Advancing Tax Equity

Expanding the State EITC to Working Young Adults in Illinois

March 10, 2022

Dylan Bellisle, M.S.W., PhD

Photo by Andrea Piacquadio from Pexels
EXECUTIVE SUMMARY

The American Rescue Plan Act (ARPA), which passed in early 2021, provided critical immediate relief to millions of Americans who have experienced economic hardship due to the economic fallout of the COVID-10 global pandemic. Unfortunately, the U.S. Congress has failed to act upon any broader economic and policy changes outlined in President Biden’s Build Back Better Plan. Illinois families are starting to feel the economic squeeze as the cost of living increases due to inflation. Illinois lawmakers have an opportunity to provide targeted financial relief to Illinois families, particularly those most impacted by the current economic realities.

Several Illinois lawmakers and advocates have looked to expansions in the State Earned Income Tax Credit (EITC) as a tool to provide vital tax relief and income support to low and moderate-income families in Illinois (Economic Security). Illinois House Bill 4920/Senate Bill 3774, dubbed the Tax Equity Initiative by Representation Carol Ammons and Senator Omar Aquino (CTBA), would increase the amount of the state EITC and fill gaps in eligibility, enabling three essential groups of residents to claim the credit: individuals between 18 to 24 and over 65 years old who do not claim a child on their tax return, and taxpayers who file their tax return with a tax identification number (ITIN). These are significant reforms that will indeed bring more tax equity in Illinois.

This report focuses on how this expansion could benefit young adults, those between 18 and 24 years old who do not claim a child. Importantly, under ARPA, young adults could claim the federal EITC for the first time since the tax credit was created. Furthermore, since Illinois’s EITC provisions mirror the federal law, young adults also could claim the State EITC for the first time. Therefore, failure to expand eligibility to the State EITC will mean a considerable tax increase for young workers across Illinois. This report summarizes the tax implication of expanding State EITC eligibility for young adults in Illinois by race and ethnicity and geography. The report ends with crucial considerations related to the administration of the expansion.

**Key Points**

- An estimated 170,000 working young adults would benefit from the expanded state EITC, and it would provide about $10 million in targeted tax relief to low-income working young adults.
- The average income of EITC-income eligible working young adults in Illinois is $8,500. Therefore, adding these young adults to those eligible for the state EITC provides targeted tax relief to very low-income working adults.
- The expansion would particularly benefit Black young adults in Illinois. 4 out of every 10 Black young adults and 1 out every 3 White, Latinx, and Asian young adults would receive tax relief.
- Nearly two-thirds of the total tax cut would benefit young adults living in downstate Illinois and the Collar Counties, bringing an estimated $6.8 in targeted tax relief to these communities.
- Nearly $4 million in tax relief would come to young adults in Chicago and the Cook County suburbs.
- The General Assembly may want to consider including former foster youth and youth experiencing homelessness in the expanded state EITC given their unique situations as independent young adults.
- Due to the complexity of the tax code and the process of filing a tax return, the General Assembly and Illinois Department of Revenue can also consider taking steps to ensure that young adults and their families can fully take advantage of the tax credits they are eligible for.
## Table of Contents

Background on the Earned Income Tax Credit and Illinois State EITC ............................................. 4

Gaps in EITC Eligibility ......................................................................................................................... 5

Data and Methods ............................................................................................................................... 6

Extending the Illinois State EITC to Young Adults in Illinois ............................................................ 7

Advancing Further Equity: Tax Complexities for Young Adults and Their Families and Including Former Foster Youth and Homeless Youth ............................................................................. 10

Effective Policy Requires Effective Administration ............................................................................ 11

Conclusion ............................................................................................................................................ 12

References ........................................................................................................................................... 13

Footnotes ............................................................................................................................................ 14
ABOUT THE AUTHOR

Dylan Bellisle, M.S.W., PhD is a Postdoctoral Research Fellow with the Project for Middle Class Renewal at the School of Labor and Employment Relations at the University of Illinois at Urbana-Champaign. Dr. Bellisle received a B.A. in psychology from the University of South Florida, a Masters in Social Work from the University of Illinois at Chicago and a Ph.D. in Social Work, Policy and Practice from the University of Chicago. Dylan’s research focuses on how public policy shapes family economic well-being and the financial coping and social mobility strategies of low-income families.

ABOUT THE PROJECT FOR MIDDLE CLASS RENEWAL

The Project for Middle Class Renewal’s mission is to investigate the working conditions of workers in today’s economy and elevate public discourse on issues affecting workers with research, analysis and education in order to develop and propose public policies that will reduce poverty, provide forms of representation to all workers, prevent gender, race, and LGBTQ+ discrimination, create more stable forms of employment, and promote middle-class paying jobs. Each year, the Project publishes critical research studies and holds education forums on contemporary public policies and practices impacting labor and workplace issues. If you would like to partner with the Labor Education Program in supporting the work of the Project or have questions about the Project please contact Robert Bruno, Director of the Labor Education Program, at (312) 996-2491.
Background on the Earned Income Tax Credit and Illinois State EITC

The Earned Income Tax Credit (EITC) is often heralded as one of the most effective and successful anti-poverty programs in the United States, given its structure as a wage supplement and work incentive for low and moderate-income families (Center on Budget and Policy Priorities, 2017; Eissa & Hoynes, 2011; Nichols & Rothstein, 2015; Schanzenbach & Strain, 2021; Simpson et al., 2010). The EITC is a refundable tax credit, which can reduce a taxpayer's income tax liability and result in a "tax refund" if the amount of the credit exceeds their liability. Therefore, the EITC can both reduce low and moderate-income taxpayers' tax liability and supplement their earned income.

For the 2020 tax return, the EITC delivered about $60 billion to 25 million taxpayers nationwide (Internal Revenue Service, 2022). Yearly, this translates to about 5.6 million people lifted out of poverty, including about 3 million children (Center on Budget and Policy Priorities, 2019). In Illinois, the federal EITC delivered $2.1 billion in tax relief and income support to about 883,000 Illinois residents (Internal Revenue Service, 2022). The EITC brings thousands of dollars every year into the pockets of Illinois residents, who mostly spend it in the local economy. Indeed, recent research from the Center on Tax and Budget Accountability reveals that every $1 in EITC generates an average of $1.27 in a local and state economy (Center for Tax and Budget Accountability, 2022).

The State of Illinois enacted its own EITC in 2011 (Tax Credits for Workers and Families, n.d.). The state’s EITC mirrors the eligibility requirements of the federal EITC and is calculated as a percentage of the credit the taxpayer is eligible to receive from the federal EITC. The state EITC began as a modest credit worth (5%) of the federal EITC and presently stands at 18% of the federal. Given Illinois’s flat income tax structure, the EITC is a vital tool to provide tax relief to low and moderate-income individuals and families who pay a more significant proportion of their income in state and local taxes compared to higher-income residents.
Gaps in EITC Eligibility

While an extensive line of research has illustrated the various positive impacts of the EITC, several significant gaps in eligibility result in disparate tax liability for specific populations. Specifically, young adults (18 to 24-year-olds) and older adults (over 65) who do not claim a child on their tax return are ineligible for the EITC. Furthermore, those who file taxes with a tax identification number (ITIN) are also ineligible for the EITC, regardless of whether they claim children or not. Even more egregious, U.S. citizens married to an individual who uses an ITIN cannot claim the EITC either. All these groups pay taxes, and there is little public policy justification to bar them from claiming the EITC if they are working and otherwise eligible.

These exclusions are a unique burden for young adults as they are at the beginning of their working career when their earning potential is the lowest. The EITC is often viewed as a wage supplement that encourages work (Center on Budget and Policy Priorities, 2019; Hotz & Scholz, 2003); therefore, restricting young adults from claiming the EITC sends a confusing message about how society views young adult workers. Furthermore, due to their standing in the labor market and their earnings potential, young adults are more likely to be among the working poor than older workers. For example, in Illinois, the poverty rate for young adults between 18 to 24 years old is 22%¹, which is double the 11% poverty rate for all residents of Illinois (U.S. Census Bureau, 2021).

The American Rescue Plan Act took a critical step in addressing the marginalization of young adults in federal tax policy by allowing some young adults to claim the EITC for the first time. Therefore, for the 2021 tax year, young people 19 years old to 24 years old who were not enrolled in an education program at least part-time during 2021 could claim the federal EITC. Notably, the EITC was further enhanced for taxpayers who do not claim children, increasing the maximum credit amount from $538 to $1,502 (Marr et al., 2021). The Illinois State EITC mirrors the federal eligibility criteria; therefore, these young adults could also claim the State EITC for the first time for a maximum credit of $270.

Yet, at the time of publishing this report, the federal government has failed to make these critical enhancements in the EITC permanent. Illinois Representative Carol Ammons and Senator Omar Aquino recently filed House Bill 4920 and Senate Bill 3774, respectively, to make the State EITC's age eligibility expansions permanent and increase the credit value to 20% of the federal EITC. The rest of this report will review the tax relief this legislation would bring to young adults in Illinois.
We use the 2018 American Community Survey (ACS) 5-Year Estimates for all our analyses and estimates unless otherwise noted. We identify “working young adults” as those between the ages of 18 to 24 reporting earned income (e.g., wage income, self-employment income) and who report not attending school during the past year. This means that we may slightly underestimate the effect of the expansion as young people who are enrolled in school less than part-time (e.g., taking just one class) could potentially be eligible for the expanded state EITC. We use the U.S. Census provided Public Use Microdata Areas (PUMAs) to identify the geographical location the young adult lives. We create four geographical location indicators: City of Chicago, Cook County Suburbs, Collar Counties, and downstate Illinois. Cook County Suburbs include all cities and townships not part of Chicago. Collar Counties include DuPage, Kane, Lake, McHenry, and Will Counties. Downstate Illinois includes all other counties in Illinois. We use the National Bureau of Economic Research’s TAXSIM 27 model to calculate state EITC amounts using the available income data in the ACS (Feenberg, 2017; Feenberg & Coutts, 1993).
Extending the Illinois State EITC to Young Adults in Illinois

As recently reported by the Center on Budget and Tax Accountability and the Institute on Taxation and Economic Policy, an estimated **170,000 young adults in Illinois would benefit** from the expansion of the EITC (Center for Tax and Budget Accountability, 2022). We estimate the state EITC expansion, on average, would reduce **the state income tax of working young adults by 22% and deliver $10 million in targeted tax relief to working young adults**. These are young adults who are not enrolled in school and have incomes that make them eligible for the EITC. Notably, the current federal and state EITCs allow parents/guardians to claim their young adult children under 24 if their child is a full-time student. Therefore, this creates a gap in policy when a young adult is not enrolled in college, as neither they nor their family can benefit from the EITC.

Who would benefit from an expansion in the State EITC?

As seen in Table 1, working young adults who would be eligible for the State EITC expansion on average have very low incomes, further justifying the need for tax relief. The average income of working young adults in Illinois is $8,500, and just over a third of working young adults would be eligible for the state EITC. While just over a third of White and Latinx working young adults in Illinois could receive the state EITC (see Graph 1), it is notable that a larger percentage of young Black workers (about 4 out of 10) would benefit from the expansion. This would provide critical tax relief for young Black workers given their lower earnings than their peers. Still, given their numerical majority, young White workers would consist just over half of the young adults in Illinois receiving the EITC, followed by young Black workers at 22.4%, young Latinx workers at 21.3%, and young Asian workers at 3.1% (see Table 1).

<table>
<thead>
<tr>
<th>Table 1. Working Young Adults in Illinois and the EITC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned Income of IL EITC Eligible Young Adults</td>
</tr>
<tr>
<td>White</td>
</tr>
<tr>
<td>Black</td>
</tr>
<tr>
<td>Latinx/Hispanic</td>
</tr>
<tr>
<td>Asian</td>
</tr>
<tr>
<td>All</td>
</tr>
</tbody>
</table>
Impact by Geography

Table 2 shows estimates of the receipt and potential tax relief of the expanded state EITC across the geography of Illinois. Notably, working young adults in the Collar Counties and downstate Illinois are more likely to benefit from the expanded state EITC, with 40% of working young adults in both geographies being eligible. Working young adults in the Cook County Suburbs follow with 38% being eligible and then Chicago working young adults at about 30%². This translates to 6 out of 10 young adults benefiting from the expanded EITC living in downstate Illinois and the Collar Counties. As seen in Graph 2, we estimate the expanded state EITC provide nearly $4 million in tax relief to working young adults in downstate Illinois and about $2.8 million to working young adults in the Collar counties. Still, young working adults in Chicago and the Cook County suburbs would jointly receive almost $4 million in tax relief. These differences in eligibility across the state also translate to nearly two-thirds (64%) of the tax relief provided by the expanded EITC going to downstate and Collar County communities (see Graph 3). Therefore, expanding the state EITC to young adults would substantially impact working young adults across the state of Illinois.

### Table 2. Geography of Receipt of the Expanded EITC

<table>
<thead>
<tr>
<th></th>
<th>Percent Eligible for IL EITC</th>
<th>Percent of Total Eligible for IL EITC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago</td>
<td>30.50%</td>
<td>20.10%</td>
</tr>
<tr>
<td>Cook County Suburbs</td>
<td>38.00%</td>
<td>18.10%</td>
</tr>
<tr>
<td>Collar Counties</td>
<td>39.60%</td>
<td>23.90%</td>
</tr>
<tr>
<td>Downstate</td>
<td>40.50%</td>
<td>37.90%</td>
</tr>
<tr>
<td>All</td>
<td>37.30%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
Who would benefit from an expansion in the State EITC?

Graph 2. Tax Relief by Geography

- Chicago: $2,011,717
- Cook County Suburbs: $1,875,658
- Collar Counties: $2,847,502
- Downstate: $3,965,123

Graph 3. Percentage of Tax Relief by Geography

- Chicago: 19%
- Cook County Suburbs: 18%
- Collar Counties: 27%
- Downstate: 36%
ADVANCING FURTHER EQUITY:  
**Tax Complexities for Young Adults and Their Families and Including Former Foster Youth and Homeless Youth**

A previous PMCR report (Bellisle, 2020), noted how some parents with young adult children encounter challenges when filing their tax returns as it is unclear if they can claim their child for the EITC. This situation arises when a working young adult is also a full-time student and living with their parents or guardians. Young adults who are full-time students and living with their parents are considered "qualifying children" for purposes of the EITC; therefore, their parents can claim them for the EITC. Under ARPA, to prevent the possibility of a case of "double claiming" the EITC (i.e., parents and their young adult children both claiming the EITC), young adults could only claim the EITC if they were not enrolled in school or if their school enrollment is considered less than half-time. Unfortunately, this has the effect of leaving out families where a young adult was enrolled in school half-time, as the parent could not claim their child for the EITC (they must be a full-time student for the parent to claim them), and the young adult couldn’t claim the EITC either.

The Illinois General Assembly should consider how it will handle the eligibility criteria for the state EITC expansion for low-income young adults who are working and going to school. As noted in PMCR’s previous report (Bellisle, 2020), low and moderate-income Illinois families stand to lose an average of $1,350 in federal EITC dollars ($61 million statewide) if they do not claim their full-time student young adult child. Since a parent cannot claim a young adult child who is working and attending school part-time or less for the federal EITC, it may be advantageous to expand state EITC eligibility to these young adults. Indeed, given that many low and moderate-income young people combine work and school to make ends meet, making sure they also receive tax relief would advance the goal of tax equity.

ARPA also allowed former foster care youth and young adults who are homeless to claim the federal EITC, regardless of their school enrollment status. Mirroring this expansion in Illinois would further advance equity within tax policy as often these young adults have limited sources of support from family and other networks compared to their peers. In Illinois, enabling young adults who are currently or formerly involved in the foster care system to claim the state EITC could provide targeted tax relief to an estimated 1,600 young adults, over half of which are Black, Latinx, and other young people of color. An estimated 671 young adults experiencing homelessness could benefit from inclusion in the state EITC expansion (United States Interagency Council on Homelessness, 2019). Allowing these young adults to claim the state EITC regardless of their school enrollment status will simplify their eligibility criteria, thereby limiting barriers to access.
To ensure that working young adults can effectively take advantage of the expanded state EITC, lawmakers and the Illinois Department of Revenue need to consider how they will spread awareness of the new credit and handle the ongoing challenges that taxpayers experience when filing their tax returns. Assisting taxpayers, especially young adults who may be filing their tax returns for the first time, should be a priority if the goal is to provide targeted tax relief to low-income working young adults. Illinois could consider return-free filing or automatic filing for working young adults to eliminate the process of having to file a state tax return all together (Goolsbee, 2006; Tax Policy Center, 2020). This would ensure that all working young adults benefit from the expanded state EITC, especially given that a majority of them are not required to file a federal tax return.

Notably, the EITC is accused of having high "fraud rates," specifically, critics argue that individuals fraudulently claim the EITC when they are not eligible. To support their claims of "widespread fraud," critics point to the "improper payment rate," which is an estimate by the U.S. Treasury Department of the percentage of individuals who claim the EITC that are not, in fact, eligible (U.S. Department of the Treasury, 2017).

It is important to stress that the improper payment rate is not a fraud rate, as the U.S. Treasury does not determine who claimed the EITC out of honest error versus intentional fraud. Indeed, the National Taxpayer Advocate (NTA) and various policy advocates have argued that the eligibility criteria for the EITC are complicated and that this complexity is likely the most prominent source of errors taxpayers make when claiming the credit not intentional fraud. Several studies by the NTA have concluded that the improper payment rate may, in fact, be much lower than estimated (National Taxpayer Advocate, 2018a, 2018b, 2019; Olsen, 2012). A 2002 study found that 43% of taxpayers who sought assistance from the NTA after their EITC claim was denied eventually received the full or near full EITC amount they initially denied (National Taxpayer Advocate, 2004). These are taxpayers who could erroneously be included in the improper payment rate. Furthermore, in the 2018 report to Congress, the NTA noted that the “improper payment rate does not take into account that for every dollar of EITC improper payments, 40 cents of EITC went unclaimed by taxpayers who appear to be eligible for the credit” (p. 92). This means that it is likely that many taxpayers are not receiving the EITC when they are, in fact, eligible for it.

Lastly, it is vital to note that IRS research suggests that the improper payment rate is highest among paid tax preparers, especially unenrolled agents, and lowest among IRS-sponsored Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs. The higher improper payment rate among paid tax preparers speaks to the need for more state regulation of the tax preparation industry and broader tax reform that simplifies tax return filing, especially if the state wishes to minimize the barriers and burdens taxpayers encounter. Furthermore, while VITA and TCE have the lowest improper payments rates, these programs only serve a small percentage of EITC claimants; therefore, Illinois and local governments could provide supplemental funding to organizations that operate these programs.
**CONCLUSION**

Working young adults have long been a neglected group as it related to tax policy. Yet, their limited work experience means that their standing in the labor market is precarious, and they often work jobs that pay meager wages. There is limited public policy reason to arbitrarily exclude working young adults from claiming a tax credit simply due to their age. Expanding eligibility to the state EITC to work young adults will deliver an estimated $10 million in tax relief to an economically vulnerable population. The expansion will also advance racial equity in the Illinois tax code, as illustrated by the higher proportion of young Black adults that would be eligible for the credit. While working young adults across the state will benefit from the expansion, it is crucial to note that nearly two-thirds of the tax relief will come to young adults living and working in the Collar Counties and downstate Illinois communities. The General Assembly may also want to consider mirroring the ARPA provision that allowed former foster youth and homeless youth to claim the EITC. Lastly, effective policy requires effective administration, therefore it is imperative for policymakers and administrators to ensure workers are able to fully take advantage of the EITC and other income support programs delivered through the tax system.
References


References


Footnotes

1. Author’s calculations from the 2015 panel of the American Community Survey.
2. Given the presence of several large Colleges and Universities, Chicago has a large population of young adults who are enrolled in school and therefore would be ineligible for the expanded state EITC.