Center on Budget and Policy Priorities

POLICY BASICS

State Earned Income Tax Credits

> "Twenty-six states and the District of Columbia have created earned income tax credits (EITCs) to help families struggling to get by on low wages make ends meet and provide basic necessities for their children."

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

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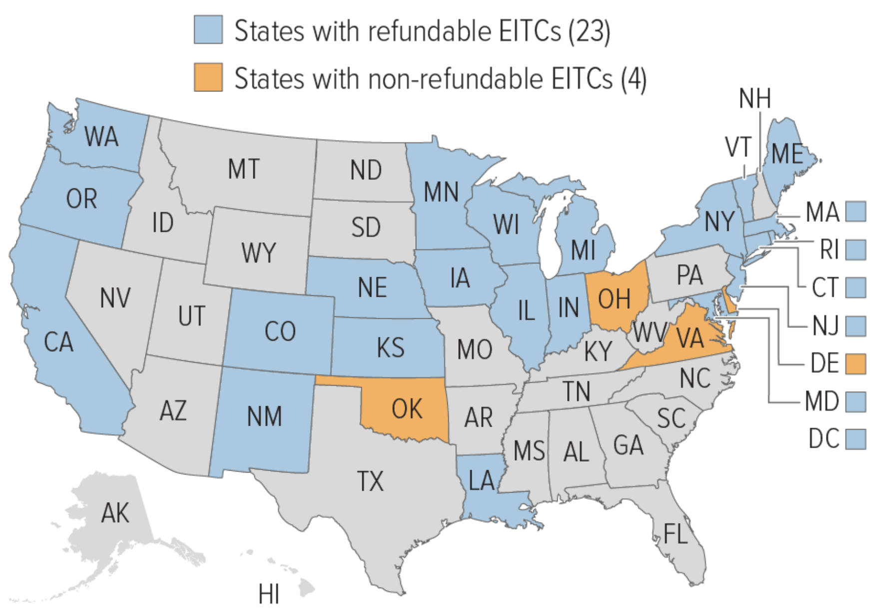
Updated June 17, 2016

Twenty-six states and the District of Columbia have created earned income tax credits (EITCs) to help families struggling to get by on low wages make ends meet and provide basic necessities for their children. These credits build on the benefits of the federal EITC, offering a hand up to families that work. They also are easy to administer, with nearly every dollar going directly to the working families that the credits were created to help.

Twenty-six States and DC Have Enacted EITCs, 2016



Source: CBPP analysis

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Only Working People Can Qualify

State EITCs are available *only* to families that earn income through work. They help ensure that people who work are able to make ends meet. Years of stagnant wages followed by a deep recession and continued poor performance at the bottom of the wage scale have left many working families struggling to pay for the basics. Combined with the federal credit, state EITCs help working families avoid poverty and the hardships it imposes on children.

The working families that receive the EITC pay a substantial share of their income in state and local taxes. States rely heavily on taxes like sales, excise, and property taxes, which hit lower-income families harder (as a share of income) than wealthier ones. State EITCs reduce the taxes paid by these working families, allowing them to keep more of what they earn.

State EITCs Build on the Federal Credit

State lawmakers can leverage the proven effectiveness of the federal EITC by implementing a state-level credit.

Just like the federal EITC, state EITCs:

- **Help working families make ends meet.** Many low-wage jobs fail to provide sufficient income on which to live. Refundable EITCs provide low-income workers with a needed income boost that can help them meet basic needs and pay for the very things that allow them to work, like child care and transportation.
- **Keep families working.** EITCs help working families get by on low wages, which helps them stay employed. They are also structured to encourage the lowest-earning families to work more hours. That extra time and experience in the working world translates into better opportunities and higher pay over time. Three out of five filers who receive the credit use it just temporarily — one or two years at a time.
- **Reduce poverty, especially among children.** Millions of children in working families live in poverty, and millions of families modestly above the poverty line have difficulty affording food, housing, and other necessities. The federal EITC is the nation's most effective tool for reducing poverty among working families and children. It lifted 6.2 million people — over half of them children — out of poverty in 2013. State EITCs build on that record, lifting more families out of poverty and helping near-poor families make ends meet.
- **Have a lasting effect.** Low-income children in families that get additional income through programs like the EITC tend to do better and go farther in school. They also tend to work and earn more as adults. This helps communities and the economy because it means more people and families are on solid ground and fewer need help over the long haul.

State EITCs Are Easy to Administer

States with EITCs report very low administrative costs — typically less than 1 percent — so nearly every dollar a state spends on the EITC goes directly to the working families in need of help. To provide its own credit, a state need only add one line to its income tax form, and the calculation is very simple. State EITCs typically are set as 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.

Working families with children earning up to about $39,000 to $52,000 (depending on marital status and the number of children in the family) generally can qualify for a state EITC, but the largest benefits go to families with incomes between about $10,000 and $23,000. Workers without

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children can also qualify in most states, but only if their income is below about $15,000 ($20,000 for a married couple), and the benefit is small.

States without an income tax can also offer an EITC. In 2008, Washington became the first such state to pass legislation for an EITC, though it has yet to implement the credit. The tax systems of non-income-tax states take a much larger share of income from low-earning families because of their reliance on excise taxes, property taxes, and in most cases sales taxes. EITCs can help working families in these states keep more of what they earn.