The Stimulus and Rural Families




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To meet their basic needs, many low-income families rely on tax credits. The American Recovery and Reinvestment Act of 2009 (ARRA) has significantly expanded the Earned Income Tax Credit and the Child Tax Credit, while introducing, the Making Work Pay Tax Credit. As a result, an estimated 85 percent of American families with children will see more dollars in their pockets. Although these benefits accrue to families across the United States, the credits have the greatest impact on those residing in cities and—perhaps counterintuitively—rural places. Rural America is not always recognized as benefiting from such programs.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) began in 1975 as a program to aid the working poor. Expanded several times since then, it provides low-income tax filers with a refundable credit that can supplement their wages. Although a small credit is available to childless workers who are low-earning, the EITC provides much greater support to workers with children. The benefits accrue with each dollar of earnings until the maximum benefit is reached; they phase out as earnings increase. The accrual (or phase-in) rate, the phase-out rate, the earnings thresholds, and the maximum benefit vary by marital status and family size.

ARRA's expanded tax credit improves benefits in two ways.[1] First, by increasing the range of incomes eligible for the tax credit for married tax filers, it reduces the so-called marriage penalty for dual earners.[2] Second, for families with three or more children, it increases the rate at which benefits accrue and the maximum benefit amount. Although the changes bring only a very small percentage of new families into the EITC program, ARRA substantially increases the benefit amount for married filers and families with more than three children.

In rural America, an estimated 39 percent of families with children are eligible for the EITC. Forty-three percent of that group will see increased benefits, as will 47 percent of eligible urban families and 45 percent of eligible suburban families. There are some regional variations. The numbers for the Northeast are slightly lower than the national average, at 40 percent for rural families, 39 percent for urban families, and 36 percent for suburban families. Rates of increased benefits are generally highest in the South and West.

The EITC increase also varies by family structure. In rural America, the average increase in EITC benefits for a low-income but childless married couple will be only $21 per year, whereas married couples with one or two children can expect an average increase of $80 per year. Married families with three or more children can receive an additional $416 per year. Rural single-parent families with three or more children will be eligible for an average of $342 additional EITC dollars annually. Single tax filers with fewer than three children will not be eligible for increased benefits. Although a smaller proportion of suburban families are eligible for the EITC, suburban and urban families with increased benefits will typically see larger increases than their rural counterparts will.

Child Tax Credit

The Child Tax Credit, introduced in 1997, was designed to provide financial relief to families raising children. Families are eligible for up to $1,000 in CTC per qualifying child.[3] Funds are first applied to reducing a family's taxes. Families then qualify for a refund if their credit exceeds their taxes and they meet earnings requirements. ARRA reduced the earnings threshold at which the CTC could be refunded. Previously, a family had to earn at least $12,550 to receive any CTC refund. After passage of ARRA, the threshold was dropped to $3,000. Families are now eligible to receive—after taxes are satisfied—15 percent of every dollar earned above $3,000 up to their child tax credit. This expands the child tax credit to families whose very low earnings previously rendered them ineligible.

Nationwide, more than 900,000 rural children in 500,000 families are newly eligible for the CTC given the lowered threshold. However, most of these families will not be eligible to receive the full $1,000 per child CTC because their earnings are too low. Families with one child need to earn $9,667 to receive the full $1,000 CTC refund. Only about 41 percent of all newly eligible U.S. families with one child earn that much.[4] None of the newly eligible families with more than one child earn the necessary dollars to claim the full CTC for two or more children because, by definition, newly eligible families earn less than $12,550. In order to receive the $2,000 CTC for two children as a refund, earnings must meet or exceed $16,333. Therefore, the benefit per child does not increase as much for the larger families who are newly eligible. Among all rural families with children newly eligible for the CTC, the median anticipated credit is $774.

Making Work Pay

The Making Work Pay (MWP) tax credit is a new program introduced with passage of ARRA. It allows tax filers to receive up to 6.2 percent of their earned income—up to $400 for single filers and up to $800 for married couples—to offset their income taxes. MWP is targeted to low- and moderate-income filers and phases in with each dollar earned. It begins to phase out when income reaches $75,000 ($150,000 for dual-earner filers). Thus it is available not only to virtually all working poor families but also to most middle class families currently feeling pinched.

In rural America, an estimated 78 percent of families with children are eligible for the full MWP credit. An additional 7 percent do not have sufficient earnings for the full credit but are eligible for a partial credit. Three percent of rural families have earnings that are too high for a full MWP credit but may claim a partial one. Nine percent are ineligible as a result of having no earnings, and 6 percent are ineligible because their earnings are too high. In contrast, 74 percent of suburban families are eligible for the full credit, with an additional 11 percent eligible for a partial credit. Seventy-two percent of families residing in central cities can claim the full credit, with an additional 10 percent eligible for a partial one. The Internal Revenue Service has issued new tax withholding tables to reflect MWP, and Recovery.gov, a government web site established to explain and track ARRA, estimates that families will be seeing an additional $65 per month minimum in their take-home pay.

In sum, ARRA provisions expand tax relief to the vast majority of American families. Unclear at this writing, however, is whether the expansion of the tax credits will be included in the next budget after ARRA expires in 2010. President Obama has proposed making the expansion permanent, but it remains to be seen whether Congress will agree.

Although the tax credits provide important work supports, much more can be done to help make work pay off for America's lowest earners. Expanding the EITC to childless workers is often viewed as a crucial antipoverty measure. Additionally, families would benefit from a further decrease in the marriage penalty for dual-earner couples. And although people who are responsible for children and who have earned income receive important relief from the child tax credit, tying benefits to earnings means that the ones most affected by the rise in unemployment get left out. Policymakers need to consider helping those people, too.

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Endnotes

[1] Findings presented in this article are based on 2007 income values, reported in the 2008 Annual Social and Economic Supplement to the Current Population Survey and inflation-adjusted to 2009 dollars. See http://www.carseyinstitute.unh.edu/publications/PB-EITC-09.pdf; http://www.carseyinstitute.unh.edu/publications/PB-EITC-09.pdf; and http://www.carseyinstitute.unh.edu/publications/FS-MWP-09.pdf.

[2] Married couples are "penalized" because EITC eligibility is based on joint earnings and is not sufficiently higher for couples with two incomes: that is, the threshold is less than double the single threshold.

[3] Note that the Child Tax Credit phases out with high earnings.

[4] The percent is the same for rural families.