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\$56B: EITC Payouts Hit Record

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By Ali Meyer

(CNSNews.com) - The “refundable portion” of Earned Income Tax Credit (EITC) payments hit a record \$56,189,578,000 in 2012, the latest year for which the Internal Revenue Service has made data available.

A total of \$64,128,627,000 in Earned Income Tax Credits was claimed in 2012. Of that, \$56,189,578,000 was the “refundable portion”--paid out of the Treasury in excess of the net taxes the recipient owed. That means that only \$7,939,049,000--or 12.4 percent--of the total Earned Income Tax Credit amount in 2012 was used for a tax reduction.

“The EITC is a refundable tax credit available to eligible workers with relatively low earnings,” the Congressional Research Service explains. “Under current law there are two categories of EITC recipients: childless adults and families with children. Because the credit is refundable, an EITC recipient need not owe taxes to receive the benefits. Eligibility for, and the size of, the EITC is based on earned income; age; residence, citizenship, and identification requirements; and the presence of qualifying children.”

“Claimants receive an EITC in one of three ways: as a reduction in income tax liability; as a year-end cash payment (refund) from the Treasury if the family has no income tax liability; or as a combination of reduced taxes and direct payments (refunds),” said CRS.

Chris Edwards, the Director of Tax Policy Studies at the Cato Institute and editor of DownsizingGovernment.org put the EITC data into context. “For 2011, total EITC benefits were \$63 billion and the refunded portion was \$55 billion--so that means that the \$55 billion is actually a spending program, and just \$8 billion was a tax cut,” said Edwards.

“The EITC expansion is garnering some Republican support, but I think that is a big mistake, and this is one reason why,” said Edwards. “The EITC is mainly a spending program, and a very expensive one at \$55 billion a year. That means that the federal government has to tax someone else to get the \$55 billion, and that extra tax burden causes damage to other taxpayers and the economy. There is no free lunch with spending programs. While supporters of the EITC point to the benefits, the program also causes \$55 billion in damage.”

“EITC supporters say that it’s a work incentive for people,” said Edwards. “Well that is true for some workers, but it is also a work disincentive for workers in the income range that the credit phases out. So in terms of work incentives, the EITC is a mixed bag.”

Along with EITC benefits increasing over time, so has the number of EITC recipients.

At the inception of the program in 1975 there were 6,215,000 recipients. By 2002, there were 21,574,000 recipients; and, by 2011, it had climbed to 27,912,000. In 2012, the number dropped slightly to 27,848,000