Study finds many low-income families depend on tax credit program

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The federal government's Earned Income Tax Credit (EITC) is designed to be a short-term safety net, but many participants return to the program time after time, says a new study co-authored by a Ball State University economist.

The research by Ball State economics professor John Horowitz and Tim Dowd, a member of the Joint Committee on Taxation, found about half of taxpayers with children at some point over the 18-year period of the study claimed the credit.

The pair also discovered that more than 60 percent of EITC recipients claimed the credit for two years or less, but 20 percent are on the program for five or more years. The average length for families on the EITC is almost 5.3 years.

"For some taxpayers, the EITC acts as a temporary safety net during periods of income or family structure changes such as the birth of a child, losses in employment or divorces," Horowitz said. "But the EITC also acts as a long-term mechanism of providing assistance to taxpayers with children who receive the EITC for long periods of time, and for multiple spells, cycling on and off the EITC."

The findings are in the report "Income Mobility and the Earned Income Tax Credit: Short-Term Safety Net or Long-Term Income Support" published in the September issue of Public Finance Review. The authors used federal tax returns to analyze usage and participation patterns involving EITC during 1989 - 2006.

EITC was enacted in 1975 and is the largest poverty reduction program in the United States. The program allows workers who earn low to middle incomes to claim a tax credit.

The study also found:

-- Families wage income drop to a low in the year a baby is born and then grow thereafter. Also, because the EITC depends on the number of children, many families become eligible for the EITC when they have a newborn.
-- Single mothers with young children are more likely to use the program for a longer time than married couples with children.
-- Younger families are likely to use the program for a longer time than older families.

Horowitz points out that the percentage of households that return to claiming the EITC decreases as the number of years off of the program increases. Twenty percent go back into the program after one year but that number falls to 2.3 percent after five years.

Provided by Ball State University