



IN BRIEF: A POLICY EQUITY ANALYSIS OF THE EARNED INCOME TAX CREDIT

FULLY INCLUDING CHILDREN IN IMMIGRANT FAMILIES AND HISPANIC
CHILDREN IN THIS KEY ANTI-POVERTY PROGRAM

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Children in immigrant families and Hispanic children are more likely to live in poverty. The Earned Income Tax Credit (EITC) is one of the U.S.'s largest anti-poverty programs, but it is denied to many of these children in working families in which their parents pay taxes without a Social Security number. Specifically, children in immigrant families with an undocumented family member—who make-up 18% of children in poverty—cannot access the EITC. This restriction has disproportionate negative effects on Hispanic children, who are more likely to live in mixed-status families and families with an undocumented member. Building on the National Academies of Sciences, Engineering, and Medicine landmark report A Roadmap to Reducing Child Poverty, we offer new simulation results to estimate the poverty reducing effects of a 40% increase of EITC benefits alongside changes in eligibility rules to include taxpayer families without Social Security numbers. We find these policy changes would lift 2.09 million children from poverty, reduce poverty for children with especially high poverty rates, promote work and foster social inclusion of children in immigrant families.

More than 9.12 million children in the United States (more than 12% of the U.S. child population) live in poverty, which harms their experiences during childhood, their health and education and their prospects as adults (National Academies of Sciences, 2019). The Biden administration has established policy goals to reduce child poverty (The White House, 2021) and to improve federal policies to advance racial equity (U.S. President, 2021). Both of these goals are achievable: the temporary expansion of the Child Tax Credit in 2021 demonstrated how quickly child poverty can be reduced when federal policy is ambitious, expansive and focused on reaching the highest-need children.

The Earned Income Tax Credit (EITC) has the potential to be just as effective as the expanded Child Tax Credit in reducing child poverty. For decades, the EITC has been one of our most effective anti-poverty programs, with wide support across the ideological spectrum. As the nation considers policy improvements to reduce child poverty and long-standing inequities, it is essential that we examine how to make the EITC more effective and equitable.

INEQUITIES IN CHILD POVERTY

While poverty and its consequences are damaging for any child to endure, deep inequities exist by nativity and race/ethnicity. Children in immigrant families and Hispanic children are more likely to grow up without the basic economic resources they need to thrive. In particular, children in immigrant families (families with at least one foreign-born family member) have double the poverty rate of children in nonimmigrant families, and Hispanic children have almost three times the poverty rate of White children. Where these groups intersect, poverty is staggeringly high: for example, 29% of Hispanic children in mixed-status immigrant families (families in which at least one member is not a U.S. citizen) live in poverty.¹

Despite high poverty rates and high parental work effort, children in immigrant families are denied access to essential social safety net programs—even though the vast majority of them are U.S. citizens (Acevedo-Garcia, Joshi, Ruskin, Walters, & Sofer, 2021; Acevedo-Garcia, Joshi, Ruskin, Walters, Sofer, et al., 2021). The Covid-19 pandemic illuminated and worsened the enormous vulnerabilities these immigrant families experience related to health, social and economic wellbeing, despite representing a large share of the essential workers who power our economy (Kerwin & Warren, 2020; Zallman et al., 2019; ERS, USDA, 2020).

INEQUITIES IN ACCESS TO THE EITC

The EITC is one of the most effective and largest anti-poverty programs in the U.S., providing a low-income working family with two children with up to \$5,980 in refundable tax credits (National Academies of Sciences, 2019; IRS, 2021). Causal research evidence finds that periodic increases of the EITC improve children's health and educational outcomes, including increases in test scores in math and language arts (Chetty et al., 2011; Dahl & Lochner, 2012); increases in high school graduation (Maxfield, 2015); and increases in college attendance (Manoli & Turner, 2018; Maxfield, 2015).

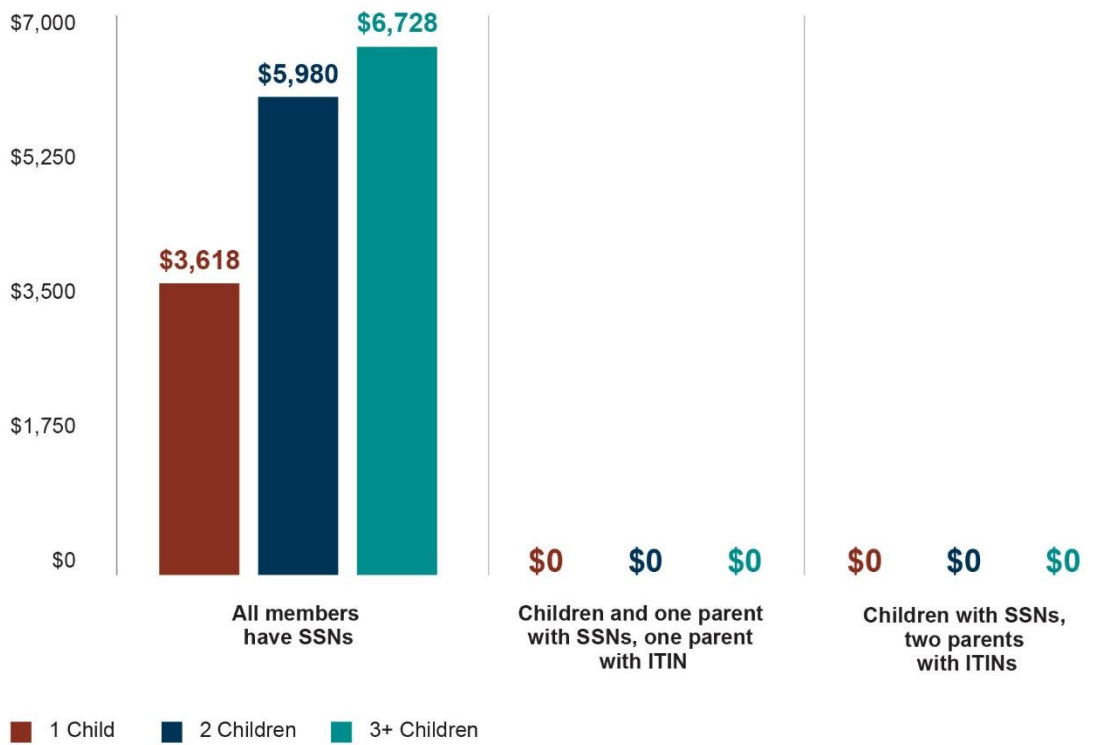
Paradoxically and unfairly, this powerful anti-poverty tool is denied to many children in poverty. Specifically, children living with an undocumented family member, who make-up 18% of children in poverty in the U.S., cannot receive the EITC—even if their family works and pays taxes, and even if the children are U.S. citizens. This exclusion has been in place since 1996, when the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) required all family members to have Social Security numbers (SSNs) to receive the credit. While the explicit intent of this change was to deny the credit to undocumented workers, it was structured to disqualify the entire family of an undocumented worker, including legal immigrants and U.S. citizens (Acevedo-Garcia, Joshi, Ruskin, Walters, & Sofer, 2021; Acevedo-Garcia, Joshi, Ruskin, Walters, Sofer, et al., 2021; Minoff et al., 2021). More than 25 years later, the EITC continues to be exclusionary of mixed-status families and inequitable by design. Each year at tax time, children in mixed-status taxpaying families, most of whom are U.S. citizens, lose thousands of dollars in tax credits that their parents could use to meet their needs and invest in their healthy development—simply because at least one of their parents pays taxes using an Individual Tax Identification Number (ITIN) instead of an SSN (Exhibit 1).

While on its face this eligibility restriction for immigrants appears race neutral, it is not. It has disproportionate negative effects on Hispanic children, who are much more likely than other children to live in mixed-status families and families with undocumented members.

¹ We define poverty using the Supplemental Poverty Measure (SPM). Unlike the Official Poverty Measure (OPM) threshold, the SPM threshold is based on expenditures for food, clothing, shelter and utilities, and calculated based on a family's cash income and noncash benefits (like government nutrition assistance) and subtracts necessary expenses such as taxes, health care and child care.

EXHIBIT 1. Maximum EITC by Number of Qualifying Children and Tax Filing Method, 2021

If one family member does not have a Social Security number, the entire family is ineligible for the EITC.



Source: IRS, 2021.

A PROPOSAL TO EXPAND THE EITC TO REDUCE CHILD POVERTY EQUITABLY

In 2019, the National Academies of Sciences, Engineering, and Medicine (NASEM) published the landmark consensus report *A Roadmap to Reducing Child Poverty*, outlining policies to cut child poverty in half within ten years. One solution offered by the report included increasing the EITC benefit amount by 40%, which in 2021, would raise the maximum credit for a family with two children from \$5,980 to \$8,372. Though effective, this solution, like many others proposed, showed inequitable poverty reduction—meaning that although poverty was reduced overall, the reduction was lower for certain groups, including children in mixed-status immigrant families and Hispanic children (National Academies of Sciences, 2019).

We offer new simulation results that build on the NASEM report to estimate the poverty reducing effects of a 40% increase of the EITC benefit amount, with changes in eligibility rules to include families without Social Security numbers (Exhibit 2; Exhibit 3; Exhibit 4). These policy changes meet the criteria laid out by the NASEM committee in selecting policy options to reduce child poverty, which included reducing poverty overall, reducing poverty for high-risk groups and promoting work and social inclusion.

Scenario 1: Increase the EITC by 40% while maintaining current SSN eligibility requirements

Scenario 1 lifts 1.34 million children out of poverty, reducing the overall child poverty rate by 15%. However, that change would be inequitable. Certain groups would benefit substantially more: children in all-citizen families, White children and Black children would experience a poverty reduction of 19%, 18% and 19%, respectively. Other groups, however,

would benefit substantially less: citizen children in mixed-status families (8% poverty reduction), citizen children in families with an undocumented member (1% poverty reduction) and Hispanic children (11% poverty reduction).

Scenario 2: Increase the EITC by 40% and eliminate SSN eligibility requirements for parents but not for children

Scenario 2 lifts 2.02 million children out of poverty. It also has much larger effects on citizen children in mixed-status families, lifting 916,000 children out of poverty (33% poverty reduction); citizen children in families with an undocumented member, lifting 689,000 out of poverty (42% poverty reduction); and on Hispanic children, lifting over 1 million children out of poverty (27% poverty reduction). Children in all-citizen families, White children and Black children would also benefit slightly more than in scenario 1.

Scenario 3: Increase the EITC by 40% and eliminate SSN eligibility requirements for both parents and children

Scenario 3 lifts 2.09 million children out of poverty. Compared to Scenario 2, Scenario 3 reduces poverty rates only slightly more for citizen children in mixed-status families (34% poverty reduction) as well as for Hispanic children (28% poverty reduction) because nearly all Hispanic children in mixed-status families are themselves U.S. citizens. However, Scenario 3 is the only scenario with large positive effects on noncitizen children in mixed-status families, lifting over 100,000 children out of poverty (16% poverty reduction), and especially on noncitizen children in families with undocumented members, lifting over 59,000 children out of poverty (23% poverty reduction). Scenario 3 thus reduces inequities in child poverty by citizenship/mixed-status in ways that the other two scenarios do not.

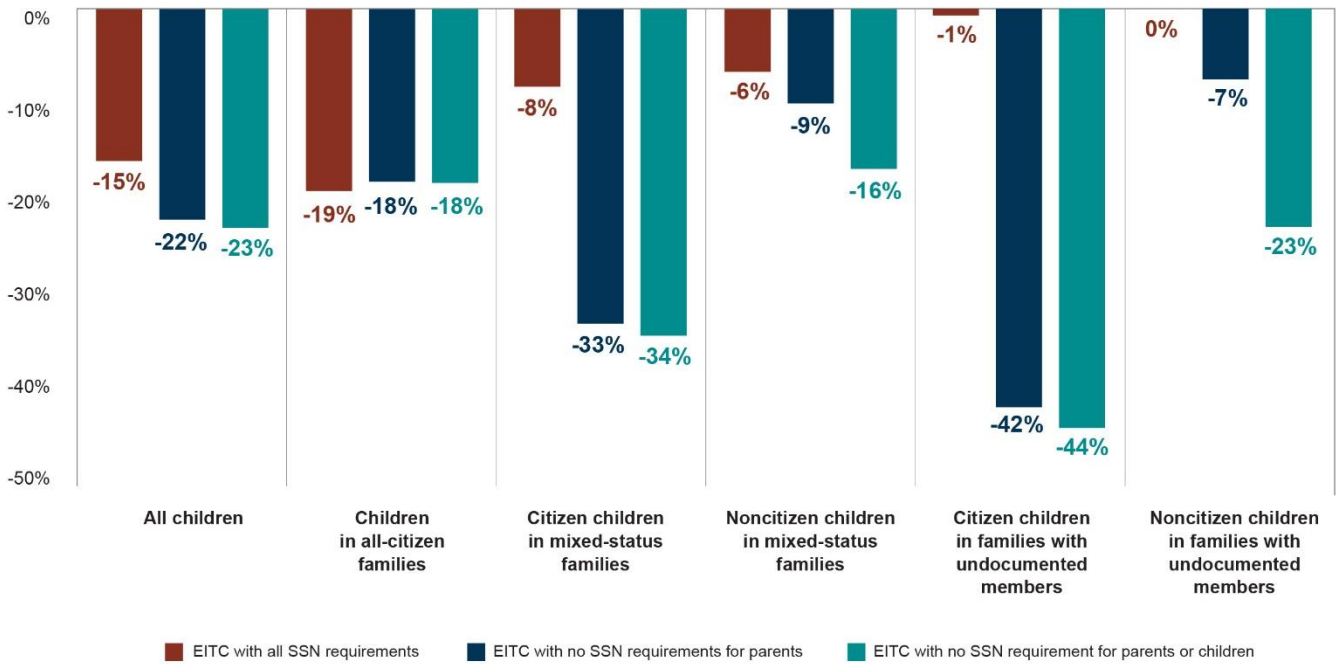
EXHIBIT 2. Reduction in the Number of Children in Poverty by Citizenship/Mixed-Status and Race/Ethnicity, by Simulated 40% Increase in EITC and Changes in SSN Eligibility Requirements, 2017

Demographic group	Baseline poverty count	EITC with all SSN requirements	EITC with no SSN requirements for parents	EITC with no SSN requirements for parents or children
All children	9,118,180	-1,338,830	-2,022,300	-2,089,940
Children in all-citizen families	5,693,590	-1,066,410	-1,051,530	-1,051,530
Citizenship/mixed-status				
Citizen children in mixed-status families	2,789,993	-234,189	-915,749	-938,050
Noncitizen children in mixed-status families	634,598	-38,230	-55,021	-100,361
Citizen children in mixed-status families with undocumented member	1,632,810	-12,480	-688,980	-711,281
Noncitizen children in mixed-status families with undocumented member	256,063	-125	-16,916	-59,128
Race/ethnicity				
White children	2,729,640	-483,080	-531,700	-538,720
Black children	1,828,270	-353,370	-369,670	-380,870
Hispanic children	3,749,130	-396,390	-1,012,350	-1,056,140
Asian or Pacific Islander children	453,796	-38,880	-53,748	-59,385

Note: Hispanic children may be of any race. White, Black, Asian or Pacific Islander, and other race children are non-Hispanic. Source: Authors' calculations using estimates from TRIM3, commissioned by authors.

EXHIBIT 3. Estimates of Reduction in Child Poverty Rates from a 40% Increase in the EITC by Citizenship/Mixed-Status, 2017

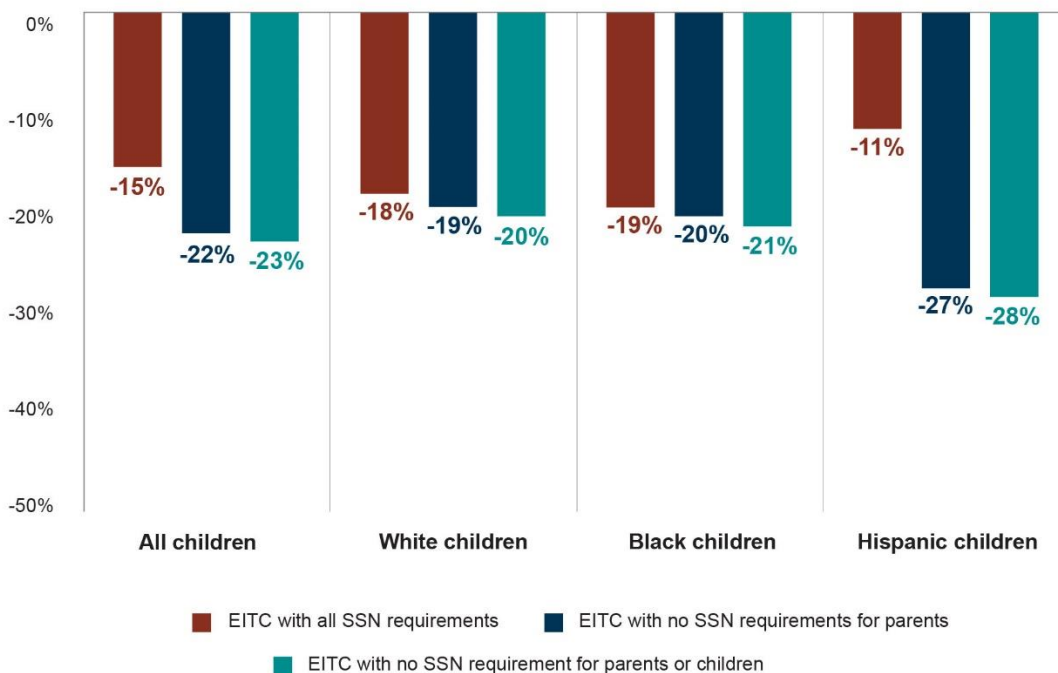
Eliminating Social Security number requirements and increasing the EITC by 40% would lower poverty substantially for citizen children in mixed-status families and for citizen children in families with undocumented members.



Source: Authors' calculations using estimates from TRIM3, commissioned by authors.

EXHIBIT 4. Estimates of Reduction in Child Poverty Rates from a 40% Increase in the EITC by Race/Ethnicity, 2017

Eliminating Social Security number requirements and the increasing EITC by 40% would lower poverty substantially for Hispanic children.



Note: Hispanic children may be of any race. White, Black, Asian or Pacific Islander, and other race children are non-Hispanic. Source: Authors' calculations using estimates from TRIM3, commissioned by authors.

BENEFITS OF AN EXPANDED EITC

With SSN requirements removed from the EITC and benefits increased by 40%, child poverty would drop by 23%—an important reduction because a shared goal in policy circles is to reduce child poverty by 50% (National Academies of Science, 2019). That change translates to 2.09 million children lifted out of poverty, with improved health, education and socioeconomic outcomes. Because nearly all of these newly eligible children are U.S. citizens in mixed-status families, this change would also grant them the full benefits of citizenship—alleviating undue hardship and providing them access to federal policies that foster feelings of belong and deservingness. What’s more, because children in immigrant families are disproportionately Hispanic, this shift would also improve racial/ethnic equity and help correct anti-immigrant and anti-Hispanic animus embedded in the social safety net.

An expanded EITC would also stimulate the economy by providing millions of families with additional income, buying power and economic output. Furthermore, it would improve fiscal fairness in the tax code, ensuring that families with the same earnings pay taxes at the same rate, and it would make EITC eligibility for citizen children consistent with safety net policies like SNAP, the CTC, Head Start and Medicaid, which may boost participation rates across programs. Finally, this shift would reward the work effort of immigrants—many of whom are essential workers who powered our economy throughout the Covid-19 pandemic and who make-up a large proportion of health care, long-term care, agricultural and grocery workers. Much of U.S. social policy aims to tie work to receiving public assistance. An inclusive EITC would justly reward immigrant families for their work effort.

POLICY RECOMMENDATIONS

The following recommended policy changes will go a long way toward reducing child poverty further; reducing child poverty for some of the nation’s most vulnerable children; and strengthening our social contract through a wide range of societal benefits.

Extend EITC eligibility to low-income working families without Social Security numbers. This change is not unprecedented. Restoring eligibility to parents without SSNs would simply match current eligibility rules for the Child Tax Credit and would return EITC eligibility to pre-welfare reform rules; extending eligibility to both parents and children without SSNs would match the eligibility rules of the Child Tax Credit prior to the Tax Cuts and Jobs Act of 2017. This expansion would also reduce racial/ethnic inequities in child poverty, with particularly large effects for Hispanic children, and grant citizen children in mixed-status families the full rights of citizenship.

Increase the EITC benefit amount by 40% in combination with more inclusive eligibility. A 40% benefit increase was recommended in the 2019 NASEM report as a key step in reducing child poverty, and we find that it alone will bring 1.34 million children out of poverty. However, without also removing the SSN requirement, this change will worsen inequities for children in immigrant families and Hispanic children. Together with more inclusive EITC eligibility that eliminates the SSN requirement entirely, this policy change would lift 2.09 million children out of poverty, including 1.06 million Hispanic children and 938,00 citizen children in mixed-status families.

Reduce administrative burden. This effort will involve examining the accessibility of IRS marketing tools; offering more affordable tax preparation services; implementing behavioral nudges that facilitate take-up; conducting additional research on the effects of nudges for immigrant families; and learning from state EITC eligibility expansion. This step can also increase EITC effects without a formal change in policy eligibility.

Improve the ITIN system. Undocumented workers currently file taxes with Individual Tax Identification Numbers (ITINs), but the process to apply for and keep an ITIN is onerous. To ensure that all taxpaying immigrants receive the social benefits to which they are entitled, the ITIN system must be improved. Key changes include allowing ITIN applications to be filed electronically throughout the year; allowing tax filers to apply with notarized documents; restoring the permanency of ITINs; funding the IRS to support an expanded program; and undertaking a national campaign to support ITIN use. We must also address data gaps in identifying and measuring the potential ITIN population.

Learn from recent EITC expansions at the state level. Seven states out of 30 with EITCs have extended their state-level programs to families who file taxes with ITINs. The pandemic has helped fuel this shift, shedding light on the jarring unfairness of excluding immigrant essential workers without SSNs and their spouses and children from pandemic relief. In the absence of federal changes, reforms at the state level will not only help immigrant families, but also serve as a policy laboratory to demonstrate the feasibility and positive effects of this reform, as well as provide a pathway to a more inclusive federal EITC.

CONCLUSION

This brief has used new simulation results that build on the consensus report *A Roadmap to Reducing Child Poverty* to show that expanding EITC benefits by 40% and restoring eligibility to families without Social Security numbers can lower child poverty significantly and equitably in the United States. Children in mixed-status families and Hispanic children, who have very high poverty rates and represent a disproportionate share of children living in poverty, would experience a particularly large reduction in poverty under these changes, and no group of children would be negatively affected. With these recommended policy changes, we will not only reduce child poverty substantially, but also improve health, education and socioeconomic outcomes for children and adults. If we are to take the goal of reducing child poverty seriously, then we must ensure our social safety net reaches the children who need it the most.

LEARN MORE

Read the full report at <https://www.diversitydatakids.org/research-library/policy-equity-assessment/policy-equity-analysis-eitc>.

Questions? Contact us at info@diversitydatakids.org.

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