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Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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Twenty-four states (counting the District of Columbia) have created earned income tax credits (EITCs) to reduce the burden that state taxes can place on low- and moderate-income working families. These credits complement the federal EITC, which helps offset these families' *federal* taxes.

Almost all state EITCs are “refundable,” meaning that if the size of a family’s credit exceeds the amount of state income tax it owes, the family receives the difference in the form of a refund check to supplement its income. In addition, two local governments — New York City and Montgomery County, Maryland — offer local EITCs.

### Only Working People Can Qualify

The 24 states with EITCs use the same eligibility rules as the federal EITC. Working families with children that have annual incomes below about \$34,000 to \$41,000 (depending on marital status and the number of children in the family) generally can qualify for a state EITC. So can workers without children that have incomes below about \$13,000 (\$16,000 for a married couple).

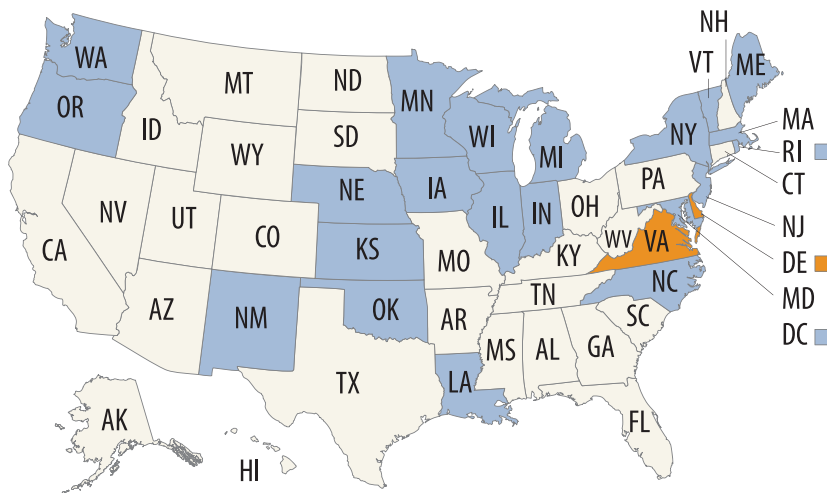
State EITCs typically are set at a fixed percentage of the federal credit. Filers simply multiply that percentage (which ranges from 3.5 percent to 40 percent, depending on the state) by the amount of their federal EITC to determine the amount of their state EITC.

### More States Adopting, Strengthening EITCs

State EITCs have become increasingly popular in recent years; since 2006, five states have enacted new EITCs and eight other states have strengthened their credits. There are several reasons why:

- **Continued child poverty and economic hardship.** Millions of children in working families live in poverty, and millions of families with incomes modestly above the poverty line have difficulty affording food, housing, and other necessities. The federal EITC now lifts about 5.1 million people — over half of them children — out of poverty each year; it’s the nation’s most effective antipoverty program for working families. State EITCs supplement the federal credit, lifting more families out of poverty and helping near-poor families make ends meet.
- **Slow wage growth.** Wage and salary growth has been weak in recent years. Concern about low wages has led a number of states and the federal government to raise their minimum wages, but even with those increases, many low-wage jobs don’t provide a sufficient income on which to live. Refundable state EITCs provide low-income workers with a needed income boost.

**Twenty-four States Have Enacted EITCs, June 2009**



“ Because a state EITC is aimed only at low- and moderate-income families, it helps offset the impact of regressive taxes, making state tax systems fairer.”

- **Regressive tax systems.** States rely heavily on “regressive” taxes such as sales, excise, and property taxes, which hit poorer families harder than wealthier ones when measured as a share of a family’s income. Because a state EITC is aimed only at low- and moderate-income families, it helps offset the impact of regressive taxes, making state tax systems fairer.
- **Extensive evidence that EITCs encourage work.** Studies have shown that EITCs encourage families to obtain jobs and remain employed.
- **Evidence that EITCs are used for asset-building expenditures.** Many people use their EITC refunds to make the kinds of investments that enhance economic security and promote economic opportunity, such as paying off debt and investing in education.
- **Ease of administration.** A state EITC requires adding just one line to a state income tax form, and the calculation is very simple. States with EITCs report very low administrative costs with the credit — typically a fraction of 1 percent.

**States Without Income Tax Can Offer EITCs**

In 2008, Washington became the first state without an income tax to pass legislation for an EITC. Such states’ tax systems are extremely regressive because of their reliance on regressive excise taxes, property taxes, and in most cases sales taxes. Thus, EITCs could be particularly helpful in making these states’ tax systems fairer.