



## Reducing Poverty and Promoting Work: The Federal Earned Income Tax Credit and Child Tax Credit

The federal Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) help low-income, working parents make ends meet. In fact, only parents who are currently employed are eligible for the credits. They are incredibly effective at promoting work and preventing poverty for families across the state.

In 2010, in Montana:

- 87,000 low-income households benefitted from the Earned Income Tax Credit.
- 54,000 low-income households benefitted from the Child Tax Credit.
- \$235 million came to the state through the EITC AND CTC.

**In Montana alone, the EITC and CTC help lift 14,000 children out of poverty every year.\*** Nationwide, over nine million people, including five million children, are lifted out of poverty due to the EITC and CTC each year. This number increased after 2009, when the “marriage penalty” was removed, increasing the availability and size of the credit for married families.

**The EITC and CTC are not handouts.** In fact, these credits encourage work and reduce the need for families to rely on public safety net programs. **To benefit from the EITC and CTC, a family must be working.** Studies have shown that EITC increases employment, particularly in single-mother families, while also reducing poverty.

These credits help low-wage earning families meet basic needs, such as paying the rent and putting food on the table. For example, the income of a single working mother earning minimum wage actually falls \$4,000 below the poverty line for a family of three. The EITC and CTC help bridge that gap, enabling working parents to care for their children without relying on public assistance. The benefits of the credit last for generations. Research shows that children lifted out of poverty perform better in school and are more likely to be employed as adults.

### The EITC and CTC Decrease Poverty and Encourage Economic Growth

**The EITC and CTC provide the best “bang for the buck” to improve the economy.** According to the Congressional Budget Office, tax incentives aimed at low- and moderate-income families support the struggling economy *more*, dollar for dollar, than those affecting high-income households. High-income families do not increase their spending after a tax break. However, low- and moderate-income families tend to spend the dollars from the EITC and CTC almost immediately to meet their families’ needs. Thus, the EITC and CTC increase much-needed consumer spending in a weak economy.

**The EITC and CTC are core parts of the tax code, not special interest tax “loopholes.”** The EITC and CTC, unlike loopholes designed to benefit a particular industry, company, or set of investors that employ high-priced lobbyists and make big campaign contributions, address national priorities and help struggling families meet their needs, encourage families to work, and provide a better future for poor children.

**The EITC and CTC help small businesses hire employees.** The business community supports the EITC and CTC because these credits help their low-wage employees cover work-related costs such as child care and transportation.

## Bottom Line

- The EITC and CTC keep children out of poverty and help struggling working families to afford the basics, like rent and food. They also improve children's school performance and incentivize work for millions of families.
- The EITC and CTC are important parts of the tax code which should be protected, not handouts or special-interest tax loopholes.
- The EITC and CTC enable Montana's economy to succeed by encouraging consumer spending and helping small businesses hire.
- By encouraging work, lifting families out of poverty, and stimulating the economy, the EITC and CTC reflect important Montana values, including safe families and prosperous communities.

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\* This and all other data for this issue brief can be found at [www.cbpp.org](http://www.cbpp.org).