

45 Percent of Households Will Pay No Income Tax This Year

Expansion of Earned Income Tax Credit program has contributed to statistic

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Nearly half of American households—45 percent—will pay no federal income tax this year, according to a [report](#) released by the Cato Institute.

“The huge expansion of the Earned Income Tax Credit (EITC) program is the main reason why fewer and fewer Americans are paying any federal income tax,” said Chris Edwards, the author of the report.

The program allows low-income households to pay no income tax at all and some families may receive a cash benefit. For example, a low-income family with two kids could receive a maximum benefit of \$5,548 if its income is within a certain threshold.

As it stands today, the EITC program is the largest federal cash transfer program for low-income households. The program granted \$69 billion in benefits in 2015.

While policymakers tout the program as a way to reduce poverty and encourage work, the author of the report says that it is primarily a spending program.

“Many conservatives support the EITC because it is a modest work incentive for some individuals,” Edwards said. “But they ignore the high cost of \$60 billion and work disincentive created for other taxpayers.”

“Policymakers need to remember that the EITC is a spending program, and thus \$60 billion must be extracted from taxpayers to pay for it,” Edwards said. “That extraction causes major economic damage.”

Policymakers claim that the program creates incentives for work, but the report suggests that this is not always the case.

“The EITC has a high error and fraud rate, and for most recipients it creates a disincentive to increase earnings,” states the report. “People are receiving excess EITC payments based on false information about items such as their income level, filing status, and qualifying children.”

“The EITC is an easy target for dishonest filers because it is refundable, meaning that people can simply file false tax returns and see if the Treasury sends them a check.”