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Updated March 11, 2021

States Can Adopt or Expand Earned Income Tax Credits to Build Equitable, Inclusive Communities and Economies

By Samantha Waxman and Juliette Legendre

Twenty-nine states plus the District of Columbia and Puerto Rico have enacted their own version of the federal Earned Income Tax Credit (EITC) to boost the incomes of people paid low wages. State EITCs build on the success of the federal credit by helping families afford the basics, reducing poverty, and helping families thrive in the long run through improved child and maternal health, school achievement, and other benefits. Because people of color, women, and immigrants are overrepresented in low-wage work, state EITCs are an important tool for advancing equity. With high numbers of families facing food insecurity, eviction, and other hardships caused by the COVID-19 pandemic, state EITCs are more important than ever. And as they bolster families' incomes, EITCs also boost local communities and state economies.

Lawmakers in states without their own EITC should enact one. The small number of states that have cut back or eliminated their credits should reverse course, and those that have limited their credits should make the credit fully available to all families, no matter how much they owe at tax time. States should also expand their credits to those left out of the federal credit, particularly by ending the exclusion for immigrants filing with an Individual Taxpayer Identification Number and by eliminating restrictions for individuals without children in the home.

EITCs Counteract Stalled Wages That Hold Back Low-Paid Workers

The EITC is a tax credit provided to individuals and families. Refundable credits including EITCs boost take-home pay for families paid low wages and can help address imbalances in the tax system that ask the most of people who earn the least.

The COVID-19 pandemic and resulting economic downturn have hit hardest people who are paid low wages. Not only are these individuals more likely to lose jobs and income due to COVID-19, but if they work as front-line, essential workers — and have been able to keep their job — they tend to be at higher infection risk for coronavirus. People of color, women, and immigrants are overrepresented in many of these jobs,[1] in significant part due to structural barriers like wealth and income disparities, inadequate access to health care, and discrimination in hiring, and as a result, are disproportionately likely to be paid wages that do not provide for their basic needs.

Women, for example, comprise less than half of the total workforce, but in every state except Nevada they represent roughly 3 in 5 workers in occupations with low pay.[2] Women of color comprise a much higher share of the low-wage workforce as they do of the workforce as a whole.[3] (See Figure 1.) And Black and Latinx workers in general are far more likely than white workers to earn poverty-level wages.[4] Almost 30 percent of immigrants without legal status work in the service sector, where wages are often low.[5]

The COVID-19 pandemic has intensified hardship,[6] but these trends are long-standing. Low wages make it hard for families to afford basics like decent housing in safe neighborhoods, nutritious food, reliable transportation, and quality child care, as well as educational opportunities that can improve their earnings. For the most part, wages for lower-paid workers have stagnated or declined over the last 50 years, with the only period of sustained growth coming from the late 1990s to the early 2000s.[7] Though increases in state minimum wages have helped wages rise for those earning the least, these gains are meager when compared with significant productivity growth over that same time period (productivity has increased 70 percent since 1979, or 6 times more than pay).[8]

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[1] Hye Jin Rho, Hayley Brown, and Shawn Fremstad, "A Basic Demographic Profile of Workers in Frontline Industries," Center for Economic and Policy Research, April 7, 2020, https://cepr.net/a-basic-demographic-profile-of-workers-in-frontline-industries/.

[2] National Women's Law Center, "Women in the Low-Wage Workforce by State," February 2018, https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2018/06/women-in-low-wage-workforce-by-state-2018-2.pdf.

[3] Low wages are defined here as $12.00 or less per hour. See Jasmine Tucker and Julie Vogtman, "When Hard Work Is Not Enough: Women in Low-Paid Jobs," National Women's Law Center, April 2020, https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2020/04/Women-in-Low-Paid-Jobs-report_pp04-FINAL-4.2.pdf

[4] Poverty-level wages are defined here as $11.70 or less per hour. Economic Policy Institute Data Library, Poverty-Level Wages, http://www.epi.org/data/#/?subject=povwage&g=*&r=*.

[5] "State-Level Unauthorized Population and Eligible-to-Naturalize Estimates," Center for Migration Studies, http://data.cmsny.org/state.html.

[6] Molly Kinder and Martha Ross, "Reopening America: Low-wage workers have suffered badly from COVID-19 so policymakers should focus on equity," Brookings, June 23, 2020, https://www.brookings.edu/research/reopening-america-low-wage-workers-have-suffered-badly-from-covid-19-so-policymakers-should-focus-on-equity/.

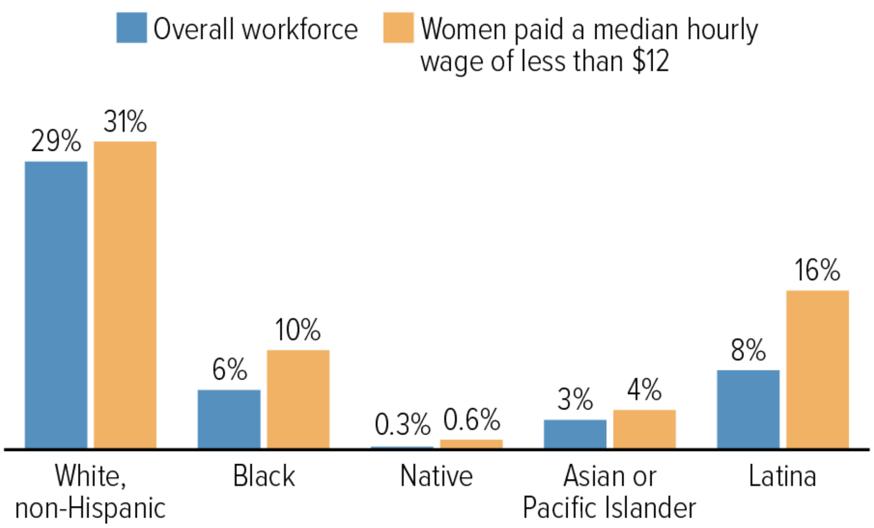
[7] Erica Williams, Samantha Waxman, and Juliette Legendre, "State Earned Income Tax Credits and Minimum Wages Work Best Together," Center on Budget and Policy Priorities, updated March 9, 2020, https://www.cbpp.org/research/state-budget-and-tax/state-earned-income-tax-credits-and-minimum-wages-work-best-together.

[8] Economic Policy Institute, "The Productivity-Pay Gap," updated July 2019, http://www.epi.org/productivity-pay-gap/.

FIGURE 1

Women of Color Highly Overrepresented in Jobs That Pay Less Than $12 Per Hour

Women's share of overall and lowest-wage workforces by race/ethnicity, 2018



Source: National Women's Law Center analysis of Census data

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While many families' wages do not reflect the last 50 years of economic growth, the basics — including housing, child care, and transportation — have gotten more expensive over time. COVID-19 has strained resources further as many families have lost jobs and income. For example, housing costs for renters continue to increase faster than incomes, Census data show: from 2001 to 2019, after adjusting for inflation, median renter household income rose just 3.4 percent, while rents rose 15 percent.[9] Nearly 1 in 5 adult renters, or an estimated 13 million adults living in rental housing, were not caught up on rent according to data collected February 3-15, and renters of color were more likely to report that their household was not caught up on rent. And more than 4 in 10 children living in rental housing live in a household that either isn't getting enough to eat or is not caught up on rent.[10]

[9] Eric Gartland, "2019 Income-Rent Gap Underscores Need for Rental Assistance, Census Data Show," CBPP, September 18, 2020, https://www.cbpp.org/blog/2019-income-rent-gap-underscores-need-for-rental-assistance-census-data-show.

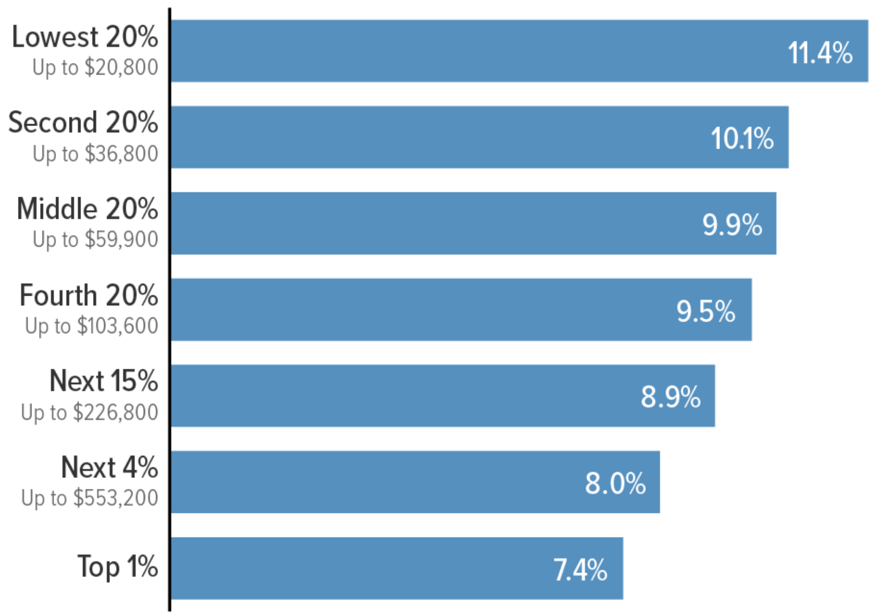
[10] "Tracking the COVID-19 Recession's Effects on Food, Housing, and Employment Hardships," CBPP, updated February 24, 2021, https://www.cbpp.org/research/poverty-and-inequality/tracking-the-covid-19-recessions-effects-on-food-housing-and.

Furthermore, state tax systems that ask the most as a share of income from families earning the least, as most do, contribute to squeezing families between inadequate wages and increasingly expensive basic needs. In 9 of every 10 states, families earning the least — disproportionately families of color — pay a larger share of their income in state and local taxes than do higher-income families. (See Figure 2.) That means they're shouldering more of the load for roads, schools, health care, and other investments that contribute to broadly shared prosperity.[11] Most states' tax structures worsen racial and ethnic inequities because households of color are more likely to have lower incomes and less wealth than white households due to historical and ongoing discrimination and bias.

FIGURE 2

Lowest-Income Households Pay Highest Share of State and Local Taxes

Total state and local taxes that non-elderly residents paid as a share of their income in 2018



Source: Institute on Taxation and Economic Policy, "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States," 6th ed., October 2018, https://itep.org/whopays/.

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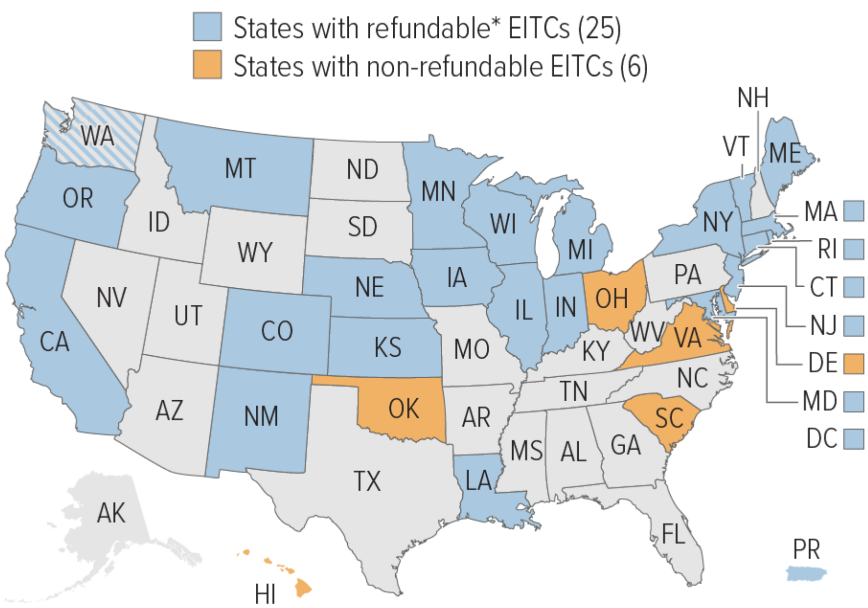
[11] "Who Pays? A Distributional Analysis of the Tax Systems In All 50 States," Institute on Taxation and Economic Policy, October 2018, https://itep.org/whopays/.

Federal, State EITCs Can Ease Hardship, Promote Opportunity Now and Over the Long Term

Twenty-nine states plus Puerto Rico and Washington D.C. have adopted state EITCs to boost family income. (See Figure 3.) Most state EITCs are modeled directly on the federal credit: they use federal EITC eligibility rules and match a specified percentage of the federal credit. Refundable credits range from 3 percent of the federal credit in Montana to 45 percent in Maryland.[12] (See Figure 4 below and Appendix Table 1 for more details on each state's credit.) To help more families make ends meet during the pandemic and beyond, states without an EITC should adopt one and those with one should continue expanding them.

FIGURE 3

29 States Plus D.C. and Puerto Rico Have EITCs



*Refundable earned income tax credits (EITCs) give working households the full value of the credit they earn even if it exceeds their income tax liability.

Note: Washington's EITC has never been implemented, but would likely be worth 10 percent of the federal credit or $50, whichever is greater.

Source: CBPP analysis. Data are as of 2020.

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Federal, State EITCs Well-Targeted to Low-Paid Households

Working families with children earning up to about $41,000 to $56,000 (depending on marital status and the number of children in the family) generally qualify for a state EITC, with the largest benefits going to families with incomes between about $10,000 and $24,000. Workers without

[12] California's credit can be worth up to 85 percent of the federal credit for some families, but it follows a separate schedule that isn't directly linked to the federal credit. See Appendix Table 1.

children can also qualify, but the benefit is small, and they can receive it only if their income is below about $16,000 ($21,000 for a married couple). The maximum credit varies by number of children claimed, reflecting the reality that larger families face higher living expenses than smaller families.

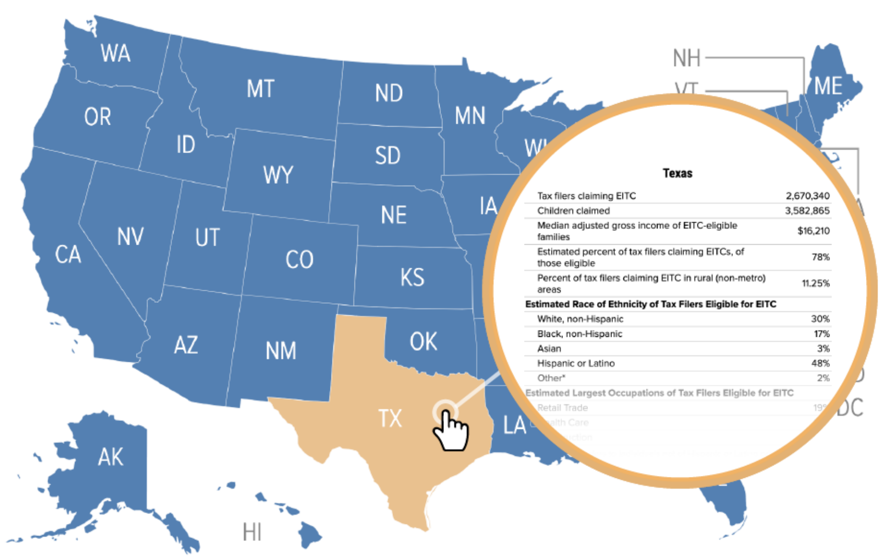
State and federal EITCs are well-targeted to families struggling to get by on low wages. Over 26 million families, including over 32 million children, claimed the federal credit in tax year 2018. Across the 50 states and the District of Columbia, the median income of eligible families is between $11,000 and about $20,000. The most common industries for EITC-eligible workers include retail, health care occupations, and food service.

Refundability is a key feature of the EITC and the source of much of its ability to boost income, reduce poverty, and help families in the long run. It means that the full credit is available to families, no matter how much they owe at tax time, enabling them to keep more of what they earn despite being paid low wages. Without this measure, the credit leaves out families who earn the least. Most state credits are refundable.

FIGURE 4

Interactive Map: Selected Demographics of Federal EITC Recipients by State, 2018

See full interactive for detailed figures.



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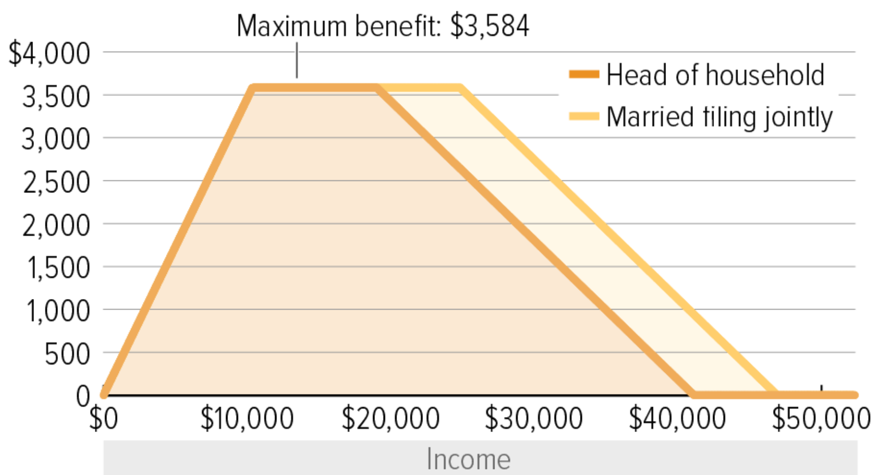
For the full interactive map, please visit cbpp.org/eitc-2021.

Figure 5 shows how the federal EITC works for a single-parent family with one child earning the minimum wage in 2020 (about $15,000 a year for full-time, year-round work). For every dollar she earns, she gets 34 cents in EITC benefits. The value of the credit continues rising at that rate until her earnings reach $10,540. At that point, she receives the maximum benefit of $3,584. Once her earnings exceed $19,330, the credit shrinks by about 16 cents for each additional dollar of earnings until reaching zero at about $41,000 in earnings. Although the EITC is adjusted for inflation each year, the 2017 tax law erodes the credit's value over time by using a different measure of inflation, the "chained" Consumer Price Index. That will mean families will lose $100-$300 by 2027, depending on family size.[13]

FIGURE 5

Earned Income Tax Credit for Households with One Child, 2020



Note: Assumes all income is from earnings (as opposed to investments, for example).
Source: Internal Revenue Service

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As part of the December 2020 COVID-19 relief legislation, federal policymakers enacted a "look-back" provision[14] that will improve the federal credit's effectiveness during the economic downturn and also boost most state EITCs. The provision protects low- and moderate-income families by letting those who earned less in 2020 than in 2019 choose to base their EITC and Child Tax Credit for tax year 2020 on their earnings in 2019. Millions of families will likely benefit from this

[13] Chuck Marr, "Instead of Boosting Working-Family Tax Credit, GOP Tax Bill Erodes It Over Time," CBPP, December 21, 2017, https://www.cbpp.org/blog/instead-of-boosting-working-family-tax-credit-gop-tax-bill-erodes-it-over-time.

[14] Chuck Marr, "Congress Must Help Struggling Families — as It Helped Highly Indebted Companies," CBPP, December 4, 2020, https://www.cbpp.org/blog/congress-must-help-struggling-families-as-it-helped-highly-indebted-companies.

provision, and this change will allow state credits to be calculated based on a higher credit based on 2019 income in most — but not all — states.[15]

EITCs Boost Family Income, Communities, and Local Economies

EITCs' benefits go far beyond the dollars that a family receives. By helping families keep up basic spending, EITCs help families build economic security, improve longer-term health and well-being, and boost state and local economies. Especially during a global pandemic that is hitting workers paid low wages the hardest, EITCs are a critical lifeline to struggling families, while also helping communities and the economy. That's because they:

Reduce poverty, especially in communities of color. Over 7 million children in working families lived below the official poverty line (about $26,000 for a family of four) in 2019;[16] millions of families modestly above that income level still have difficulty affording food, housing, and other necessities. As described above, the federal EITC is one of the nation's most effective tools for reducing the struggles of working families and children.

While state and federal EITCs serve a larger number of white households than any other racial or ethnic group (due in part to population size), they serve a larger proportion of people of color relative to their population size, and the EITC has an outsized impact in reducing poverty rates for households of color. The average state EITC benefit for non-white- or Hispanic-headed households was $120 higher than for white, non-Hispanic households, a recent study found, and state EITCs lift a larger share of non-white and Hispanic populations above the poverty line.[17] This partly reflects the fact that the largest EITCs go to households with children struggling on low wages and the high poverty rates for children of color. Child poverty is much higher for Latinx and Black children than for white children, and there are significant disparities among Asian and Pacific Islander children despite low overall poverty rates.[18]

Help children and families thrive. Research suggests that the income from tax credits like the EITC helps children from birth through retirement and beyond. For instance, research indicates that children in families receiving such income do better in school, are likelier to attend college, and are

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[15] A few state credits (California, Minnesota, and Puerto Rico) are not directly linked to the federal credit, so the look-back is not available. For state EITCs that are structured as a percentage of the federal credit, states that automatically conform to federal changes to the Internal Revenue Code will automatically conform to the look-back. Some states that conform as of a fixed date prior to enactment of the look-back must update state law for it to apply.

[16] According to Census' Current Population Survey, over 7 million poor children had at least one working parent in 2019.

[17] Douglas J. Gagnon, Marybeth J. Mattingly, and Andrew Schaefer, "State EITC Programs Provide Important Relief to Households in Need," University of New Hampshire Carson School of Public Policy, Winter 2017, https://scholars.unh.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1295&context=carsey.

[18] Annie E. Casey Foundation, "2020 Kids Count Databook," June 22, 2020, https://www.aecf.org/resources/2020-kids-count-data-book/.

likely to earn more as adults, and women especially are likely to see a more secure retirement.[19] The EITC may play a particularly important role in helping children of color improve their math achievement, complete high school, and enroll in college, the research suggests.[20]

A growing body of research also suggests that this additional income — specifically as provided by the federal and state EITC — goes beyond individual families to entire neighborhoods.[21] For example, a study looking at the effects of state and local EITC expansions on New York City residents found that an increase in the combined state and local EITC benefit from 20 percent to 35 percent of the federal credit was associated with a 0.45 percentage-point reduction in the rate of low-birthweight babies in low-income neighborhoods in New York City.[22] This reduction was observed neighborhood-wide, not just among individual households receiving the credit; by helping to reduce neighborhood poverty rates, the EITC's positive health effects spilled over to the wider community.

Boost local economies. Tax credits like the EITC help families who earn low wages to keep up basic spending. That's particularly important during an economic downturn such as the one caused by COVID-19, where so many are experiencing hardship and many local businesses are also struggling. Families spend their EITCs partially to make bigger purchases such as a car repair or a security deposit on an apartment, and partially on routine bills and expenses.[23] And when families are able to keep up basic spending, it in turn helps their local and state economies.

State EITCs also play a role in bolstering family economic security so that more people can create innovative new products and services, benefitting both individuals and state economies in the long term. Economic insecurity is linked to a range of bad outcomes for children, such as higher stress levels and lower educational achievement, and also weakens young people's likelihood of realizing

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[19] Chuck Marr *et al.*, "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds," CBPP, updated October 1, 2015, https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens; Greg J. Duncan, Pamela A. Morris, and Chris Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random-Assignment Experiments," *Developmental Psychology*, June 2011, pp. 1263–1279.

[20] Michelle Maxfield, "The Effects of the Earned Income Tax Credit on Child Achievement and Long-Term Educational Attainment," Michigan State University Institute for Public Policy and Social Research, November 14, 2013, http://ippsr.msu.edu/research/effects-earned-income-tax-credit-child-achievement-and-long-term-educational-attainment; Katherine Michelmore, "The Effect of Income on Educational Attainment: Evidence from State Earned Income Tax Credit Expansions," November 2013, https://ssrn.com/abstract=2356444; Gordon Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," *American Economic Review,* August 2012, pp. 1927-1956.

[21] Examples include: William N. Evans and Craig L. Garthwaite, "Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health," National Bureau of Economic Research Working Paper No. 16296, August 2010, https://www.nber.org/papers/w16296; Hillary Hoynes, Doug Miller, and David Simon, "Income, the Earned Income Tax Credit, and Infant Health," *American Economic Journal: Economic Policy,* Vol. 7, No. 1, 2015, https://www.aeaweb.org/articles?id=10.1257/pol.20120179.

[22] Jeannette Wicks-Lim and Peter S. Arno, "Improving population health by reducing poverty: New York's Earned Income Tax Credit," *Social Science Medicine – Population Health,* Vol. 3, December 2017, https://www.sciencedirect.com/science/article/pii/S2352827316300829.

[23] Marr *et al.,* "EITC and Child Tax Credit Promote Work, Reduce Poverty," *op. cit.*

their economic potential as adults. Working to raise household income and make sure families can access the supports they need is therefore a straightforward way for policymakers to foster more long-term innovation, as well as to improve children's outcomes and their likelihood of future success more generally.

States Can Build Stronger Futures By Enacting and Strengthening State EITCs

Several design aspects of the federal credit constrain its potential to boost income and help struggling families make ends meet. These aspects in turn limit state credits that are based on the federal EITC. The federal credit is not available to immigrants and their families if they file taxes with an Individual Tax Identification Number (ITIN), and for people without children in the home, the credit has age restrictions, is small, and phases out at too low a level.

But states can take steps to lessen these constraints and improve the equity of their tax systems. States can enact new credits, those that have not yet made their credits refundable like the federal credit should do so, and all states should expand beyond the parameters of the federal credit to provide equitable treatment for those currently excluded.

States can:

- **Enact a new, refundable credit.** Twenty-one states have not yet taken the step of creating a state EITC. Given the credit's benefits for families, communities, and states, as well as the urgency to help families struggling due to the pandemic, now is an ideal time to do so. (See Appendix Table 2 for estimating the cost of creating a new credit.)
- **Make credits refundable, if they haven't already (Delaware, Hawai'i, Ohio, Oklahoma, South Carolina, Virginia).** Twenty-three states, Washington, D.C., and Puerto Rico follow the federal practice of offering a fully available EITC. Without this feature, state EITCs fail to offset the other substantial state and local taxes that families pay, such as sales taxes, property taxes, and others.
- **Increase the credit for working adults without children in the home and eliminate age restrictions for these individuals**. The federal EITC for people paid low wages who don't have children in the home is limited and small, available only to individuals earning up to about $16,000, and to married families earning up to about $21,000, between the ages of 25 and 64. That's even though they are integral members of their communities and local economies, and many are non-custodial parents or future parents. This group is disproportionately people of color — about 26 percent of them Latino and 18 percent Black (compared to 19 percent and 12 percent of the population, respectively).

  The House-passed American Rescue Plan would temporarily raise the maximum EITC for working adults not raising children from roughly $530 to roughly $1,500, and the income cap for these adults to qualify from about $16,000 to at least $21,000. It also would expand the age range of eligible working adults without children to include younger adults aged 19-24 who aren't full-time students, as well as people aged 65 and over. This would provide timely income support to over 17 million people who do important work for low pay.[24]

States need not wait for an expansion of the federal credit for working adults without children in the home. The District of Columbia, Maine, Maryland, Minnesota, and New Jersey have all reduced age restrictions, California has eliminated them for workers 18 and older, and California, the District of Columbia, Maryland, and Maine have increased the credit size for these individuals. More states can consider enacting these changes.

- **End the exclusion for individuals using ITINs.** States should follow the recent lead of California and Colorado and make their credits more inclusive for people regardless of their immigration status. That would help expand economic opportunity for all their residents and support essential workers earning low pay who are immigrants. Federal policymakers, however, excluded millions of immigrants from many of the emergency pandemic supports that they enacted in late 2020. And many of those same people are ineligible for the federal EITC and Child Tax Credit because they lack Social Security numbers and file taxes with an ITIN. California and Colorado each will enable these filers to receive state EITCs for the first time, and all other states should do so as well. If all states with EITCs enacted this change, it would help more than 1 million households. (See Table 1.)

- **If a state has reduced its credit, restore it to its full value.** A few states have reduced their EITC recently. These include Oklahoma, which reduced its credit by nearly 70 percent by making it non-refundable in 2016, and Connecticut, which reduced its credit from 27.5 to 23 percent in 2017, down from its original level at 30 percent. States that have done so should reverse course.

States considering creating or expanding an EITC will need to consider a provision in the American Rescue Plan Act, which states that if a state passes a law after March 3 that reduces state tax revenue on net, the state must repay an equivalent amount of the federal aid provided in the Act. The most straightforward policy response to this provision will be for states to raise revenue from another source to cover the cost of creating or expanding an EITC. States may also consider using the federal aid to provide direct payments to individuals.

[24] Chuck Marr *et al.*, "House Ways and Means COVID Relief Bill Includes Critical Expansions of Child Tax Credit and EITC," CBPP, updated March 2, 2021, https://www.cbpp.org/research/federal-tax/house-ways-and-means-covid-relief-bill-includes-critical-expansions-of-child. Information about people who would be helped by state is available in Appendix Table 4.

States Without an Income Tax Can Enact a State EITC

In the nine states without an income tax, state revenue departments typically do not collect the information about family income and structure needed to determine EITC eligibility. It is nevertheless feasible for these states to enact and implement an EITC, and the example of Washington State's Working Families Tax Rebate illustrates how this process could work.

The Washington EITC has never taken effect because the state legislature hasn't funded it,[a] but the design of a proposal to implement and update the rebate this year provides a proposed process. Eligible families would apply to the Washington Department of Revenue to receive the credit. The state would verify eligibility by retroactively matching IRS data to the application. The bill also directs the revenue department to work with the IRS to pay the rebate automatically as soon as is feasible.[b] The IRS provides these data to state revenue departments under a data-sharing arrangement, and could work with Washington state to share data more quickly to facilitate an automatic program.

Any of the eight other states without a broad-based income tax (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming) could follow the Washington State model. State EITCs could be particularly helpful in these states because their tax systems rely heavily on excise taxes, property taxes, and in most cases sales taxes. Because of this reliance, low- and moderate-income families in these states tend to pay a significantly higher share of their income in taxes than wealthier families.[c]

[a] The Washington State credit was scheduled to take effect in tax year 2009, but policymakers did not finance it, largely because of the Great Recession and resulting revenue shortfalls.

[b] State of Washington HB 1297, introduced January 19, 2021.

[c] ITEP, "Who Pays, 6th Edition," https://itep.org/whopays/.

TABLE 1

State EITC Expansions for Tax Filers Using ITINs Would Help Millions Make Ends Meet

State	Assuming participation rates of the currently eligible EITC population*	
	Estimated EITC ITIN returns (2015)	Estimated State EITC Refunds (2020 dollars)
California	480,840	$70,271,000
Colorado	31,640	$7,514,000
Delaware	13,275	$7,516,500
Dist. Of Columbia	3,445	$3,140,500
Hawai'i	205	$64,000
Illinois	110,445	$52,547,000
Indiana	27,215	$6,031,000
Iowa	6,010	$2,273,500
Kansas	12,820	$6,172,500
Louisiana	6,310	$903,000
Maine	45	$10,500
Maryland	40,385	$21,715,500
Massachusetts	13,230	$9,326,500
Michigan	12,440	$1,971,000
Minnesota	14,655	$12,346,000
Montana	80	$5,500
Nebraska	7,485	$1,848,500
New Jersey	54,100	$54,522,500
New Mexico	11,570	$5,364,000
New York	74,195	$56,576,500
Ohio	13,205	$2,796,000
Oklahoma	15,165	$996,500
Oregon	20,440	$4,740,500
Rhode Island	2,700	$1,087,500
South Carolina	14,400	$1,559,500
Vermont	Vermont has a state credit at 36% of the federal EITC but no ITIN returns for Vermont were included in the 2015 IRS data	
Virginia	30,240	$8,966,500
Washington	46,565	$11,324,500
Wisconsin	22,065	$7,981,000
Total	**1,085,170**	**359,571,500**

ITIN=Individual Tax Identification Number. Table lists states with existing state earned income tax credits.

*State calculations that adjust for participation are generated by reducing estimates of EITC-eligible ITIN filers by both the federal participation rates as published by the IRS for tax year 2016 (which is the most recently reported rate in the EITC Central at https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states) and a further 10 percent reduction to account for attrition between federal EITC and state credit claimants.

Sources: Institute on Taxation and Economic Policy analysis of IRS 2015 ITIN Filer Data; "End the tax penalty against immigrant workers," Table 1, Center for Community Change, April 2020 https://communitychange.org/wp-content/uploads/2020/04/ITIN_EITC_Fact_Sheet_Tables_April_2020-002.pdf.

States Can Help Families Claim EITCs

Given the credit's benefits for families, communities, and local economies, states have a vested interest in assisting residents in claiming EITCs. States can take steps to lower barriers to claiming the EITC and other tax credits for which families are eligible by:

- **Supporting free tax preparation through VITA (Volunteer Income Tax Assistance).** VITA sites provide free, high-quality tax preparation services to people earning less than about $57,000, which includes virtually all families eligible for EITCs. The IRS coordinates the program, and VITA tax preparers maintain a high degree of accuracy in tax preparation. VITA sites are eligible for federal grant funding from the IRS, but this funding is limited and must be matched by state, local, or private dollars. States can help provide matched funding and assist VITA sites with community outreach. During the COVID-19 pandemic, VITA sites are adapting by offering virtual options and other ways to continue providing this assistance.[25]
- **Pre-filling and sending tax forms for families likely to be eligible for EITCs**. States receive wage, withholding, and other tax information from employers. They can pre-fill a state tax form with this information and send it to families to assist in preparing their taxes. For example, New Jersey legislators are considering such a bill, which would also help connect individuals with other public benefits for which they qualify.[26]
- **Educating the public.** States can advertise the availability of EITCs through newspapers and social media, on the radio, and by other means.
- **Conducting targeted outreach to families already enrolled in economic security programs.** Many families that are eligible for SNAP, Medicaid, and other economic security programs may be eligible for the EITC and other state tax credits. State agencies can send notices and reminders, and can connect enrolled families to trusted tax preparation assistance providers like VITA and the United Way.
- **Requiring employers to share information about the EITC with employees.** States can require employers to send or post notices to their employees who may qualify for the EITC. These notices are another way to share information about the credit, especially for individuals who may not know that they are eligible. States with such requirements for either the federal or state EITC include California, Illinois, Louisiana, Maryland, New Jersey, Oregon, Texas, and Virginia.

Some states and localities have already taken these steps. For example, the California Department of Community Services and Development, along with the Franchise Tax Board, administers a grant

[25] For more information about virtual and other VITA offerings during the pandemic, see Prosperity Now, "Alternative Tax Prep Options," https://prosperitynow.org/alternative-tax-prep-options.

[26] InsiderNJ, "Ruiz Introduces Legislation to Create ReadyReturn Tax Return Program," December 8, 2020, https://www.insidernj.com/press-release/ruiz-introduces-legislation-create-readyreturn-tax-return-program/.

program that funds EITC education and outreach efforts.[27] The city of Detroit undertook a significant outreach effort and boosted its tax preparation services in 2016 and 2017, which led to an additional 18,000 residents claiming the credit in 2017.[28]

[27] California Legislative Analyst's Office, "California Earned Income Tax Credit Education and Outreach," May 8, 2018, https://lao.ca.gov/Publications/Report/3826.

[28] Bloomberg Cities, "How Detroit is maximizing tax credits for the working poor," April 18, 2018, https://bloombergcities.medium.com/how-detroit-is-maximizing-tax-credits-for-the-working-poor-93effaaefc17.

Appendix

APPENDIX TABLE 1

State Earned Income Tax Credits, 2020

State	Percentage of Federal Credit	Refundable?	Eligibility Expansions Beyond the Federal Credit
California[a]	85% of federal credit, up to 50% of the federal phase-in range	Yes	Workers without children in the home 18 and older; $1000 Young Child Tax Credit for families with children under 6; Filers using an ITIN
Colorado[b]	10%	Yes	Filers using an ITIN
Connecticut	23%	Yes	
Delaware	20%	No	
District of Columbia[c]	40% / 100%	Yes	Workers without children in the home with incomes up to twice the poverty line, and non-custodial parents
Hawai'i	20%	No	
Illinois	18%	Yes	
Indiana[d]	9%	Yes	
Iowa	15%	Yes	
Kansas	17%	Yes	
Louisiana	5%	Yes	
Maine[e]	12% / 25%	Yes	Workers without children in the home 18-24
Maryland[f]	45% / 100%	Yes	Workers without children in the home under age 24
Massachusetts[g]	30%	Yes	Survivors of domestic abuse who would otherwise be ineligible
Michigan	6%	Yes	
Minnesota[h]	Avg. 39%	Yes	Workers without children in the home 21-24
Montana	3%	Yes	
Nebraska	10%	Yes	
New Jersey	40%	Yes	Workers without children in the home 21-24
New Mexico	17%	Yes	
New York[i]	30%	Yes	Non-custodial parents
Ohio	30%	No	
Oklahoma	5%	No	
Oregon[j]	9% / 12%	Yes	
Rhode Island	15%	Yes	
South Carolina[k]	62.50%	No	

APPENDIX TABLE 1

State Earned Income Tax Credits, 2020

State	Percentage of Federal Credit	Refundable?	Eligibility Expansions Beyond the Federal Credit
Vermont	36%	Yes	
Virginia	20%	No	
Washington[l]	10% (when implemented)	Yes	
Wisconsin	4% - one child 11% - two children 34% - three children No credit - childless workers	Yes	
Puerto Rico[m]	Follows a separate schedule, credit between $300-$2,000 based on family size	Yes	

ITIN = Individual Tax Identification Number

a California's credit is available to working families and individuals with wage income below $30,000 depending on family size. The credit is worth 85 percent of a household's federal EITC until household income reaches half of the level at which the federal credit is fully phased in; it then begins phasing out at varying rates, depending on family size. In 2020, the maximum credit ranges from $243 for workers without dependent children to $3,027 for workers with three or more children, plus a Young Child Tax Credit worth up to $1,000 for families with children under 6. The value of the credit is set each year by the legislature. For a full list of 2020 parameters see here: https://www.ftb.ca.gov/file/personal/credits/california-earned-income-tax-credit.html.

b Colorado's credit will increase from 10 percent to 15 percent beginning in 2022. People filing with an Individual Taxpayer Identification Number are now eligible for the earned income tax credit starting in tax year 2020 (by April 2021).

c The District of Columbia offers a credit equal to 100 percent of the federal EITC to adults without dependent children with incomes up to twice the poverty line (for an individual). The D.C. EITC also counts the children of non-custodial parents, as long as the worker is aged 18 to 30, and the worker pays child support and is up to date on those payments.

d Indiana decoupled from federal provisions expanding the EITC for families with three or more children and raising the income phase-out for married couples.

e Maine's credit is 12 percent for families with children in the home, and 25 percent for families without children in the home (these families receive a much smaller federal credit).

f Maryland also offers a non-refundable EITC set at 50 percent of the federal credit. In effect, taxpayers may claim either the refundable credit or the non-refundable credit, but not both. As of February 2020, the refundable state credit is increased to 45 percent for families claiming children, and 100 percent for individuals without children in the home (capped at $530). This change is in effect for tax years 2020 to 2022, after which the credit reverts back to 28 percent.

g In Massachusetts, survivors of domestic violence can file their own tax returns and remain eligible for the EITC. (Otherwise, survivors separated from a spouse must either file joint tax returns with an abuser or claim head of household status, for which they may not be eligible.)

h Minnesota's credit for families with children, unlike the other credits shown in this table, is structured as a percentage of income rather than a percentage of the federal credit. In 2019, Minnesota doubled the maximum credit for workers without children in the home and raised the income limit for those workers. Families with three or more children receive a larger credit (previously they received the same credit as families with two children) and families with one or two children see a small increase. The average given here reflects total projected state spending for the Working Family Credit divided by projected federal spending on the EITC in Minnesota as modeled by Minnesota's House Research Department; this average fluctuates from year to year and reflects 2018 data.

i New York non-custodial parents who meet certain requirements may claim 20 percent of the federal credit that they would have received with a qualifying child, or 2.5 times the federal credit for workers without qualifying children.

j Oregon's credit is 12 percent for families with children 3 years and younger, otherwise it is 9 percent.

k South Carolina's EITC is phased in in six equal installments starting in 2018, to reach 125 percent of the federal credit by 2023. This credit is non-refundable and is less generous than a 5 percent refundable EITC because workers with very low incomes tend to have little to no tax liability.

l Washington's EITC has never been implemented but would likely be worth 10 percent of the federal credit or $50, whichever is greater.

m Puerto Rico's EITC, while similar in design to the federal credit, has different parameters. Its EITC phases in at between 5 percent and 12 percent of earnings, depending on family size, and begins phasing out at the same rate at between $13,000 and $18,000 depending on family size. The maximum credit is $2,000, which is much smaller than families would receive on the mainland. (Puerto Rico residents are ineligible for the federal EITC.) For additional information about Puerto Rico's EITC parameters, see Javier Balmaceda, "Puerto Rico on Verge of Implementing an EITC," CBPP, December 10, 2018, https://www.cbpp.org/blog/puerto-rico-on-verge-of-implementing-an-eitc.

APPENDIX TABLE 2

Estimated Cost of Refundable State Earned Income Tax Credits, Fiscal Year (FY) 2021

State	Federal EITC Claims in Tax Year 2018 ($ in thousands)	Percent of Total U.S. EITC Claims, Tax Year 2018	Estimated Federal EITC Claims in FY 2022 ($ in millions)	Estimated Cost of State EITC in FY 2022* ($ in millions)		
				Set at 5% of Federal Credit	Set at 10% of Federal Credit	Set at 20% of Federal Credit
States Without Refundable EITCs						
Alabama	1,348,916	2.11%	1,501	68	135	270
Alaska	96,923	0.15%	108	5	10	19
Arizona	1,480,095	2.31%	1,647	74	148	296
Arkansas	773,291	1.21%	861	39	77	155
Delaware**	176,095	0.27%	196	9	18	35
Florida	5,377,141	8.39%	5,985	269	539	1077
Georgia	2,945,087	4.60%	3,278	148	295	590
Hawai'i**	209,045	0.33%	233	10	21	42
Idaho	293,894	0.46%	327	15	29	59
Kentucky	951,757	1.49%	1,059	48	95	191
Mississippi	1,057,022	1.65%	1,176	53	106	212
Missouri	1,194,838	1.87%	1,330	60	120	239
Nevada	632,376	0.99%	704	32	63	127
New Hampshire	140,793	0.22%	157	7	14	28
North Carolina	2,276,543	3.55%	2,534	114	228	456
North Dakota	93,824	0.15%	104	5	9	19
Ohio**	2,216,512	3.46%	2,467	111	222	444
Oklahoma**	844,544	1.32%	940	42	85	169
Pennsylvania	2,066,696	3.23%	2,300	104	207	414
South Carolina**	1,226,188	1.91%	1,365	61	123	246
South Dakota	134,675	0.21%	150	7	14	27
Tennessee	1,571,567	2.45%	1,749	79	157	315
Texas	7,271,831	11.35%	8,094	364	728	1457
Utah	424,606	0.66%	473	21	43	85
Virginia**	1,398,283	2.18%	1,556	70	140	280
West Virginia	337,370	0.53%	375	17	34	68
Wyoming	76,540	0.12%	85	4	8	15

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Estimated Cost of Refundable State Earned Income Tax Credits, Fiscal Year (FY) 2021

State	Federal EITC Claims in Tax Year 2018 ($ in thousands)	Percent of Total U.S. EITC Claims, Tax Year 2018	Estimated Federal EITC Claims in FY 2022 ($ in millions)	Estimated Cost of State EITC in FY 2022* ($ in millions)		
				Set at 5% of Federal Credit	Set at 10% of Federal Credit	Set at 20% of Federal Credit
Other Jurisdictions	34,300	0.05%	38	2	3	7

* Estimates assume that the cost of a state EITC will be 90 percent of the cost of the federal EITC in each state.

** For Delaware, Hawai'i, Ohio, Oklahoma, South Carolina, and Virginia, cost shown is the total cost of a refundable credit; since those states already offer non-refundable credits, the added cost of making the credit refundable would be substantially less than the amount shown.

Note: These state-by-state cost estimates are calculated based on Internal Revenue Service (IRS) statistics on EITC claims for tax year 2018 and projections by the congressional Joint Committee on Taxation (JCT) of the total cost of the federal EITC for tax year 2022. We applied the state's share of the federal EITC costs to JCT's projected total cost of the federal EITC for tax year 2022.

Three Steps to Estimating the Cost of a State EITC

Step 1: Estimate the cost of the federal EITC claims in the state for a future fiscal year. First divide the most recent IRS data on the value of federal EITC claims in the state by the value of all U.S. EITC claims. This percentage is the share of the federal EITC cost attributable to that state. Then, to estimate the cost of the federal EITC in the state for a future year, apply that percentage to the Joint Committee on Taxation's projected total cost of the federal EITC for the chosen year.

Step 2: Estimate the cost of the state's EITC if all federal EITC claimants also received the state credit. Most states' EITCs are a set percentage of the federal credit; for refundable credits, this percentage ranges from 3 to 45 percent (see Appendix Table 1). To estimate the cost of a state EITC, multiply the federal EITC cost for the state (as determined in Step 1) by the percentage at which the state EITC is to be set. This calculation yields an estimate of what the state credit would cost in a given fiscal year if everyone who received the federal credit also received the state credit.

Step 3: Adjust the estimate to reflect that not all federal EITC claimants will claim the state credit. Many people who receive the federal EITC fail to claim their state's EITC, especially in the first few years after a state enacts a credit, when awareness of it may be limited. In addition, some eligible families have the IRS compute their federal credit and may not receive a state EITC if the state does not compute the state credit amount for them. For these and other reasons, a refundable state EITC in its initial years will likely cost less than the full cost of the federal credit multiplied by the state percentage. To account for this, the cost estimate should be reduced by at least 10 percent.[29]

[29] Compared to the cost if every family claiming the federal credit also claimed the state credit, the actual cost of a newly enacted state EITC in its first year of availability was about 81 percent in Vermont, 83 percent in New York, 85 percent in Wisconsin, 88 percent in Oklahoma, 90 percent in Kansas and Minnesota, and 97 percent in Massachusetts. In the

The Results

The last three columns of Appendix Table 2 show the estimated fiscal year 2021 costs of providing a refundable EITC for tax year 2018 set at 5, 10, or 20 percent of the federal credit. Other percentages may be calculated based on those numbers; for instance, a 15 percent credit would cost one-and-a-half times as much as a 10 percent credit.

EITC's second year of availability, the cost (relative to the full-participation cost) rose to 85 percent in Vermont, 90 percent in New York, and 93 percent in Minnesota.