



EXTENDING THE EARNED INCOME TAX CREDIT: HOW THE ECONOMIC SECURITY PROJECT'S COST-OF-LIVING REFUND WOULD AFFECT FAMILY CAREGIVERS

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January 31, 2020

In recognition of the important work family caregivers do, the Economic Security Project (ESP) has proposed that they be eligible for the cost-of-living refund, an expansion of the earned income tax credit (EITC). Among other changes to the EITC, the cost-of-living refund would extend benefits to family caregivers who have little or no earnings from paid employment, essentially expanding the kinds of work eligible for tax benefits. We estimate the caregiver provisions of the proposal would increase tax benefits for 2.6 million families in 2020. The proposal would provide \$2,830 billion in tax benefits over fiscal years 2019–28;¹ extending full benefits to low-income family caregivers would account for about \$180 billion² of those costs. Benefits from the caregiver provision would be highly concentrated among very low-income families.

Family caregivers provide essential support to young children and to relatives with disabilities. For children, these supports aid healthy and safe development, which is a precursor to becoming a successful adult. For people with disabilities, caregivers may help them age in place, which can improve well-being and reduce overall costs associated with care, particularly absent publicly provided home-based care (Institute of Medicine 2008; Johnson and Weiner 2006; Mudrazija 2019). Caregivers also may have complex health care responsibilities while helping care recipients navigate the health care system (Spillman et al. 2014).

¹ These estimates include a “patch” designed to make sure families with two or more children receive benefits under the cost-of-living refund at least as great as under the EITC. For a complete description, see Maag, Marron, and Huffer (2019).

² This estimate is the cost of extending the cost-of-living refund to all qualifying caregivers. In previous work (Maag, Marron, and Huffer 2019), we estimated that expanding today's EITC to qualifying caregivers of young children would cost about \$70 billion over 10 years. The \$180 billion estimate here is higher because the cost-of-living refund is larger than the EITC and because the estimate includes more caregivers.

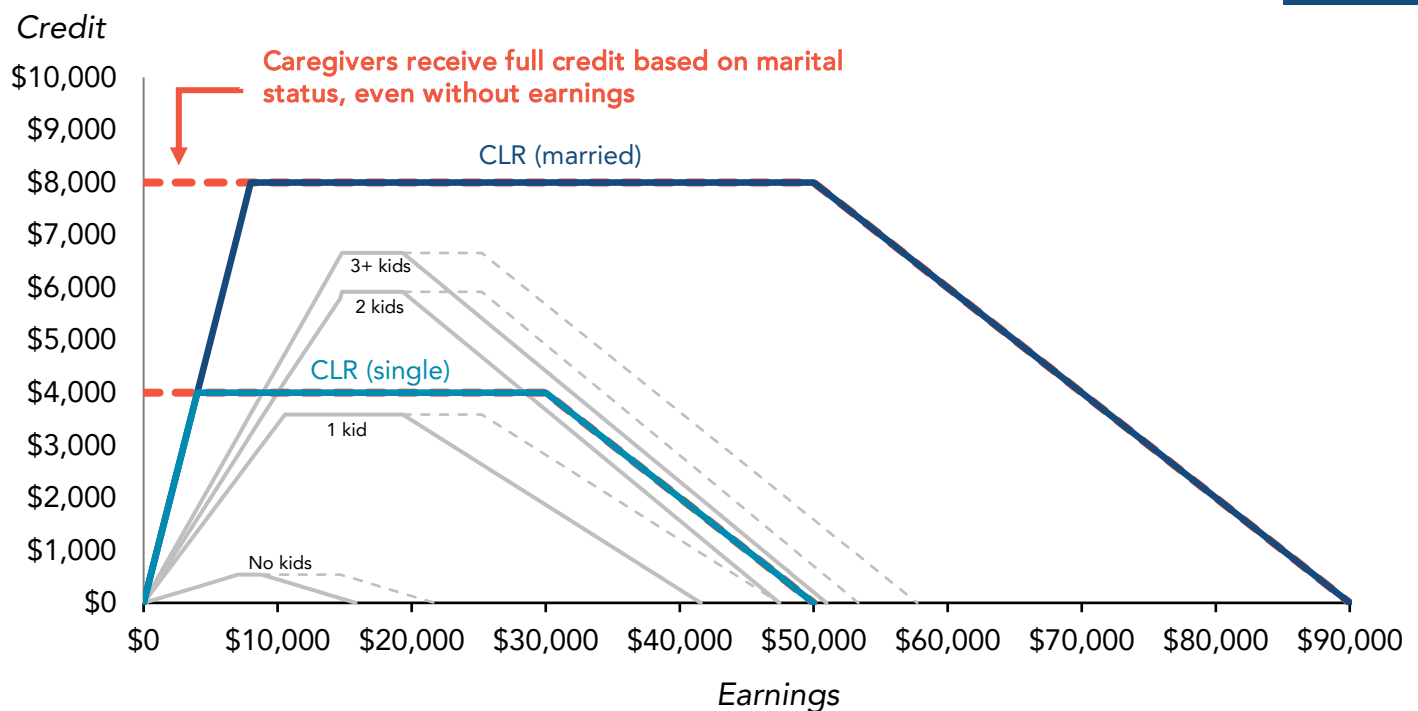
The EITC lifts more people out of poverty than any other program outside of Social Security (Fox 2019). But benefits extend only to people who work for pay and are largely limited to parents, though people between the ages of 25 and 64 without children living at home can receive a small benefit. The Economic Security Project has proposed significantly expanding the EITC and renaming it the cost-of-living refund. Along with other expansions, the proposal would extend the maximum credit (\$4,000 if single, \$8,000 if married) to family caregivers with earnings too low to qualify for the maximum credit (figure 1 and Maag, Marron, and Huffer 2019).

The cost-of-living refund would also benefit people age 65 and over who earn wages from working by removing the maximum eligibility age for people without custodial children at home, some of whom are caregivers. To receive EITC benefits under current law, workers must (a) live with a child who is under age 19 or who is ages 19 to 24 and in school full-time for at least five months of the year or (b) be at least age 25 and under age 65. The proposal would also base benefits largely on marital status rather than how many qualifying children live at home (as is the case with the EITC). This change would provide substantial benefits to workers without qualifying children, some of whom are also family caregivers. This analysis focuses on the provision that explicitly adds caregivers to the credit (those who are not included in credit benefits by any other provision because they earn too little to qualify for the maximum benefit).

The cost-of-living refund explicitly adds (1) caregivers of children and other relatives under age 6 or children age 25 and older who are totally and permanently disabled, and (2) caregivers of a spouse who is sufficiently disabled.

FIGURE 1

CLR Compared with EITC, 2020



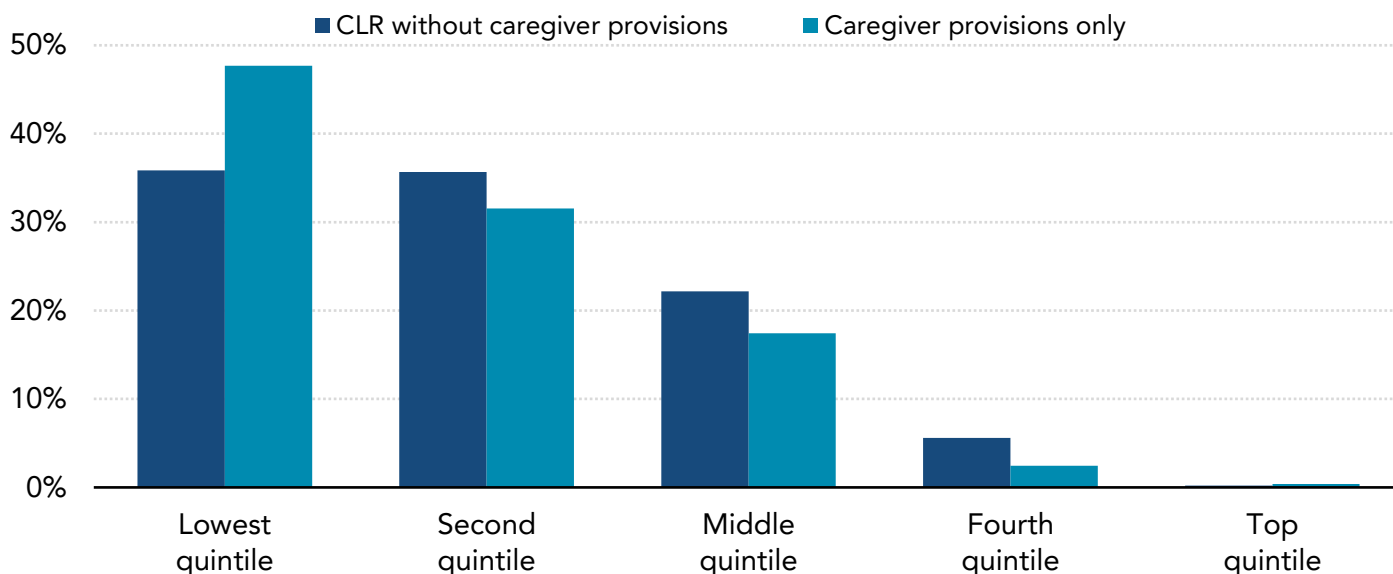
Source: IRS Revenue Procedure 2019-44 and Maag, Marron, and Huffer (2019).

Note: CLR = the cost-of-living refund; EITC = the earned income tax credit. The Economic Security Project has also proposed a "patch" (not shown) to the CLR that would provide a boost for parents with at least two children; this would guarantee their benefits under the proposal would be at least equal to those under the EITC. The EITC is shown in grey; the dashed lines show the extended income phase-out for married couples who file jointly.

FIGURE 2

Extending the CLR to Caregivers

Share of benefits by income quintile, 2020



Source: Urban-Brookings Tax Policy Center Microsimulation Model version 0319-1.

Note: CLR = the cost-of-living refund. Estimates assume the cost-of-living refund patch is in place. The number of eligible caregivers is calculated based on the Health and Retirement Study and anticipated tax-filing response. The total cost of the proposal over fiscal years 2019 to 2028 would be \$2.83 trillion; the cost of the caregiver expansions would be \$180 billion.

Over the 10-year budget window from fiscal year 2019 to fiscal year 2028, the cost-of-living refund would deliver about \$2,830 billion more in benefits than the current-law EITC would. Of that, we estimate that extending the maximum credit to low-income family caregivers with insufficient earnings to qualify for the maximum credit would cost about \$180 billion over the same budget window. An estimated 2.6 million family caregivers would benefit from the provisions, including family caregivers in 2020.³ Of these, we estimate 780,000 are parents providing care for children younger than age 6 or parents with dependents age 25 and over. The remaining 1.8 million are married couples where one spouse cares for the other. Almost four-fifths of benefits from allowing low-income caregivers to receive the maximum benefit would go to families in the bottom 40 percent of the income distribution (figure 2).

DEFINING FAMILY CAREGIVERS

Across generations, parents serve as caregivers for young children and children with disabilities while adult children serve as caregivers for older parents. In some cases, adult children simultaneously provide care for their own children and parents (Spillman and Pezzin 2000). Within generations, a sibling may provide care for another sibling, and a spouse may provide care to their partner who has a disability requiring assistance. Whatever the form, caregiving is often challenging work that makes a valuable contribution to society (Reinhard et al. 2019).

³ These estimates are based in part on reports of caregiving in the Health and Retirement Survey for people who appear to meet the definition of “disabled” in the child and dependent care tax credit. A broader definition of caregiving could increase this amount as high as 4.5 million families.

Treating family caregiving as “work” for purposes of calculating tax credits and extending tax benefits to older workers who may be caring for a spouse could provide substantial assistance to low- and moderate-income caregivers currently ineligible for benefits. It could be particularly valuable for caregivers who must reduce their paid work hours or leave the paid labor force altogether to provide adequate care. It would also help recognize the work family caregivers do.

FAMILIES WHO COULD BENEFIT FROM THE CAREGIVER EXPANSION

About 14 million families have at least one child under age 6.⁴ Further, between 34 million and 48 million adults care for people with at least one limitation in daily activities (Reinhard et al. 2019). In some cases, the demands of family caregiving necessitate a reduction in work being done for pay, including some caregivers leaving paid work altogether (Mudrazija 2019). Over time, caregivers, especially spouse caregivers, are more likely than noncaregivers to fall into poverty and to see their assets grow less (Butrica and Karamcheva 2015). Although most caregivers report positive experiences with their caregiving duties, a small segment of caregivers have reported experiencing adverse health outcomes as well as being overwhelmed and exhausted by caregiving (Spillman et al. 2014). For low- and moderate-income families, a reduction in paid work can make them economically more vulnerable. The cost-of-living refund caregiver provisions are intended to hedge against that vulnerability.

Although many family members provide care, the caregiver provisions of the proposal extend to caregivers of children and other relatives under age 6 or of children who are totally and permanently disabled who qualify for the other-dependent credit portion of the child tax credit. Caregivers of a disabled spouse would also qualify for credit benefits. A disabled spouse must be physically or mentally unable to care for themselves and they must be considered a dependent for tax purposes. Allowing these groups to receive the maximum credit would benefit about 2.6 million families in 2020.

Several provisions in the cost-of-living refund would increase benefits for millions of low- and middle-income Americans. The credit would expand benefits to people age 65 and over without children at home by removing the maximum age of eligibility the EITC maintains. The credit would base benefits largely on marital status, which would provide substantial benefits to workers without children at home, some of whom are also family caregivers. Allowing low-income family caregivers to receive the maximum benefit would not provide benefits to all family caregivers, but it represents a measured approach to providing assistance to the lowest-income caregivers and would build on existing tax concepts—an important first step toward recognizing the essential work family caregivers do.

⁴ “Table 4. Families with Own Children: Employment Status of Parents by Age of Youngest Child and Family Type, 2017-2018 Annual Averages,” US Bureau of Labor Statistics, last modified April 18, 2019, <https://www.bls.gov/news.release/famee.t04.htm>.

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ACKNOWLEDGMENTS

This brief was funded by the Economic Security Project. We are grateful to the organization and to all our funders, who make it possible for the Urban-Brookings Tax Policy Center to advance its mission. The authors thank Mark Mazur and Donald Marron for review of earlier drafts and Erin Huffer and Jeffrey Rohaly for modeling assistance.

The views expressed are those of the authors and should not be attributed to the Urban-Brookings Tax Policy Center, the Urban Institute, the Brookings Institution, their trustees, or their funders.

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