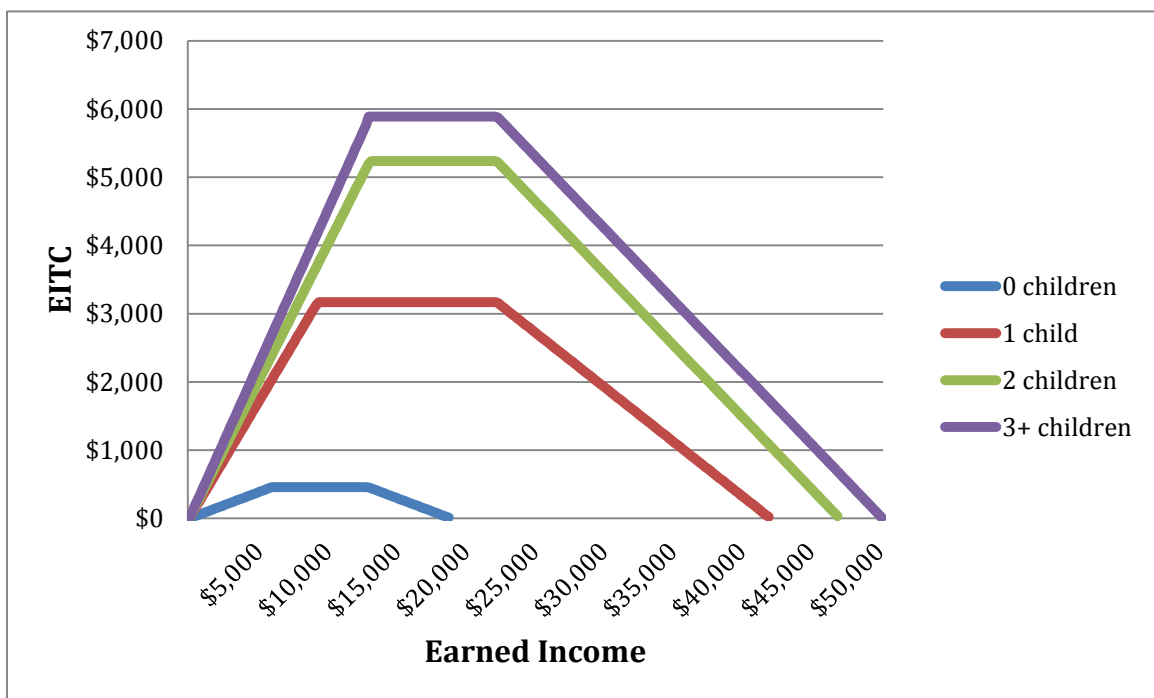
The EITC is structured in three stages: A phase-in period where the value of the credit increases as a percent of earned income; a plateau where the value of the credit reaches a maximum and levels off; and, a phase out period where the value decreases as income increases until it reaches zero. Each of these phases has different levels based on the worker's number of children and type of filing status (single or married filing jointly). (Figure 1)

For example, an individual with three children qualifies for a credit that is the equivalent to 45 percent of wages up to a maximum of \$5,891 and begins to taper

off as their wage exceeds \$17,090 and ends when income exceeds \$45,062. This is in stark contrast to a childless worker who is eligible for a credit of 7.5 percent of wages up to a maximum of \$475 and tapers off if their wage exceeds \$13,980 (Figure 1).

In order to be considered a “qualifying child” for the credit, the child must meet a relationship test (son, daughter, stepchild, brother, sister, niece, grandchild etc.) and be either (1) under age 19 (2) a full-time student or younger than the worker, or (3) be “permanently and totally disabled.”

**Figure 1: Earned Income Tax Credit for couples filing jointly, 2012**



Unlike most credits in the tax code, the EITC is refundable, that is, the credit reduces the individual’s tax liability and if the credit exceeds the amount of taxes owed, the family receives a tax refund. Tax filers can receive the refund either by check or direct deposit.

Those opting for direct-deposit may have the refund split and deposited into multiple accounts. This “split refund” option is designed to make it easier for tax filers to deposit some of their refund directly into savings accounts and asset development opportunities when they file their return.

The credit is available to all individuals and couples, regardless of age, who have qualifying children. However, the benefit is not available to workers under age 25 or over 65 who do not have qualifying children.

In 23 states, workers that qualify for the federal EITC can also claim a refundable credit on state income taxes. These state EITC programs are valued at \$2 billion.

### c. Rules that are particularly relevant for people with disabilities

Benefits such as Social Security Disability Insurance, SSI, or military disability pensions are **not** considered earned income and cannot be used to claim the EITC. Beneficiaries of these programs may qualify for the credit only if they, or their spouse if filing a joint return, have other earned income. Private disability benefits are considered earned income if the taxpayer is under the minimum retirement age. (IRS, u.d.)

Receipt of the EITC does not generally reduce the worker's access to other benefits because federal and state EITC payments are not considered as income for most public benefits including Medicaid, SSI, SSDI, Food Stamps, or federally assisted housing programs. However, treatment of EITC payments in calculating assets varies across programs and states. For example, EITC payments are completely excluded from the resource test for Supplemental Nutrition Assistance (food stamps), they are excluded from the resource test for SSI for nine months following the month the refund is received, and there is variation among states in how EITC payments are counted by State Medicaid agencies and other cash assistance programs.

### d. Limitations of the EITC for people with disabilities

The EITC is at the heart of the current safety net for low-income families but it has significant limitations for people with disabilities.

**The EITC has limited value for people without qualifying children.** The maximum benefit of \$457 for workers without qualifying children is one-thirteenth the \$5,891 maximum for a worker with three children even though workers without qualifying children (e.g. non-custodial parents, parents with older children and childless individuals and couples), especially those with disabilities, often have a tenuous attachment to the labor force and are at significant risk of financial insecurity. Expanding the EITC to this population could increase the rewards of work and thus the labor market attachment of workers without qualifying children, as it has done for women with children, and could bring their incomes above the poverty line (Gitterman et al. 2007). In addition, the low value of EITC for this group offsets only less than half of the earnings that are deducted for payroll taxes (Gitterman 2007).

**The EITC puts downward pressure on wages.** Leigh (2010) documented that a 10 percent increase in the generosity of the EITC is associated with a 5 percent fall in the wages of high school dropouts and a 2 percent fall in the wages of those with only a high school diploma, while having no effect on the wages of college graduates. This downward pressure affects low-wage workers equally regardless of the

amount of credit they are able to claim. This is particularly problematic for workers with disabilities who are more likely to be eligible only for the low childless credit.

**Transition-age workers without children are ineligible for the EITC.** Childless workers qualify for the EITC only if they are between the ages of 25 and 64. It excludes young workers who are just entering the labor market and making major decisions about work (Gitterman et al. 2007). This may be especially problematic for young adults with disabilities who are just entering the labor market who may need an additional work incentive to offset the extra costs of working and the disincentives of the SSI program, which ties eligibility to low earnings and resources.

**The EITC does not provide support for people who are not working or are working only intermittently.** The value of the EITC is based on earnings. People with disabilities who, because of a work limitation, are more likely to work part-time, on a reduced work schedule or intermittently will be eligible for a lower claim than if they were able to work full-time and people who are not working can claim the EITC only if their spouse is working. The 2011 American Community Survey estimates that approximately 28.6% of persons with disabilities who worked did so on a part-time basis (34 hours or less per week). This compares to 17.1% of working persons without disabilities who worked part-time.

**Some eligible low-income workers with disabilities may not be claiming their EITC.** While no rigorous studies have estimated the participation rate among eligible workers with disabilities, Plueger (2009) estimated use of the program of taxpayers in general and found that 75 percent of eligible workers claimed the EITC --81 percent of those with qualifying children and 55 percent of taxpayers without children. Some evidence suggests that the participation rate has been rising year to year with a 79 percent participation rate in 2007 (Holt, 2011).

**Tax laws, including the EITC, do not take into account the extra cost of living with a disability.** People with disabilities tend to require more resources to meet basic needs than those without disabilities. Their physical or mental limitation might require them to spend more on , for example, housing, home care, modifications, transportation, health care, and work-related expenses. Although these additional costs vary significantly, She and Livermore (2006) estimate that, on average an individual with a work limitation would need an annual income of about \$31,000 to experience material hardship (including the ability to meet expenses; ability to pay rent or mortgage and utility bills; ability to obtain needed medical and dental care; and food insecurity) at the same rate as a similar person with no disability with an annual income at the poverty level of \$10,160 in 2005. Tax policy does not account for this difference (Seto & Buhai, 2005).

**The inconsistent and confusing calculations of whether EITC refunds count as assets for other safety net programs may discourage savings.** Research suggests that asset limits in safety net programs decreases savings in part because

people are concerned that accumulating assets will lead to losing benefits. (Chen & Lerman, 2005).

## 2. Method

Our analysis uses micro-data from the March 2012 Current Population Survey to estimate the use of the EITC and the value of the benefit for people with and without disabilities. Although the CPS is the best data source available for this type of analysis, both the definition of disability and the calculation of the EITC introduce inaccuracies in the final results.

### a. Definition of disability

We categorized respondents into two categories--“disability” or “no disability”- based on whether they answered yes to at least one of the following six disability questions that CPS added to the questionnaire in 2008.

- Is this person deaf or does he or she have serious difficulty hearing?
- Is this person blind or does he or she have serious difficulty seeing even when wearing glasses?
- Because of a physical, mental, or emotional condition, does this person have serious difficulty concentrating, remembering, or making decisions?
- Does this person have serious difficulty walking or climbing stairs?
- Does this person have difficulty dressing or bathing?
- Because of a physical, mental, or emotional condition, does this person have difficulty doing errands alone such as visiting a doctor’s office or shopping?

This is the standard definition of disability that the Bureau of Labor Statistics uses in computing labor force statistics and it is comparable to other federal surveys. However it has several limitations. First, it excludes the population living in institutions such as prisons and long term care facilities as well as those on active duty in the Armed Forces. In addition, research suggests that these questions may underestimate the size of the disability population and may not adequately capture DI and SSI participants (Burkauser et al., 2012).

### b. Imputation of EITC

The CPS asks respondents to report a variety of household, family and individual characteristics including income from various sources but it does not solicit information about taxes and tax credits. Instead, the US Census Bureau simulates tax liabilities and tax credits using reported information on family relationships and



income (O’Hara, 2004). Although data from the Internal Revenue Service (IRS) provide better information on numbers of recipients and credit amounts, it does not have disability information and thus cannot be used for our purposes.

According to the IRS, \$60.7 billion was allocated to 27.5 million people in 2011 whereas our CPS analysis finds that \$43 billion was allocated to 21.1 million people. Thus, our analysis significantly underestimates the number of people and the total value of the benefit. This is a well-known problem with the CPS (Meyer, 2007).

For the purpose of this analysis, we assume that the scale of the underestimate does not vary by disability status. However, this may be a questionable assumption. Because the CPS imputes the EITC based on reported characteristics, it does not allow us to measure the actual take-up rate and if the take-up rate differs by disability status, our estimates will be biased.

As a result, although we discuss the percent of individuals claiming the EITC by disability status, we focus most of the analysis on the amount of the EITC benefit. In addition, we refer to people “eligible” for the EITC rather than to people who “claim” the benefit.

### 3. Findings

#### a. Use of the EITC among people with disabilities

According to the CPS, overall, working age people with disabilities are roughly equally likely to be eligible for the EITC than people without disabilities (10% compared with 11%). However, low-income people with disabilities are much less likely to be eligible. For example, 14 percent of people with disabilities with incomes under the official poverty line are eligible for the EITC compared with 31 percent of people without disabilities. This finding is directly related to the structure of the program. People with disabilities are much less likely to be working and have earned income (a prerequisite for eligibility) than people without disabilities but if they are working, they are more likely to be in lower paid jobs that qualify them for the EITC.

It is important to note that because of the CPS underestimate, the actual percentage of people in each group eligible for the EITC is somewhat higher than the values reported but the comparison between those with and without disabilities is valid.

**Table 1: Average EITC use among people with and without disabilities age 18-64 by Poverty Level, 2012**

	Percent eligible for the EITC**		Average amount of EITC among eligibles		
	With	No	With	No	

	Disability	Disability		Disability	Disability	
All	10%	11%	*	\$1,301	\$2,073	*
Tax Filers	18%	13%	*	\$1,296	\$2,064	*
Income as a Percent of the Poverty Level						
Under 100%	14%	31%	*	\$1,248	\$2,353	*
100%-150%	17%	35%	*	\$1,736	\$2,557	*
150%-200%	16%	25%	*	\$1,354	\$1,844	*
Over 200%	4%	3%	*	\$846	\$1,218	*

Source: Authors computation from March 2012 Current Population Survey microdata.

\* indicates that the difference in the average value in the disability category compared to the no disability category is statistically significant at the 95% confidence level.

\*\* The CPS underestimates the percent eligible for the EITC but the relative value between disability categories is likely valid.

Among those claiming the credit, people with disabilities qualify for a much lower benefit (\$1,301) compared with people with no disability (\$2,073) (Table 1). This discrepancy is apparent in all age groups and all income levels as shown in Table 2.

**Table 2: Average EITC among people with and without disabilities age 18-64 by selected characteristics, 2012**

	Average amount of EITC among eligibles		
	With Disability	No Disability	
Age Group			
18-24	\$2,131	\$2,419	
25-34	\$1,490	\$2,077	*
35-44	\$1,881	\$2,448	*
45-54	\$1,282	\$1,858	*
55-64	\$544	\$1,007	*
Worked in past year			
Yes	\$1,194	\$2,016	*
No	\$1,609	\$2,522	*
Household Income Category			
\$5,000 or less	\$393	\$567	*
\$5,001-\$10,000	\$731	\$1,304	*
\$10,001-\$20,000	\$1,267	\$2,581	*
\$20,001-\$30,000	\$1,791	\$2,856	*
\$30,001-\$40,000	\$1,491	\$2,086	*

\$40,001-\$50,000	\$1,514	\$1,626	
Over \$50,000	\$1,117	\$1,547	*
Number of children under 18 in household			
0	\$376	\$455	*
1	\$1,773	\$1,977	*
2	\$2,742	\$2,895	
3 or more	\$3,113	\$3,304	

Note: Non-workers may be in households with workers

\* indicates that the difference in the average value in the disability category compared to the no disability category is statistically significant at the 95% confidence level.

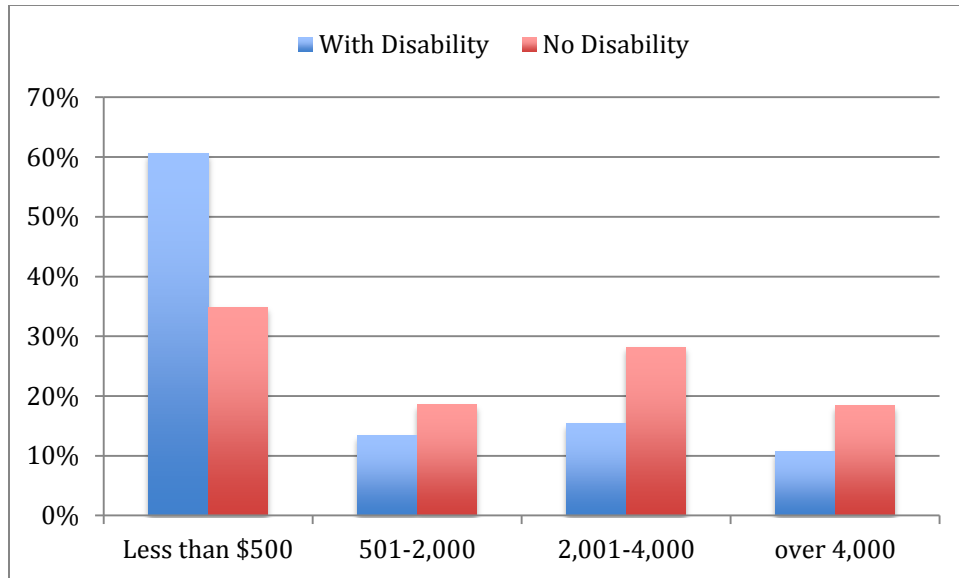
Source: Authors computation from March 2012 Current Population Survey microdata.

This disparity is the result of two important factors:

- a. People with disabilities are disproportionately older and are much less likely to have children under 19 who are living at home. More than half (54%) of EITC recipients with disabilities have no qualifying children compared with 26 percent of recipients with no disability. Among people under 65, two-thirds of people with disabilities are 45-64 compared to just 18 percent of people with no disabilities and the eligible are also older with 54% of people with disabilities in this age group compared with 28 percent of people with no disability. (Appendix A) They might have fewer qualifying children because they have fewer children to begin with, or because their children have aged out of the qualifying range. The data do not allow us to make this distinction.
- b. People with disabilities are more likely to have income that cannot be counted toward the EITC such as Social Security, Supplemental Security Income, retirement income and veterans payments than those without disabilities. Thus, for a given level of household income, less of it can be matched with the EITC. (Appendix B)

These two factors lead to a situation in which 60 percent of people with disabilities get a benefit of less than \$500 while only 10 percent benefit by over \$4,000. (Figure 2)

## Figure 2: Distribution of EITC Benefit by Disability Status, 2012



#### 4. Conclusion and Recommendations

As currently structured, the EITC is not as effective an anti-poverty program for people with disabilities as it is for low income people without disabilities. Low-income people with disabilities are less likely to be eligible for the credit than people without disabilities and those who are eligible tend to receive a significantly smaller benefit.

Disability advocacy groups should guard against efforts to expand the EITC as an alternative to raising the minimum wage unless the credit for childless workers is expanded.

Expanding the EITC amount for workers without qualifying children would help mediate this disparity. Any such proposal would face an uphill battle in Congress. The American Clean Energy and Security bill of 2009 included an expansion of the EITC for childless workers but the bill was not passed (Edelman et al., 2009).

In order to target the program and minimize its cost, Congress could develop specialized EITC options for people with disabilities. These could include a higher childless credit for workers with disabilities and/or eligibility for low-income youth below age 25 with disabilities who don't otherwise qualify. However, one of the appeals of the current system is that it is administratively simple and operated within the tax system. Including a system to determine disability would complicate the program unless it relied on the SSI/SSDI disability determination system. This approach would limit the benefit to SSI/SSDI beneficiaries. It would be more efficient and direct to address that population through the work incentives within those programs rather than jerry-rigging additional components to the EITC. For example, SSA could revise the current system SSI system of deducting \$1 in benefits for every \$2 earned to deduct \$1 for every \$3-\$4 earned.

More could be done to link the EITC to asset building options such as matched savings accounts for education and training, homeownership, retirement, and entrepreneurship or to connect EITC refunds to SSA's Plans to Achieve Self Support (PASS). An approach with more universal appeal and potential political support would be to lower the age of eligibility to 18 for all youth with and without disabilities to build behaviors that support work and reduced reliance on social security benefits. A second tenet of such a change would be to permanently disregard an EITC refund from any public benefit resource testing and thus encourage long term saving.

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## Appendix A: Characteristics of the Population and of EITC Eligibles, by Disability Status, 2012 CPS

	Percent of Population		Percent of EITC eligibles	
	With Disability	No Disability	With Disability	No Disability
Number of people	15 million	177 million	1.5 million	19.6 million
Tax Filing Status				
Filer	55%	86%	99%	98%
Non-Filer	45%	14%	1%	2%
Age Group				
18-24	7%	16%	3%	9%
25-34	11%	22%	20%	36%
35-44	15%	21%	22%	28%
45-54	28%	22%	30%	19%
55-64	39%	18%	24%	9%
Worked in past year				
Yes	32%	77%	74%	89%
No	68%	23%	26%	11%
Household Income Category				
\$5,000 or less	6%	3%	6%	3%
\$5,001-\$10,000	9%	2%	10%	7%
\$10,001-\$20,000	17%	6%	24%	19%
\$20,001-\$30,000	13%	8%	21%	21%
\$30,001-\$40,000	11%	9%	17%	19%
\$40,001-\$50,000	9%	9%	8%	12%
Over \$50,000	35%	63%	14%	20%
Number of children under 18 in household				
0	75%	56%	54%	26%
1	13%	19%	22%	30%
2	8%	16%	13%	26%
3 or more	5%	9%	12%	19%



**Appendix B: Average EITC amounts based on Household Income and Earned Income, by disability status**

Income (Household or Earned) category and number of children	Average EITC based on Household Income Category		Average EITC Based in Earned Income Category	
	With Disability	No Disability	With Disability	No Disability
less than \$5,000				
0 children	\$172	\$200	\$162	\$209 *
1 child	623	881	781	817
2 children	723	1,001 *	1,143	1,038
3 + children	1,057	1,122	1,192	1,060
\$5,001- \$10,000				
0	339	436 *	489	427
1	1,222	1,821 *	2,075	2,343
2	2,138	2,226	2,202	2,767
3 or more	2,972	2,126	2,960	2,851
\$10,001-\$20,000				
0	315	364	327	437
1	2,170	2,923 *	2,817	2,969
2	2,719	4,249 *	3,843	4,619
3 or more	4,903	4,231 *	4,470	4,852
\$20,001-\$30,000				
0	401	623 *	719	858
1	2,556	2,344	2,331	2,225
2	3,793	3,941	4,332	3,623 *
3 or more	3,700	4,340	4,013	4,135
\$30,001-\$40,000				
0	464	633	778	751
1	1,725	1,622	1,325	1,350
2	2,832	2,544	1,993	2,068
3 or more	2,868	3,138	2,591	2,798
\$40,001-\$50,000				
0	439	617	323	523
1	1,376	1,591	995	1,718 *
2	1,837	1,680	1,967	1,569
3 or more	3,490	2,418 *	1,856	2,313
Over \$50,000				
0	524	379	248	337
1	1,038	1,586 *	463	1,551 *
2	2,471	2,167 *	1,932	2,177
3 or more	1,458	2,605	1,110	2,563 *

**Appendix C: Components of Average (Mean) Household Income, by Disability Status, 2012 CPS**

	With Disability	No Disability
Earned Income	\$33,398	\$77,716
Other income	16,789	9,182
Social Security	6,604	1,941
Retirement income	2,620	1,685
SSI	2,020	277
Veterans payments	957	256
Disability income	853	171
Interest	690	1,067
Unemployment	641	745
Rental income	429	625
Education income	403	840
Dividends	399	685
Worker's compensation	291	104
Survivor income	236	191
Financial assistance	191	191
Public assistance	131	60
Other	71	62
Alimony	58	53