

Earned Income Tax Credit (EITC)

What Is It

The Earned Income Tax Credit (EITC) is a federal income tax credit available to individuals and families participating in the workforce. It is the nation's largest and most effective federal aid program. Eligibility for the EITC is based on income level, marital status, and number of dependent children. As an individual or family's earned income rises, the amount of EITC they are eligible for also rises, providing an incentive to obtain and maintain employment. It then begins to decrease as an individual or family reaches an income level that allows them a measure of self-sufficiency.

Why Is It Important

In 2004, the year for which the most recent Internal Revenue Service (IRS) data is available, 21 million individuals received the EITC, returning \$39 billion in income to workers. Of those receiving the EITC, 63.4% use their tax credit to pay current bills or debt, 20% use it to gain assets such as a vehicle, house, or education, and 12.4% use it to build savings. The money returned to individuals and families through the EITC is critical in helping them meet basic needs and achieve a level of financial stability.

The Role of United Way

Recognizing the EITC's potential impact in helping individuals and families become financially stable, United Ways are playing a key role in promoting the EITC. United Way's capacity for partnership-building is particularly well-suited to EITC outreach and free tax preparation efforts. According to data from the IRS, 301 EITC Outreach Coalitions currently exist, of which United Way is listed as a partner in 166, making the United Way its largest national partner.

United Ways are connecting the EITC to additional impact strategies by utilizing 2-1-1 to raise awareness and educate the community about the EITC and free tax assistance sites, using the EITC as an access point for public benefits, and partnering with financial institutions to provide individuals and families with bank accounts and financial services to cash and deposit their EITC.

At a national level, United Way of America is working to increase the number of United Ways who engage in EITC outreach, education, and free tax preparation, deepen the engagement of United Ways currently leading or participating in campaigns, and increase the number of local United Ways who link EITC outreach to larger financial stability work. As part of this effort, United Way of America is a steering committee member of the National EITC Outreach Partnership, which seeks to promote EITC outreach, free tax preparation alternatives, and financial stability strategies in communities across the country.

Resources

- The Center on Budget and Policy Priorities' 2006 EITC outreach kit:
<http://www.cbpp.org/eic2006/>
- The IRS website contains information on EITC eligibility:
<http://www.irs.gov/individuals/article/0,,id=96406,00.html>
- The Brookings Institute's website provides research on how the EITC is reinvested to benefit communities: <http://www.brookings.edu/metro/eitc.htm>
- The National Community Tax Coalition provides technical assistance on various aspects of EITC outreach and tax preparation at <http://www.tax-coalition.org/>

For More Information

For more information about United Way's Financial Stability Partnership, and financial stability strategies, visit the Knowledge Café at <http://online.unitedway.org/café>, join the financial stability listserv or send an email to fsp@uwa.unitedway.org.