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Research Article I. Tax And Transfer Programs

The Rainy Day Earned Income Tax Credit: A Reform to Boost Financial Security by Helping Low-Wage Workers Build Emergency Savings

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ABSTRACT

Financial stability depends on emergency savings. Low-wage workers regularly experience drops in income and unexpected expenses. Households with savings absorb these financial shocks but most low-income Americans lack rainy day savings. Therefore, even a small shock, like car repairs, can result in a cascade of events that throws a low-income family into poverty. Nonetheless, existing policies address emergency savings only indirectly. However, the Earned Income Tax Credit (EITC) already functions as an imperfect, makeshift savings tool. This lump sum refund at tax time gives workers a moment of financial slack, but many EITC recipients lack emergency reserves later in t year. By creating a “Rainy Day EITC” component of the existing EITC, policymakers can help low-wage workers up emergency savings.

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