From Birth through Young Adulthood: Reforming Illinois Tax Policy for Economic Security and Racial Equity

ILLINOIS LABOR & EMPLOYMENT RELATIONS

PROJECT FOR MIDDLE CLASS RENEWAL

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Author Bio

Dylan Bellisle is a doctoral candidate at the School of Social Service Administration at the University of Chicago. His research focuses on how public policy shapes family economic well-being and the financial coping and social mobility strategies of low-income families. In his dissertation, *The Role of the Earned Income Tax Credit in Family Economic Decision Making,* Dylan challenges the normative definition of "family" that is embedded within one of the largest anti-poverty programs in the United States - the Earned Income Tax Credit. His dissertation illustrates the misalignment between EITC eligibility and family life may be especially complicated for families of color due to socio-political and economic forces that shape family structure and formation, and the ways in which families establish and maintain forms of social support expressed through mutual care. Dylan received a B.A. in psychology from the University of South Florida and a Master's in Social Work from the University of Illinois at Chicago. Prior to his doctoral studies, Dylan served as a program manager at the Center for Economic Progress on a demonstration project of a periodic payment of the Earned Income Tax Credit in collaboration with researchers at the University of Illinois at Urbana-Champaign. Dylan has past professional experience as a social service caseworker, a union organizer, and a Peace Corps volunteer.

Acknowledgement

Mina Lee is a doctoral candidate at the School of Social Service Administration at the University of Chicago. Her research focuses on mental health and socioeconomic mobility of immigrants in the racialized context of the United States.

Executive Summary

The tax code is a powerful tool used to address a myriad of policy goals. Unfortunately, instead of narrowing income and wealth gaps, various tax provisions continue to reinforce historical gender and racial biases in the tax code. Some advocates argue that the Earned Income Tax Credit (EITC) and the refundable portion of the Child Tax Credit (CTC) are exceptions to the generally inequitable tax system, as these credits provide substantial support to low- and moderate-income families.

Illinois has a role to play in addressing the gender and racial inequities in the tax and revenue system. This policy report outlines reforms to the Illinois tax code that would provide tax relief to Illinois parents with young children, and young adults who are at the beginning of their career. It directs addition to how changes could impact racial tax equity in Illinois

Black and Latinx residents account for about 31% of Illinois's population, yet consist of 58% of families with income below the federal poverty line (FPL).

- The Federal EITC provides vital tax relief as a wage supplement to Black and Latinx families in Illinois. Nearly half of Black and Latinx families are eligible for the EITC.
- The EITC brings an estimated total of $1.44 billion to Illinois families with children, and $339 million and $429 million to Black and Latinx families respectively.
- Black and Latinx families with children under six years old have lower median incomes ($32,100 and $47,800, respectively) compared to white families ($88,900).
- Black and Latinx families of young children are about three and a half times more likely to be eligible for the EITC compared to white families.

Some families may be unaware that they can claim their young adult child who is in school. Some families may experience barriers to claiming their young adult child in school.

- Illinois families, on average, would lose $1,350 in EITC if they are unable to claim their qualifying adult child who is a full-time student.
- The inability to claim adult children could result in a total loss of $61 million to families.

A new Illinois Young Child Tax Credit (YCTC) of $500 for families with a child under the age of six would bring about $78 million to the pockets of hard-working families.

- Over half of Black and Latinx families with young children would qualify for the YCTC.
- The average YCTC amount a family would receive is $370. This complements the average IL EITC of $400 that families with young children currently receive.

Expanding the age eligibility for the IL EITC to include workers between 18 to 25 years old who do not claim a dependent child, would deliver tax relief to an estimated 43% of young adult Illinois workers who are early in their career.

- An augmented IL EITC worth up to 36% of the federal EITC would provide an average of $102 in tax relief to young adults.
- A larger percentage of Black young people are eligible for the IL EITC. Young Black workers are 1.27 times more likely to qualify compared to young white workers.

A new Working Student Tax Credit (WSTC) would provide tax relief to young adults who work and go to school.

- The WSTC could help ensure that parents are still able to claim their adult children who are full-time students.
- Following augmented IL EITC, the WSTC would deliver an average $91 in tax relief to young adults who are working students.

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Introduction

The United States federal tax code is a powerful tool used to address a myriad of policy goals. From incentivizing business investment and property ownership to supporting families with children, lawmakers and policy advocates look to the tax code as a mechanism to advance various policy agendas. Most recently, the federal government used the tax code to have the IRS and Department of Treasury issue direct payments to millions of Americans in the wake of the COVID-19 pandemic.

Due to the ability of the tax code to impact the income and wealth of nearly every household in the United States, several policy researchers and advocates have rightly directed their attention to how it can be a tool to advance gender and racial equity (Huang & Taylor, 2019; Kleiman et al., 2019). A three-part series of reports published in 2019 by the National Women's Law Center outlines various ways the tax code undermines gender and racial equity. The reports demonstrate that households headed by women and people of color have faced barriers to wealth accumulation historically, and how present-day tax provisions continue to reinforce gender and racial biases. These policies range from what is considered a business expense to the caregiving of family members.

Policy researchers and advocates point to the Earned Income Tax Credit (EITC) and the refundable portion of the Child Tax Credit (CTC) as current tax policies that are exceptions to the generally inequitable tax system. Together, these credits provide substantial support to low- and moderate-income families with children.

While the EITC and CTC are useful tax policies, they pale in comparison to the numerous provisions available to middle- and upper-income households. For example, the mortgage interest deduction, which allows a taxpayer to deduct interest paid on mortgage debt up to $750,000, cost a total $66 billion in lost federal tax revenue in 2017, which is $1 billion more than what was allocated to lower-income households through the EITC. Though theoretically anyone who has a mortgage can qualify for the mortgage interest deduction, the deduction overwhelmingly benefits high-income households as they are more likely to own homes and have larger mortgages. Indeed, in 2017 it was estimated that only 16% of the total mortgage interest deduction benefit went to households with incomes less than $100,000 (Drukker et al., 2018). Furthermore, highlighting the racial inequity within the tax system, another study in 2015 found that only 13% of the mortgage interest deduction benefits went to Black and Latinx families, compared to the staggering 78%, which went to white households (Kleiman et al., 2019).

Advocates and lawmakers have offered several reforms to begin addressing the gender and racial inequities in the federal tax code. One reform targeting families with children includes eliminating the minimum income required to receive the CTC so lower-income families can benefit more fully from the credit. A second reform expands the age of eligibility for the EITC for workers who do not have children in the home, as currently, workers between 18 to 24 years old and over 65 years old cannot receive the EITC if they do not also claim a child on their tax return. However, federal lawmakers have not moved on these fronts. Instead, the 2017 Tax Cuts and Jobs Act largely exasperated the gender and racial disparities already embedded within the

tax code, by providing the most significant amount of tax relief to wealthy families and large corporations (Huang & Taylor, 2019).

In the absence of federal reform, states have a role to play in addressing the gender and racial inequities in the tax and revenue system. However, states with a flat income tax, like Illinois, exacerbate inequities due to their regressive tax structures. Though Illinois is one of the twenty-nine states to enact its own state-level EITC, at only 18% of the federal EITC, it provides limited relief. Also, since Illinois mimics the federal EITC, it leaves out young workers under 25.

In response to limitations in the EITC application, this policy brief will layout possible reforms to the Illinois tax code that will build on policies proposed and passed in other states. The brief begins with a brief background summary on the federal and Illinois EITCs and their impact on families and the Illinois economy. We will then consider the implications of different reforms to the Illinois tax code, with specific attention to how the changes could impact racial tax equity in the state.

Background on the Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is heralded as one of the most effective and successful anti-poverty programs in the United States. As a refundable tax credit designed to supplement the wages of low to moderate-income families, the EITC delivered about $63 billion to 25 million eligible workers in 2018. This translated to about 5.6 million people being lifted out of poverty, including about 3 million children (Center on Budget and Policy Priorities, 2019).

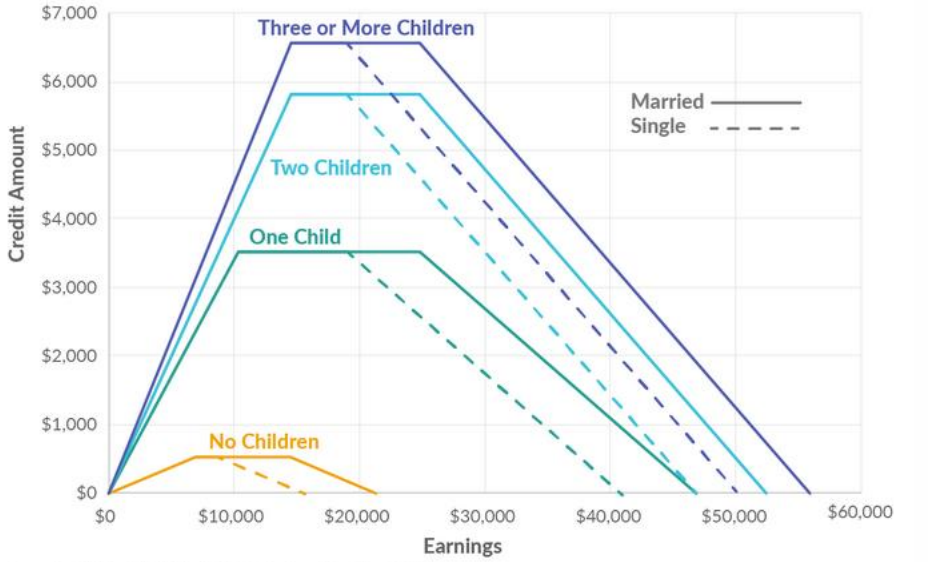
The EITC has broad bipartisan support due to its nature as a wage supplement, limited administrative costs, and ability to address family poverty (Center on Budget and Policy Priorities, 2019). This bipartisan support is bolstered by evidence that the EITC increases labor force participation, can lead to wage growth, and provides a vital economic safety-net for families(Gudmunson et al., 2010; Hoynes & Patel, 2015; Marr et al., 2012; Mendenhall et al., 2012; Smeeding et al., 2000). Research has also demonstrated that the EITC has a positive impact on birth outcomes, child health outcomes, and child education achievement (Bastian & Michelmore, 2018; Baughman & Duchovny, 2016; Hill & Gurley-Calvez, 2019; Lundstrom, 2017).

In Illinois, about 932,000 workers received the federal EITC for an average credit amount of $2,517, which brought a total of $2.3 billion to the state in 2018 (Internal Revenue Service, 2019). This has a powerful impact on the Illinois economy as research demonstrates that EITC recipients spend the most of their tax refund locally and it is estimated that the EITC generates between $1.50 to $2 in economic activity for each $1 received by a worker (Center on Budget and Policy Priorities, 2019; Sutphen, 2018).

EITC Qualifications

Eligibility for the EITC is determined through a combination of a taxpayer's earned income, filing status, the number of qualifying children claimed, and citizenship/immigration status. As demonstrated by *Figure 1*, a taxpayer begins to receive the credit starting with their first dollar of earned income, and the amount of the credit increases as one's earned income increases until it reaches the maximum credit amount or the "income plateau." Once at the "plateau," additional earned income does not change the credit amount. At the end of the plateau income range, the amount of the EITC begins to decrease as earned income increases until the credit amount reaches zero, and the taxpayer is no longer eligible. As seen in *Figure 1*, the rate of the phase-in and phase-out, as well as the maximum credit available depends on the number of children the taxpayer claims. The length of the plateau depends on one's filing status, with married couples having phase-outs at higher income thresholds. Lastly, taxpayers who do not claim children receive a very modest credit, which was a maximum of $519 in 2018. *Table 1* provides details on the maximum earned income taxpayers can have to be able to receive the EITC based on their filing status, and the maximum credit amount they can receive.

Figure 1.



Source: Amir El-Sibaie, "2019 Tax Brackets," Tax Foundation, Nov. 28, 2018.

Table 1.

	Max Earned Income by Number of Qualifying Children Claimed			
	Zero	**One**	**Two**	**Three or More**
Single, Head of Household or Qualifying Widow(er)	$15,270	$40,320	$45,802	$49,194
Married Filing Jointly	$20,950	$46,010	$51,492	$54,884
Maximum EITC Amount	$519	$3,461	$5,716	$6,431

Since the largest credits and majority of the spending on the EITC program goes to taxpayers who claim children, the qualifying child rules are particularly important for the consideration of the EITC. There are four "tests" that must be passed for a child to be claimed as a qualifying child for the EITC: 1) relationship, 2) age, 3) residency, and 4) joint return.

Relationship

For purposes of the EITC, the "child" claimed must be the taxpayer's son, daughter, adopted child, stepchild, foster child, or a descendent of any of them, for example, a grandchild. Additionally, the "child" can be the taxpayer's sibling, half-sibling, step-sibling, or a descendant of any of them, for example, a niece or nephew.

Age

The age test requires that the claimed child is younger than the taxpayer (or spouse if filing a joint return) and younger than 19 years old. A child can also be claimed if they are younger than 24 years old and a full-time student. Lastly, a child can be claimed regardless of age if they are permanently disabled.

Residency

The child must have lived in the same home as the taxpayer (or spouse if filing a joint return) in the United States for more than half the year.

Joint Return

The child cannot be married and be required to file a joint return with their spouse. If, however, the child is married, and the child and spouse do not have a filing requirement, then the child

may be claimed by the parent. Also, if the child and their spouse filed a joint return only to claim a refund of withheld taxes, then the child may be claimed by the parent.

Citizenship and Immigration Status Considerations

To claim the federal EITC, a taxpayer and the children they claim must have social security numbers that are valid for employment. Furthermore, if filing a joint return, both spouses must have social security numbers. This is a critical source of inequity that particularly impacts immigrant families in the United States. This requirement bars families with mixed immigration status from accessing the EITC. For example, if a taxpayer does not have a Social Security number and instead files a tax return with an Individual Taxpayer Identification Number (ITIN), they are ineligible to receive the EITC, even if the children they claim are U.S. citizens. Further egregious is that U.S. citizens who are married to undocumented spouses and have U.S. citizen children together are also ineligible to receive the EITC (Get it Back Campaign, 2018).

Data and Methods for Report

We use the 2018 American Community Survey (ACS) 5-Year Estimates for all our analyses and estimates unless otherwise noted. For analyses of families, we only consider individuals who are indicated as a parent through the mother or father variable indicator. Therefore, our analyses do not include households in which a mother or father is not present (e.g., grandparents as guardians) as these are unique family types that deserve their own consideration. For our estimations of EITC eligibility, we assume that a parent would claim all their children who live with them, regardless of the household living arrangements and who else may be living in the household. In households with unmarried partners, we assume that the partner that earns the most income would claim the children. To estimate EITC eligibility, we also exclude individuals who may be undocumented immigrants. We follow an augmented method similar to Borjas (2016) to estimate undocumented immigration status. However, we include those who have resided in the U.S. for less than seven years, as many of these individuals may have official legal status and have not had the opportunity to become naturalized citizens.

We use the National Bureau of Economic Research's TAXSIM 27 model to calculate EITC and IL EITC amounts (Feenberg, 2017; Feenberg & Coutts, 1993). Reported *"EITC amounts"* are the estimated amounts of federal EITC a family is eligible to receive based on income. Reported *"IL EITC amounts"* are estimated values of the IL EITC an individual is eligible to receive based on income.

The Landscape of Racial Income Inequality in Illinois

Historical de jure racist policy and the continued de facto racist impact of public policy, coupled with individual and organizational level racial prejudice and discrimination has a direct effect on the income and wealth of families of color (Bobo & Fox, 2003; Massey & Denton, 1993; Price, 2020; Wilson & Rodgers, 2016). Today, this manifests in the lives of Black and Latinx families through the limited access to quality primary and secondary education, unaffordable higher

education necessary for middle-class careers, disinvestment in basic infrastructure in low-income communities, and a biased and unjust criminal justice system just to name a few (Alexander, 2012; Massey, 2013; Reskin, 2012; Sharkey, 2012). The resulting outcome is significant inequalities in income across race and ethnicity.

Among families with children in Illinois, white and Asian families have annual incomes more than twice that of Black and Latinx families (*See Table 2*). Furthermore, despite Black and Latinx residents accounting for only 13.8% and 17.3% of Illinois's population, respectively, they account for 30.9% and 27.7% of families with income below the federal poverty line (FPL). This translates to Black families being 4.34 times more likely than white families to have income below the FPL, while Latinx families being 2.44 times more likely. These economic realities among Black and Latinx families highlight the importance of policies like the Earned Income Tax Credit, which address income inequality. The next section will examine how families in Illinois benefit from the EITC and its impact on racial and ethnic economic equity.

Table 2.

Illinois Population and Families by Race/Ethnicity

	Total Population	Families with income below FPL
White	60.9%	36.6%
Black	13.8%	30.9%
Latino	17.3%	27.7%
Asian	5.6%	4.1%
All Families	-	15.4%

How the Earned Income Tax Credit Helps Address Racial Income Inequities

Families of all racial and ethnic backgrounds benefit from the EITC. Yet, because Black and Latinx workers are paid less for the same work compared to their white counterparts, and they disproportionately work jobs with lower wages (Gould, 2020; Ross & Bateman, 2019; U.S. Bureau of Labor Statistics, 2016), they are more likely to receive the EITC. Though Black and Latinx residents together consist of about 31.1% of Illinois's population, we estimate that they consist of about half of all the EITC eligible families in Illinois. Furthermore, as shown in *Table 3*, 47.5% of all Black families with qualifying children are eligible to receive the EITC, while 49.5% of Latinx families are eligible to receive the credit.

The EITC is structured to provide vital tax relief and therefore serves as a wage supplement to Black and Latinx families in Illinois. We estimate that Black families, on average, are eligible for about $2,980 in EITC. In total, this can deliver about $340 million into the pockets of hard-working Black families throughout Illinois. Latinx families, on average, are eligible for $3,310 in EITC.

Table 3.

EITC and Illinois Families			
	Eligible to Receive EITC	Estimated Average EITC Amount	Estimated Total EITC
White	23.3%	$2,830	$613 Million
Black	47.5%	$2,980	$339 Million
Latino	49.5%	$3,310	$429 Million
Asian	24.0%	$3,020	$72 Million
All	31.5%	$3,000	$1.44 Billion

Considering Families of Young Children

On average, families of younger children (infant to preschool age) earn less than families of school-age children. Reasons for this include a reduction in labor force participation when children are young (particularly among women) and the fact that many families of younger children are in the early stages of their career and are in the lower ends of their salary and wage range.

We estimate that families of young children (under six years old) in Illinois have a median income of $10,000 less than families who have children over six years old ($55k vs. $65k). Yet, these estimates hide the racial income inequality that results in Black and Latinx families with young children making substantially less than the Illinois median. We estimate that Black families of young children in Illinois have a median income of $32,100, while Latinx families have a median income of about $47,800, which compares to the median income of $88,900 among white families (see *Table 4*). These earnings connect to families' eligibility for the EITC.

Table 4.

Illinois Families Income by Race/Ethnicity and Age of Child		
	Median Income, All Families with Children	Median Income, Families with Child under 6
White	$95,300	$88,900
Black	$41,900	$32,100
Latino	$54,500	$47,800
Asian	$105,830	$105,800
All Families	$77,700	$71,300

While we estimate that a slightly larger percentage of families of young children (37.3%) are eligible for the EITC compared to all families (31.5%) in Illinois, Black and Latinx families of children under the age of 6 are much more likely than white and Asian families to be eligible for the EITC. As shown in *Table 5*, an estimated 57% of Black and Latinx families of young children are eligible to claim the EITC, compared to about 28% of white families. This translates to Black and Latinx families of young children being about three and a half times more likely to be eligible for the EITC compared to white families.

The average EITC for families with children under six years old is $3,200. On average, Black, Asian, and white families all are eligible for a slightly smaller EITC than the average, receiving $3,190, $3,200, and $2,995, respectively. Latinx families are eligible for an EITC about $300 more than the average, at $3,510. Latinx families, on average, have more children compared to the other groups of families (e.g., 2.33 vs. 2.06 among white families), which is the major driving factor for the larger average EITC amount. It is important to stress that the EITC can only be claimed if families and children have Social Security numbers. Therefore, depending on citizenship status, many Latinx families may not be able to claim the credit.

Table 5.

Families with at least one Child Under Six Years Old		
	Eligible for EITC	Estimated EITC Amount
White	27.7%	$2,995
Black	56.9%	$3,190
Latino	57.1%	$3,510
Asian	22.3%	$3,200
All Families	37.3%	$3,200

The EITC is a vital income support for families of young children. Due to its ability to address material hardship and the economic needs of low-income families, research finds that the EITC is associated with various positive outcomes in young children (Baughman & Duchovny, 2016; Hill & Gurley-Calvez, 2019). Early investments in the economic well-being of families with young children can have long term positive impacts on the financial, physical, and mental well-being of families and their children(Hackman & Farah, 2009; Heckman, 2006; Spencer, 2005). Furthermore, we find that the EITC can be to be particularly helpful to Black and Latinx families. Therefore, the EITC may be useful for addressing the racial equity goals of policymakers.

Families of Young Adults in School

A group of families that have received less EITC research attention is families of young adult children (children under the age of 24). Young adults who are full-time students, have earned income less than their parent(s), and live with their parent(s) are considered a dependent of their parent and a qualifying child for the EITC. This means that by law, these young adults should be

claimed as dependents by their families, and their families should be able to claim EITC for their young adult child.

Due to limited attention to this group of families and young adults, there is minimal research on how families file their taxes in these situations. Based on interview research with families in Chicago, we find that families respond in various ways to these filing requirements.[1] For example, some families are unaware that they can claim their young adult child who is in school. More concerning is that some families share that they have attempted to claim their young adult child for the EITC, yet because their child also claimed themselves, they did not receive the credit. One parent describes how she and her 22-year-old son filed their taxes at the same time at the same location. At the time, she was unsure how the tax preparer filed her son's taxes; however, she claimed her son - who was a full-time student - and was later audited by the IRS. This resulted in her having to return the portion of the EITC she received for claiming her son. She shares:

> *"Two people who were assisting me got into an argument or something … one of the people that was helping me, because now my son is doing his own, and he's still living with me at the time, and she asks, "who lives in your home?" And I said, "Well, me and my son."*
>
> *"You pay his rent, his food?" "100% yes, I pay 100%. He just goes to college and works, and he gets to keep his paycheck for himself, but I pay for all of his things." "Well, then you can put him on your taxes." Then the other lady was, "No, she can't because he's claiming himself as single."*
>
> *They just got into it. Then at the end of the day, I don't know how she completed his taxes, and I claimed him. I got audited, and I had to give them $1,600 that I got for him back. It became such a mess that I am so scared moving forward. I don't even want to put him on my taxes. That could have potentially helped me for the years that he was living with me."*

Unfortunately, the only guidance she received from her tax preparer was to "do nothing" and allow the IRS to reclaim the money from her refund when she filed the next year, which she did.

Though tax compliance among EITC recipients is a primary concern for many policymakers, the focus is primarily on "overpayments" of the EITC. The IRS has been under increasing pressure to reduce the "improper payment rate" – the official term for overpayments. Research by the IRS documents that 21% of known improper payments are related to errors related to the qualifying child rules for the credit (Internal Revenue Service, 2014).

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[1] Data is derived from interview data from Dylan Bellisle's dissertation study, titled "*The Role of the Earned Income Tax Credit in Family Economic Decision Making: Moving Beyond an Individual Actor Model" to be submitted in 2021.* The study is informed by in-depth longitudinal interviews conducted between 2017 to 2018 with single mothers in Chicago – primarily women of color - who receive the EITC. The interviews explored how women decided to apply for the EITC and the ways they used their EITC to provide support to family members they did not claim on their tax returns.

Yet, in a 2019 report, the National Taxpayer Advocate (2019) warns that because the IRS takes an "enforcement-oriented approach to administering the EITC," some taxpayers may be deterred or even blocked from receiving the credit, despite their eligibility status. For example, a study in 2002 found that 43% of the 67,000 people who sought assistance from the Taxpayer Advocate Service, an independent organization within the IRS tasked with helping taxpayers with tax issues, were eventually paid the full or near full EITC amount they were initially denied (National Taxpayer Advocate, 2004).

The underpayments raise a concern about the extent to which some families receive less EITC than they are entitled to by law. Therefore, it is crucial to be mindful of the complications that can arise for families if they legally claim their child for the EITC, yet their child claims themselves as "single," though the child is actually a dependent.

Families stand to lose quite a bit of income if they are unable to claim their young adult child for the EITC. It is difficult to estimate because many young adults live away from home for a portion of the year while they attend college. However, we estimate that on average, Illinois families could lose about $1,350 in EITC if they were unable to claim their qualifying adult child who is a full-time student. A conservative estimate of the total loss to Illinois families is $61 million (see *Table 6*).

Table 6.

Families with Qualifying Adult Children		
	Families with at least one child over 18	Average EITC Loss if child not claimed
White	15.5%	$1,450
Black	39.4%	$1,480
Latino	35.0%	$1,100
Asian	31.6%	$1,670
All	25.2%	$1,350

Furthermore, due to racial income inequality, Black and Latinx families would be more likely to experience a loss in EITC benefits compared to white families. We estimate that about 39% of Black families and 35% of Latinx families of young adult children who live at home and attend school are eligible to claim the EITC, or about three and a half times more likely than white families with young adult children. Additionally, 33.4% of Asian families with young adult children living at home and attending school are eligible for the EITC, which is about two and a half times more likely than white families.

Current federal law does not allow young adults under the age of twenty-five to receive the EITC unless they have children. Therefore, if and when they file their taxes and claim themselves, at most they only receive a refund of the federal income taxes they paid for the year. Several policymakers and advocates have proposed amending this exclusion to allow young adults to

claim the EITC starting at 18 years old if they file as a single individual. We believe that providing tax relief to young people at the early stages in their careers when their earnings are typically low is crucial. Yet, we also caution policymakers to be mindful of the ramifications it can have on the economic well-being of their families as a whole.

Currently, one of the most generous proposals for expanding the EITC for workers who do not claim a child would provide a maximum credit of $2,074 (Marr & Huang, 2020), which could indeed be helpful to many young adults. However, we estimate that the median income among young adults in Illinois who live with a parent who can claim them for the EITC is $6,350. Therefore, they would not receive that maximum credit, which would require an income of $10,370 to $11,590. Still, this does not prevent Illinois lawmakers from considering creative solutions to assisting young adults, while preserving and perhaps even increasing the number of families who receive EITC by claiming their young adult child who is in school.

How Illinois Can Better Support Families and Young Adults

In the absence of federal reforms to the tax code and the EITC to provide additional tax relief to low-income families, we argue there are two significant areas for improvement in the Illinois tax code that can begin addressing the needs of families. As detailed above, families of young children on average earn less than their peers who have older children. This places these families at risk of material hardship, which can have long-lasting impacts on the development and well-being of their children. Therefore, following states like California, we propose that Illinois adopt a Young Child Tax Credit for low and moderate-income families to provide additional tax relief to families during the sensitive developmental period of early childhood.

Second, due to Illinois' flat income tax, young adults who are just beginning to enter the labor force are disproportionately taxed as they cannot take advantage of the federal EITC or IL EITC. Regardless if these young adults are living at home with their families or on their own, we advocate that Illinois provide tax relief to young adults who do not have access to any tax credits at all. While several states have passed reforms that lower the age at which workers can claim their respective state EITCs, we propose two separate credits in order to recognize the unique situations young adults may be in. The first is for young adults who are in school full-time and are claimed by their families, and a second credit for young adults who work and are not claimed by their families. The value of these credits would be identical as to prevent incentives for young people to claim one credit over the other, and provide an opportunity for more families to understand their legal right to claim their young adult children who are in school full-time.

We also propose that all three of these credits, and the IL EITC, be made available to undocumented immigrants. Undocumented workers are critically important to the Illinois workforce and contribute substantially to the Illinois economy (Han & Chung, 2020). It is fundamentally unfair to have undocumented workers contribute tax revenues, yet are ineligible for most tax benefits. Furthermore, policies that exclude undocumented immigrants hurt their children, many of whom are U.S. citizens. Therefore, the estimations for the impact of the proposed policies include all Illinois residents, regardless of immigration status.

In the next two sections, we will provide details on the eligibility of these three new tax credits, the average amounts workers would receive, and provide estimates on how they are a starting point to addressing racial inequality in the Illinois tax code.

Recommendations

1. The Illinois Young Child Tax Credit

To provide critical tax relief to families of young children, Illinois could implement a new Young Child Tax Credit (YCTC). We propose a maximum $500 credit to families with at least one child under the age of six years old. To maximize the benefit to the lowest income families in Illinois, unlike the EITC and Child Tax Credit, the IL YCTC would not have a phase-in. Instead, the maximum credit would be available starting with the first dollar of earned income. Without a phase-in, the IL YCTC may also serve as an incentive for very low-income families to file their taxes and claim the federal EITC, a goal the state of Illinois has had for some time. The IL YCTC would have a phase-out that would mimic the phase-out of the EITC for one child.

We estimate in *Table 7* that about 35% of all families of children under the age of six would be eligible to receive the IL YCTC. Over half of both Black and Latinx families of young children would be eligible for the credit, making them nearly three and a half times as likely as white families to qualify for the credit. The average credit amount received by families would be about $370. This would complement the current average IL EITC of $400 that families with young children receive, therefore delivering approximately $760 at tax time to Illinois families. In total, we estimate that this could bring about $78 million into the pockets of working families in Illinois.

Table 7.

Families of Children Under the Age of Six		
	Eligible for YCTC	Estimated YCTC Amount
White	25.5%	$360
Black	53.4%	$400
Latino	53.0%	$360
Asian	21.1%	$350
All	35.0%	$370

2. Extending the IL EITC to Young Adults and the Impact of an Augmented IL EITC

We estimate that about 155,000 young adults (between the ages of 18 to 25) in Illinois are not enrolled in school have incomes that make them eligible to receive the EITC, but their age disqualifies them. The living arrangements vary for these young people, many living with their families or relatives, and others living with roommates or alone. These young adults are a neglected group as it relates to the tax code because neither they nor their families can claim them for the EITC. As of the spring of 2020, three states (California, Maine, and Maryland) have

acted to address this inequity in their state EITCs by expanding eligibility for the credit to young adults between 18 to 25-year-old who cannot be claimed as a dependent on someone else's tax return.

If Illinois expanded age eligibility to claim the IL EITC to include workers between 18 to 25 years old who did not claim a dependent child, we estimate that about 43% of young adult Illinois workers would be able to claim the credit (see *Table 8*). We estimate the median income of IL EITC eligible young adults in 2018 was about $7,400, and the average credit amount is $35. This provides very little tax relief to workers who already are low-income. Therefore, following the lead of state advocates[2], we offer an augmented credit worth up to 36% of the federal EITC, or a maximum credit of $155. We estimate that this augmented IL EITC would provide an average of $102 in tax relief to young adults. Though still a rather small credit, we estimate it would provide over $16 million in tax relief to young people in Illinois.

The expansion of the IL EITC to young adults would make a modest impact on racial equity in the tax code, specifically for Black young people. For example, Black and Latinx young people are 17% of Illinois's population of young workers, yet they are 22.8% of those who are eligible for the credit. Therefore, as shown in *Table 8*, a larger percentage of Black young people are likely to benefit from the expansion of the IL EITC, compared to young people of other racial backgrounds. This translates to young Black workers being 1.27 times more likely than young white workers to be eligible to receive the credit.

Table 8.

Working Young Adults in Illinois and the IL EITC

	Population of Young Adults	Adults Eligible for IL EITC	Earned Income of IL EITC Eligible Young Adults
White	56.9%	39.6%	$7,500
Black	17.0%	57.7%	$6,000
Latino	22.0%	41.6%	$8,000
Asian	3.4%	40.1%	$7,500
All	100%	43.0%	$7,400

3. The Illinois Working Student Credit

To provide tax relief to working students, Illinois could implement a Working Student Tax Credit. The credit would mimic the expanded IL EITC described above for young adults but would be exclusively available to working students who are claimed on their parents' taxes. This would provide tax relief to young adults who work and go to school.

[2] Economic Security for IL. (2020). *The Illinois Cost-of-Living Refund*. https://www.economicsecurityil.org/fact-sheet

We estimate that the median income of working students who live with their families who can claim them for the EITC is $5,000 (see *Table 9*). The basic Working Student Credit, set at 18% of the federal EITC, would provide an average $35 credit to working students. The recommended augmented Illinois Working Student Credit would be 36% of the federal EITC and therefore offer an average $91 in tax relief to working students.

Based on our conservative estimate, this would provide working students in Illinois a total of $1.8 million. However, students who live apart from their parents during the school year can also be claimed by their parents as qualifying children, and therefore would also be eligible to receive the credit.[3]

Table 9.

Working Students in IL and the Working Student Tax Credit

	College Students	Average Earned Income of IL EITC Eligible Young Adults
White	57.4%	$5,000
Black	13.9%	$4,700
Latino	17.8%	$5,300
Asian	10.1%	$3,700
All	100.0%	$5,000

Conclusion

The tax code can be a powerful tool for providing economic support for working-class families. The Earned Income Tax Credit is heralded as one of the most effective anti-poverty programs in the United States, and many states – Illinois included - have adopted state-level versions of the credit to further support low- and moderate-income families. Policy advocates also view the EITC as one of the few provisions in the tax code that helps to address racial income inequality. However, in the grand context of the tax code, it is a minimum benefit compared to the amount of tax relief provided to wealthy individuals.

In the absence of federal action towards creating a more equitable tax code, states can act to address inequities in their own tax codes. Illinois, in particular, needs to act as its flat tax rate is regressive and taxes many low-income workers into poverty. In this policy brief, we propose two new tax credits and an expansion of an existing tax credit to provide vital tax relief to working families.

First, a new Young Child Tax Credit would provide a credit of up to $500 to families with at least one child under six years old. This offers vital support to families during the sensitive developmental period of their child's first few years.

[3] The ACS does not allow us to identify college students who return home when school is not in session, therefore this represents an underestimation of the credit's impact.

Second, an expansion of the IL EITC to young workers (between 18 to 25) would eliminate the arbitrary age requirement to receiving the IL EITC. This provides tax relief to young adults who are new to the labor force, and therefore earn lower wages compared to their older peers.

Third, a new Working Student Tax Credit would give working students some tax relief while protecting their families' ability to claim them for the larger federal EITC.

Together, we believe these three credits would move Illinois to a more equitable and just tax system, reward workers at essential points in their career, and spur additional consumer spending throughout Illinois' economy.

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