End the tax penalty against immigrant workers

Give 2.4 million families a cost-of-living boost

April 2020

The Earned Income Tax Credit is a powerful path out of poverty in America, but millions of immigrant households are barred from receiving it, even though they would otherwise qualify based on their work and earnings. Allowing all working families who qualify to receive the credits they earn would strengthen all communities and boost the economy.

The Earned Income Tax Credit (EITC) is a financial lifeline for millions of workers. The EITC is one of the most powerful paths out of poverty in America. Last year, the federal EITC helped 25 million workers and families with an average boost of almost $2,500 at tax time.[1] The impact is significant: tax refunds from the EITC can be as much as a 45% increase in a family's annual income.[2] Recipients rely on them to catch up on bills, buy necessities, or save for emergencies.[3]

But the federal and state tax codes discriminate against many immigrants who work and pay taxes. Workers without a "working" Social Security number (SSN) are barred from receiving the federal EITC, even though they would otherwise qualify based on their work and earnings. State EITCs, which generally base eligibility on the federal credit, contain the same disqualifying restriction. Those hit the hardest by this restriction are immigrant workers who use the lawful methods the IRS provides to pay their taxes, including:

- Workers who file their taxes using a federally assigned Individual Taxpayer Identification Number (ITIN). ITIN holders include: undocumented workers, student visa holders, some family members of workers with employment visas, and some survivors of domestic violence.
- U.S. citizens who claim any family member without a SSN on their taxes, including children;
- Other workers whose work authorization has expired and are therefore no longer "lawfully present," especially Deferred Action for Childhood Arrivals (DACA) recipients and Temporary Protected Status (TPS) holders, whose lapse in status is due to the Trump Administration's move to rescind these statuses and the uncertainty surrounding the corresponding ligtiation.

Excluding immigrant families is antithetical to the goals of the EITC. Promoting work and reducing poverty, particularly among families with children, are primary goals of the EITC. The credit allows the lowest-wage workers to earn a higher credit with each dollar earned. But the exclusion of immigrant families undermines this incentive. Even though

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1 IRS, "EITC Fast Facts," http://bit.ly/31Ilt61.
2 Center on Budget and Policy Priorities, "Policy Basics: The Earned Income Tax Credit," December 2019, http://bit.ly/2vcERfh.
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immigrant families make the same contributions to their workplaces, local economies, and communities as EITC-eligible families, they are excluded from receiving the tax credits they earned.

The exclusion of ITIN filers and other immigrant families diminishes the EITC's power to improve the wellbeing of children. The EITC is structured to support families with children, and has a long and successful track record of reducing poverty among those families. Research also shows that children whose parents receive the credit gain lifelong benefits.[4] Denying tax-paying immigrant families access to one of our most powerful financial lifelines exacerbates challenges for immigrant workers and flies in the face of the stated goals of the EITC.

There are no good policy reasons to deny immigrant families the tax credits they've earned. Immigrants in the U.S. today are facing an onslaught of anti-immigrant policies from the current administration – including the recent revocation of the Child Tax Credit for a million immigrant children, mostly Dreamers, through the Republican Tax Cuts and Jobs Act.[5]

It can't be ignored that most immigrants in the U.S. are people of color.[6] Depriving workers of critical financial lifelines based on where they were born is discrimination that props up patterns of institutional and systemic racism.

Denying immigrant workers the EITC operates as a tax penalty against 2.4 million immigrant households. Recent research by the Institute on Taxation and Economic Policy (ITEP) reveals that our current system denies 2.4 million immigrant families the benefits of the federal EITC. Nearly 1.6 million immigrant households, many of the same families who would also be eligible for federal credits but for the exclusion, are excluded from state EITCs.[7]

Allowing immigrant families access to the same tax credits would strengthen state and local economies. Workers are the backbone of the economy from the national to local level. Improving the financial security of all workers, regardless of immigration status, would encourage growth and prosperity across the country. Workers with more money in their pockets can more easily meet their families' needs and participate in their local economies.

The attached tables from the Institute on Taxation and Economic Policy show the state-by-state impact of excluding ITIN filers from the federal EITC and state EITCs. For each state, they show: the total number of eligible filers; the estimated number of actual recipients (based on each state's EITC uptake rate); and the total benefits that would be distributed under each scenario. For more information on methodology, visit ITEP.org.

[4] Marr, et al., "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds," Center on Budget and Policy Priorities, October 2015, http://bit.ly/2HmCr0v.

[5] Samantha Washington, "Child Tax Credit and Earned Income Tax Credit Lifted 10.6 Million People out of Poverty in 2018," Center on Budget and Policy Priorities, October 2019, http://bit.ly/2uuSkit.

[6] Jynnah Radford, "Key findings about U.S. immigrants," Pew Research Center, June 2019, https://pewrsr.ch/2UO83UH.

[7] Institute on Taxation and Economic Policy analysis, March 2020 using SPEC Returns Database for the ITIN market segment for tax year 2015 and ITEP's Microsimulation Tax Model.

STATE POLICY

Table 1

Impact of Including ITIN Filers in State EITCs Based on IRS 2015 ITIN Filer Data

ITIN return counts based on unadjusted 2015 IRS data. All $s expressed in 2020.

	ASSUMING FULL PARTICIPATION		ASSUMING PARTICIPATION RATES OF THE CURRENTLY ELIGIBLE EITC POPULATION*	
STATE	EITC ELIGIBLE ITIN RETURNS	STATE EITC $s	ESTIMATED EITC ITIN RETURNS	STATE EITC $s
California	723,935	$105,798,000	480,840	$70,271,000
Colorado	47,190	$11,206,500	31,640	$7,514,000
Connecticut	18,765	$10,625,500	13,275	$7,516,500
Delaware	5,330	$1,139,500	3,550	$759,000
District of Columbia	5,390	$4,915,000	3,445	$3,140,500
Hawaii	280	$87,000	205	$64,000
Illinois	156,330	$74,376,500	110,445	$52,547,000
Indiana	38,040	$8,429,500	27,215	$6,031,000
Iowa	8,425	$3,186,000	6,010	$2,273,500
Kansas	19,020	$9,156,500	12,820	$6,172,500
Louisiana	8,720	$1,247,500	6,310	$903,000
Maine	65	$15,000	45	$10,500
Maryland	57,310	$30,815,500	40,385	$21,715,500
Massachusetts	18,515	$13,051,000	13,230	$9,326,500
Michigan	17,195	$2,723,500	12,440	$1,971,000
Minnesota	20,635	$17,386,500	14,655	$12,346,000
Montana	110	$8,000	80	$5,500
Nebraska	10,090	$2,492,500	7,485	$1,848,500
New Jersey	77,560	$78,168,500	54,100	$54,522,500
New Mexico	16,440	$7,621,500	11,570	$5,364,000
New York	100,905	$76,943,500	74,195	$56,576,500
Ohio	18,045	$3,821,000	13,205	$2,796,000
Oklahoma	22,710	$1,492,500	15,165	$996,500

*State calculations that adjust for participation are generated by reducing estimates of EITC eligible ITIN filers by both the federal participation rates as published by the IRS for TY 2016 (which is the most recently reported rate in the EITC Central at **https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states**) and a further 10% reduction to account for attrition between federal EITC and state credit claimants.

Source: Institute on Taxation and Economic Policy analysis, March 2020 using SPEC Returns Database for the ITIN market segment for tax year 2015 and ITEP's Microsimulation Tax Model. The 2015 data was provided upon special request and represents the most recent year of data available at the time of the analysis.

Table 1, continued

Impact of Including ITIN Filers in State EITCs
Based on IRS 2015 ITIN Filer Data

ITIN return counts based on unadjusted 2015 IRS data. All $s expressed in 2020.

	ASSUMING FULL PARTICIPATION		ASSUMING PARTICIPATION RATES OF THE CURRENTLY ELIGIBLE EITC POPULATION*	
STATE	EITC ELIGIBLE ITIN RETURNS	STATE EITC $s	ESTIMATED EITC ITIN RETURNS	STATE EITC $s
Oregon	30,945	$7,176,000	20,440	$4,740,500
Rhode Island	3,500	$1,408,500	2,700	$1,087,500
South Carolina	20,405	$2,210,000	14,400	$1,559,500
Vermont	Vermont has a state credit at 36% of the federal EITC but no ITIN returns for Vermont were included in the 2015 IRS data.			
Virginia	42,695	$12,659,500	30,240	$8,966,500
Washington	69,170	$16,821,500	46,565	$11,324,500
Wisconsin	30,800	$11,140,500	22,065	$7,981,000

*State calculations that adjust for participation are generated by reducing estimates of EITC eligible ITIN filers by both the federal participation rates as published by the IRS for TY 2016 (which is the most recently reported rate in the EITC Central at **https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states**) and a further 10% reduction to account for attrition between federal EITC and state credit claimants.

Source: Institute on Taxation and Economic Policy analysis, March 2020 using SPEC Returns Database for the ITIN market segment for tax year 2015 and ITEP's Microsimulation Tax Model. The 2015 data was provided upon special request and represents the most recent year of data available at the time of the analysis.

FEDERAL POLICY

Table 2

Impact of Including ITIN Filers in the Federal EITC
Based on IRS 2015 ITIN Filer Data

ITIN return counts based on unadjusted 2015 IRS data. All $s expressed in 2020.

	ASSUMING FULL PARTICIPATION		ASSUMING PARTICIPATION RATES OF THE CURRENTLY ELIGIBLE EITC POPULATION*	
STATE	EITC ELIGIBLE ITIN RETURNS	FEDERAL EITC $s	ESTIMATED EITC ITIN RETURNS	FEDERAL EITC $s
Alabama	20,130	$67,272,500	16,065	$53,683,500
Alaska	250	$559,500	180	$402,500
Arizona	56,850	$175,680,500	43,605	$134,747,000
Arkansas	13,435	$41,600,000	10,750	$33,280,000
California	723,935	$1,972,878,500	534,265	$1,455,984,500
Colorado	47,190	$112,063,500	35,160	$83,487,500
Connecticut	18,765	$46,197,500	14,750	$36,311,000
Delaware	5,330	$14,288,500	3,945	$10,573,500
District of Columbia	5,390	$14,662,500	3,825	$10,410,500
Florida	83,890	$228,642,500	68,540	$186,801,000
Georgia	70,435	$210,151,000	56,275	$167,910,500
Hawaii	280	$631,000	230	$515,500
Idaho	10,870	$30,064,000	8,530	$23,600,500
Illinois	156,330	$413,203,500	122,720	$324,365,000
Indiana	38,040	$98,164,500	30,240	$78,041,000
Iowa	8,425	$21,238,500	6,680	$16,842,000
Kansas	19,020	$53,861,500	14,245	$40,342,500
Kentucky	15,205	$50,188,500	12,390	$40,903,500
Louisiana	8,720	$24,953,500	7,010	$20,062,500
Maine	65	$142,000	50	$110,500
Maryland	57,310	$148,079,500	44,875	$115,946,000
Massachusetts	18,515	$43,503,500	14,700	$34,542,000
Michigan	17,195	$45,393,500	13,825	$36,496,500
Minnesota	20,635	$47,988,000	16,280	$37,862,500
Mississippi	7,885	$23,984,000	6,495	$19,763,000

*Federal calculations that are adjusted for participation use participation rates as published by the IRS for TY 2016, which is the most recently reported rate in the EITC Central at **https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states**.

Source: Institute on Taxation and Economic Policy analysis, March 2020 using SPEC Returns Database for the ITIN market segment for tax year 2015 and ITEP's Microsimulation Tax Model. The 2015 data was provided upon special request and represents the most recent year of data available at the time of the analysis.

FEDERAL POLICY

Table 2

Impact of Including ITIN Filers in the Federal EITC Based on IRS 2015 ITIN Filer Data

ITIN return counts based on unadjusted 2015 IRS data. All $s expressed in 2020.

	ASSUMING FULL PARTICIPATION		ASSUMING PARTICIPATION RATES OF THE CURRENTLY ELIGIBLE EITC POPULATION*	
STATE	EITC ELIGIBLE ITIN RETURNS	FEDERAL EITC $s	ESTIMATED EITC ITIN RETURNS	FEDERAL EITC $s
Missouri	10,830	$33,767,000	8,490	$26,473,500
Montana	110	$258,500	85	$203,500
Nebraska	10,090	$24,923,000	8,315	$20,536,500
Nevada	52,580	$134,491,000	39,225	$100,330,500
New Hampshire	540	$1,119,500	405	$835,000
New Jersey	77,560	$195,421,000	60,110	$151,451,000
New Mexico	16,440	$44,833,500	12,855	$35,059,500
New York	100,905	$256,478,500	82,435	$209,543,000
North Carolina	89,775	$259,462,000	71,730	$207,310,000
North Dakota	290	$561,500	225	$439,000
Ohio	18,045	$52,135,500	14,670	$42,386,500
Oklahoma	22,710	$59,318,500	16,850	$44,014,500
Oregon	30,945	$74,735,000	22,715	$54,855,500
Pennsylvania	14,945	$38,669,500	12,090	$31,283,500
Rhode Island	3,500	$9,388,500	3,000	$8,055,500
South Carolina	20,405	$60,584,500	16,000	$47,498,000
South Dakota	1,065	$2,541,500	880	$2,104,500
Tennessee	36,180	$103,656,000	29,450	$84,376,000
Texas	309,890	$880,295,000	241,095	$684,869,500
Utah	33,540	$93,493,000	25,155	$70,120,000
Vermont	No ITIN returns for Vermont reported in the 2015 IRS data			
Virginia	42,695	$111,025,000	33,600	$87,376,500
Washington	69,170	$168,216,500	51,740	$125,826,000
West Virginia	235	$573,500	190	$464,000
Wisconsin	30,800	$76,562,000	24,515	$60,943,500
Wyoming	2,040	$4,681,000	1,525	$3,492,000

*Federal calculations that are adjusted for participation use participation rates as published by the IRS for TY 2016, which is the most recently reported rate in the EITC Central at **https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states**.

Source: Institute on Taxation and Economic Policy analysis, March 2020 using SPEC Returns Database for the ITIN market segment for tax year 2015 and ITEP's Microsimulation Tax Model. The 2015 data was provided upon special request and represents the most recent year of data available at the time of the analysis.