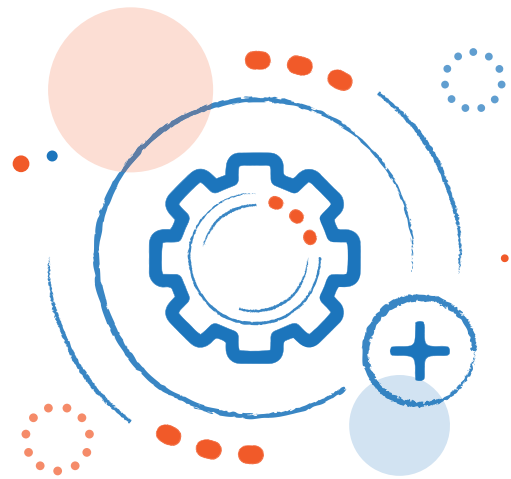


# Positioning the EITC as a **COVID-19** Recovery Tool



## Background

As the world heads into the third year of the COVID-19 pandemic, many Americans are still reeling from the economic toll. Workers who were furloughed, small business owners whose industries suffered, and parents who had to work fewer hours to meet their childcare needs are rebuilding their financial security. And for many lower-wage workers, the pandemic is the crisis that has pushed them to the brink.

While financial hardship is below its December 2020 peak, more than 1 in 4 adults are having trouble covering their regular expenses, [according to the Center on Budget and Policy Priorities](#). Housing insecurity continues to pose a particular challenge for renter households, with 1 in 6 renters behind on rent, including nearly 1 in 4 Black households, demonstrating the stark racial disparity in COVID-19's economic impact.



The federal Earned Income Tax Credit and Child Tax Credit were temporarily expanded in March 2021 through the American Rescue Plan Act, designed to provide emergency relief to workers and their families. Over 17 million workers and 27 million children's families are eligible for the expanded credits, which help families pay for essential needs like food, childcare, and utilities and are highly effective tools to reduce poverty. The benefits of the EITC are even greater in the 30 states, plus the District of Columbia and Puerto Rico, that offer a state-level credit. State-level EITCs are typically modeled on the federal credit and provide supplemental support to eligible workers and families.

In 2021, 11 states created new EITCs or expanded existing credits, many with the aim of providing additional support to families facing hardship caused by COVID-19. The experiences of EITC advocates in Washington, Maryland, and North Carolina underscore the importance of positioning the credit as a tool for providing direct relief to families experiencing hardship throughout the pandemic.

## Key Messages

**The EITC is a powerful tool to help families recover from the recession.**

In early 2021, the full breadth of the federal response to the pandemic was not yet apparent, and state EITCs served a policy lever to provide demonstrable immediate, targeted relief to the most vulnerable individuals and families – at a relatively limited fiscal impact to the state. Advocates in Maryland and North Carolina used this message in their campaigns to expand their state EITCs. Because a state stimulus payment for EITC-eligible households was also up for consideration in Maryland, advocates there described the ideal approach for EITC-

eligible families as “relief plus recovery.” A state stimulus payment would be a lifeline for these households facing immediate financial hardship, but expanding the state EITC would provide longer-term recovery that benefits both individual households and the entire state economy.

#### **People use flexible cash to meet their family’s needs.**

The EITC is one of few benefits for lower and middle-income families that provides direct payments – as part of recipients’ tax refunds – with no strings attached. Refundable tax credits give individuals and families support that helps them pay for essential needs like groceries, utilities, home and vehicle repairs, and even job or education training, according to the [Center on Budget and Policy Priorities](#). No two families are alike, and the EITC’s flexibility empowers recipients to use it for their most pressing needs. Advocates in Washington state highlighted this message in their campaign to fully implement a state EITC. Washington has no income tax, so the entire credit will go directly to eligible families, and emphasizing the importance of this flexibility helped the credit gain support.

#### **EITC recipients spend the money in their local communities.**

Everyday people drive economic recovery. Research shows that EITC recipients spend a portion of the credit on essential needs within their local community, supporting local businesses and jobs. According to researchers at California State University, data suggests that the credit has a multiplier effect and creates local economic impacts equivalent to at least twice the amount of EITC dollars received. Advocates in North Carolina described the EITC as having a ripple effect throughout communities, by helping families afford their needs while supporting the local economy.

#### **The EITC advances racial equity.**

In the U.S., a lengthy history of racial discrimination, injustices, and exclusionary policies has led to an economic system that perpetuates historical disadvantages faced by people of color. Reducing and ending these inequities requires a whole-of-government effort, and [state tax reform](#) can be a valuable piece of the puzzle.

The EITC in particular is a highly targeted policy lever to reduce poverty. While the EITC benefits a diverse range of households, it can be particularly powerful for people of color historically left out of economic opportunities. Advocates in Washington state and Maryland advanced the message of the EITC as a tool for racial justice, describing the credit as a way to cement 2020’s racial justice movement in actual policy. These state advocates also highlighted the importance of EITC eligibility

for taxpayers who file with an Individual Taxpayer Identification Number (ITIN), most commonly used by immigrant families. Including ITIN filers in the EITC is an effective way to advance equity for immigrant workers and their families.

#### **Most EITC recipients are “essential workers,” and supporting them is more important now than ever.**

Many of the workers deemed essential throughout the early months of the COVID-19 pandemic were in industries with low wages and some of the economic sectors most impacted by the pandemic. Many essential workers faced furloughs and job insecurity, cut hours or pay, and high-risk working conditions.

Maryland advocates highlighted that many essential workers – from grocery store clerks to home health aides – are lower-income and eligible for the EITC. Expanding the credit was one way to acknowledge the disproportionate harm that the pandemic has had on these workers, from financial challenges faced by those whose industries suffered or had their hours cut to those on the front lines who were more likely to contract COVID-19.

