

# **Tax Tools for Children's Wellbeing: The Earned Income Tax Credit (EITC)**

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Origin

Intent

Effects (intended and  
unintended)

# ORIGIN

- Milton Friedman's 1962 *Capitalism and Freedom* proposed a “negative income tax” to replace other forms of social spending
- In 1975 just 6.2 million recipients received \$1.25 billion in credits
- “largest cash-transfer program for low-income workers with children” “largest federal anti-poverty program”

# INTENT

- Provides a wage subsidy for low-income workers
- Significant expansions of the EITC in the 1990s
- Studies showed:
  - Higher birthweights
  - Higher average reading and math scores
  - More likely to go to college

# EFFECTS (INTENDED OR UNINTENDED)

- A survey showed that recipients are “overwhelmingly positive about the EITC and preferred it to welfare” and observed that it “motivates them to work and gives them a sense of pride in receiving a tax refund based on their work”
- Former IRS Commissioner Werfel: “While there is need for further research, our initial findings support the conclusion that Black taxpayers may be audited at higher rates than would be expected given their share of the population.... The ongoing evaluation of our EITC audit selection algorithms is the topmost priority within this larger body of work (on disparities in enforcement).”