#94 Reduce Anti-Marriage Penalties in the Earned Income Tax Credit (EITC)

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2020	2016–2025
$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$30,000	$60,000

Heritage Recommendation:

Restrict eligibility for Earned Income Tax Credit (EITC) payments to married parents, adoptive parents, and foster parents who reside with and support the child. Single parents who reside with the child and have formal legal custody would also be eligible. Eliminate eligibility for relatives of the child and parents who do not have legal custody. Adults who claim the EITC for dependent children must reside with the child. Requirements for documentation of residency should be strengthened. This proposal saves approximately $6 billion annually, and $60 billion over 10 years.

Rationale:

The purpose of the EITC is to provide a refundable tax credit to low-income parents with children. To receive the credit, a person should have to be the actual custodial parent of the child. Non-custodial parents should not be eligible for the EITC. In the event of cohabiting, non-married parents should receive the credit based only on the mother's income.

Erroneous overclaims equal between 29 percent and 38 percent of the dollar value of EITC claims.[66] Refundable EITC payments in 2012 equaled some $52.6 billion;[67] therefore the overclaim amount would be between $15 billion and $20 billion.

Roughly 20 percent of all EITC claims involve a qualifying-child error—cases in which the parent or the child or both are not eligible to receive the credit.[68] About three-quarters of overclaims with qualifying-child errors involve false claims of residency. Many qualifying-child errors involve payments to relatives and non-custodial parents of the child, many of whom do not reside with the child. Restricting EITC eligibility and tightening residency documentation would reduce qualifying child errors and other unjustified payments.

Current qualifying child claim errors may cost taxpayers as much as $10 billion per year. We estimate savings could equal roughly 35 percent of the cost of qualifying child errors, or $3.5 billion per year.

Additional Reading:

- Robert Rector, "How Welfare Undermines Marriage and What to Do About It," Heritage Foundation *Issue Brief* No. 4302, November 17, 2014, http://www.heritage.org/research/reports/2014/11/how-welfare-undermines-marriage-and-what-to-do-about-it.

Calculations:

Savings were calculated by Heritage analyst Robert Rector, Senior Research Fellow in the Institute for Family, Community, and Opportunity.