

Fast Facts: Crucial Tax Credits for New Jersey Working Families at Risk if Congress Fails to Act

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Key provisions of two federal tax credits that help working families build economic security – the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) – are at risk. This fall, Congress has the opportunity to save them. Improvements passed in 2009 have helped more working families receive the CTC, boosted the EITC for families with more than two children and reduced the “marriage penalty” that some two-earner families face in the EITC.¹ If Congress fails to act, these key provisions will expire at the end of 2017.

If Congress doesn't act:

- About 435,000 children in 219,000 New Jersey families will lose some or all of their credits
- These families will lose nearly \$256 million in federal credits each year that help them pay for necessities
- Each family will lose an average of \$1,166 a year in federal credits – the sixth highest among all 50 states
- About 213,000 children, and 480,000 New Jerseyans total, will be pushed into – or deeper into – poverty²

Congress has its best opportunity to make these important improvements permanent this fall, because it is also considering making permanent some business tax breaks. Congress should not take care of business interests while leaving behind millions of working families and their children.

Loss of Federal Credits Would Dwarf Recent State EITC Boost

The nearly 600,000 New Jersey households that receive the EITC will see larger credits at tax time starting next year, thanks to a long-awaited increase in the state EITC approved this summer. The state EITC will rise to 30 percent of the federal credit, providing these families with approximately \$120 million in new tax credits each year that will spur at least \$180 million in economic activity across the state.³

This is great news for New Jersey's working families, but the money they would lose if the federal improvements to the EITC and CTC expire would more than cancel out the economic

boost they will receive from the state EITC increase. In fact, the potential loss to New Jersey families is more than double the boost they'll receive from the state EITC increase.

And some New Jersey families receiving the EITC stand to lose even more, because a lower federal EITC means a lower state EITC, since the state credit is based on the amount of federal credit.

About 113,000 EITC families in New Jersey would lose \$66.1 million from the federal EITC if the improvements expire – an average of \$585 per family.⁴ A family losing that average amount, for example, would then lose an additional \$176 in New Jersey EITC, bringing the total loss in credits to \$761.

The EITC and CTC Reduce Poverty and Improve Lives

These tax credits provide work, income, educational and health benefits to millions of Americans who work for low pay – and their children. And they help in both the short and long run. These credits promote work, and because they improve children's school performance and overall well-being, they lead to increased earnings in adulthood.

A total of 222,000 New Jerseyans – including 114,000 children – made it above the federal poverty line thanks to the EITC and CTC, each year, on average, from 2011 to 2013.⁵

These credits, in short, are among the most effective tools our state and nation have to help families that work hard for low pay make ends meet and build a future. It's in all our interests to maintain, improve and expand them.

Congress Should Also Expand the EITC for Workers without Children

In addition to making the EITC and CTC improvements permanent, Congress should also fill a glaring hole in the EITC by expanding it for working men and women who don't have kids. Doing so could benefit about 350,000 New Jerseyans.⁶ Working adults without children and non-custodial working parents currently receive little or nothing from the EITC and are the only group that the federal tax code taxes into poverty. Changing that would boost employment and help these workers make ends meet at a time when many are just starting out in their work lives and are paid far too little to get by.

Leading policymakers on both sides of the aisle, including President Obama and House Speaker Paul Ryan, have proposed to make more childless workers eligible for the EITC and to expand the credit for those already eligible. Under these proposals, the credit for a single, childless adult with earnings right at the federal poverty line (about \$12,500 a year) would increase nearly fivefold, rising to \$841 from \$172.⁷

Endnotes

¹ For more detail on these provisions, see Citizens for Tax Justice, *Making the EITC and CTC Expansions Permanent Would Benefit 13 Million Working Families*, February 2015.

<http://ctj.org/pdf/ctceitreport2015.pdf>

² Center on Budget and Policy Priorities, *State Fact Sheets: The Earned Income and Child Tax Credits*, September 2015. <http://www.cbpp.org/research/federal-tax/state-fact-sheets-the-earned-income-and-child-tax-credits>

³ New Jersey Policy Perspective, *Increasing the EITC Would Boost New Jersey's Working Families*, June 2015. <http://www.njpp.org/reports/increasing-the-eitc-would-boost-new-jerseys-working-families>

⁴ Citizens for Tax Justice, *Making the EITC and CTC Expansions Permanent Would Benefit 13 Million Working Families*, February 2015. <http://ctj.org/pdf/ctceitreport2015.pdf>

⁵ Ibid 2

⁶ Executive Office of the President and U.S. Treasury Department, *The President's Proposal to Expand the Earned Income Tax Credit*, March 2014.

https://www.whitehouse.gov/sites/default/files/docs/eitc_report_0.pdf

⁷ Ibid 2

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