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States Can Adopt or Expand Earned Income Tax Credits to Build a Stronger Future Economy

By Erica Williams and Samantha Waxman

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 help working families earning low wages meet basic needs.¹ State EITCs build on the success of the federal credit by keeping people on the job and reducing hardship for working families and children. This important state support also extends the federal EITC's well-documented long-term positive effects on children, boosting the nation's future economic prospects.

State EITCs provide extensive benefits to children, families, and communities, and are straightforward to administer and to claim. Lawmakers in states without their own EITC should consider enacting one. States that have cut back or eliminated their credits should reverse course, and states that have limited their credits so that they *only* offset income taxes should expand them to help offset the full range of state and local taxes that low-income households pay. This would vastly enhance the credits' impact. By investing in an EITC, states can make a real difference in the lives of low- and moderate-income working families.

Why Consider an EITC?

Many working families with children struggle to make ends meet on low wages. A full-time job at the federal minimum wage yields about \$15,000 — often insufficient income for a family to afford basic necessities. The EITC, a federal tax credit for people earning low and moderate pay, boosts income and improves the outlook for children in low-income households. It also helps women and communities of color — two groups that disproportionately work in low-wage jobs — see the fruits of their labor and share more fully in economic growth. State lawmakers can build on the proven effectiveness of the federal EITC to address low wages with a state-level credit. 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, which give working households the full value

¹ Puerto Rican families are not eligible for the federal EITC. The Puerto Rico EITC is a local tax credit that provides a maximum credit of between \$300 and \$2,000, depending on family size and configuration. It is available to working people on the island making less than about \$34,000 (or \$42,000 for a married couple), with the highest benefits provided to people with incomes between \$6,000 and \$18,000, depending on family size.

of the credit they earn even if it exceeds their income tax liability, provide workers struggling on low wages with a needed income boost that can help them meet basic needs.

- **Keep families working.** Refundable EITCs help low-wage working families pay for the very things that allow them to continue working, like child care and transportation. They are also structured to encourage the lowest-earning families to work more hours. Research demonstrates that unmarried mothers, in particular, work more hours as a result of the credit. That extra time and experience on the job can translate into better opportunities and higher pay over time.² Three in five filers who receive the federal credit use it temporarily — for just one or two years at a time.³
- **Reduce poverty, especially among children.** Nearly 9 million children in working families lived below the official poverty line (about \$25,000 for a family of four) in 2017;⁴ millions of families modestly above that income level have difficulty affording food, housing, and other necessities. The federal EITC is one of the nation’s most effective tools for reducing the struggles of working families and children, particularly for unmarried women with children. It kept 5.7 million people — over half of them children — out of poverty in 2017, and helped many with somewhat higher incomes make ends meet. And by boosting the employment of working-age parents, particularly women, the EITC also increases their Social Security retirement benefits and thereby reduces poverty among seniors.⁵ State EITCs build on that record.
- **Have a lasting effect.** A growing body of research finds that young children in low-income families that get an income boost like the EITC provides tend to do better and go further in school because the additional resources help parents better meet their needs. Research suggests that boys and children of color particularly benefit.⁶ Children growing up poor tend to work less and earn less as adults relative to better-off peers; conversely, children receiving additional income such as from the EITC are likelier to see their employment and earnings prospects improve.⁷ 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.

² David Neumark and Peter Shirley, “The Long-Run Effects of the Earned Income Tax Credit on Women’s Earnings,” University of California-Irvine Economic Self-Sufficiency Policy Research Institute, December 18, 2017, https://www.esspri.uci.edu/files/docs/working_papers/ESSPRI%20working%20paper%2020175%20Neumark%20Shirley.pdf.

³ 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, <http://www.cbpp.org/cms/?fa=view&id=3793>.

⁴ According to Census’ Current Population Survey, 8.7 million poor children had at least one working parent in 2017.

⁵ Molly Dahl *et al.*, “The Earned Income Tax Credit and Expected Social Security Retirement Benefits Among Low-Income Women,” Congressional Budget Office, March 5, 2012, <https://www.cbo.gov/publication/43033>.

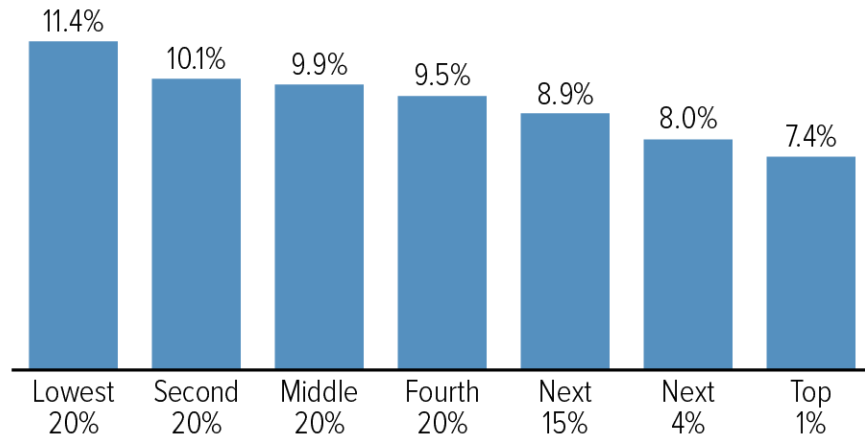
⁶ Marr *et al.*

⁷ Greg J. Duncan *et al.*, “Early Childhood Poverty and Adult Attainment, Behavior, and Health,” *Child Development*, January/February 2010, pp. 306-325, and Jacob Bastian and Katherine Michelmore, “The Long-Term Impact of the Earned Income Tax Credit on Children’s Education and Employment Outcomes,” December 27, 2016, <https://ssrn.com/abstract=2674603>.

FIGURE 1

Lowest-Income Households Pay Highest State and Local Taxes

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



Income ceilings: \$21,000 for bottom 20%; \$37,000 for second 20%; \$60,000 for middle 20%; \$104,000 for fourth 20%; \$227,000 for next 15%; \$553,000 for next 4%.

Source: Institute on Taxation and Economic Policy

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EITCs can also help counteract the substantial taxes paid by households with low and moderate incomes, especially relative to households with higher incomes. Such families in almost all states pay higher state and local taxes as a share of their income than do upper-income families (see Figure 1). This imbalance reflects states' heavy reliance on sales, excise, and property taxes, all of which fall more heavily on families with lower incomes. Some states have increased their reliance on these taxes in recent years by shifting their tax systems away from income taxes, pushing an even larger share of the costs of state services to households earning the least.

States Continue Building on Federal Credit

In recent years, a number of states have made major EITC advances. **Puerto Rico's** new local EITC was signed into law in December 2018. **Louisiana, Massachusetts, New Jersey, and Vermont** all increased the size of their credits to bolster the wages of working families. Louisiana increased its credit from 3.5 to 5 percent of the federal credit, Massachusetts from 23 to 30 percent, New Jersey from 35 to 40 percent, and Vermont from 32 to 36 percent. **California and Maryland** also expanded access to the credit for people who were previously ineligible. Californians aged 18 and older without dependents can now receive the credit, and the credit's income limit will increase for workers with and without children in the home. These changes will benefit an estimated 700,000 working households. In Maryland, an estimated 40,000 workers — mostly ages 18-24 — without dependents can now receive the credit. Many other states continue to enact and improve existing credits (see Box 1).

Box 1: Many States Have Created or Expanded EITCs in Recent Years



California allowed self-employed workers to qualify for the state credit and raised the income eligibility level for other workers, increasing access for an estimated 1 million families (2017).



Minnesota boosted the total value of its credit by 25 percent (2014), and then expanded eligibility for workers aged 21-24 (2017).



Hawaii enacted a non-refundable credit worth 20 percent of the federal credit (2017).



Montana enacted a refundable EITC that is 3 percent of the federal credit (2017).



Iowa doubled its credit to 14 percent of the federal EITC (2013) and then raised it further to 15 percent of the federal credit (2014).



New Jersey raised its credit to 30 percent of the federal EITC from 20 percent (2015), to 35 percent in the following year (2016), and to 40 percent in 2018.



Illinois increased its EITC from 10 percent of the federal credit to 14 percent in 2017, and will raise it again to 18 percent in 2018.



Oregon expanded its credit to 8 percent of the federal EITC from 6 percent (2013) and then expanded the credit to 11 percent for families with very young children (2016).



Maine made its credit refundable (2015).



Puerto Rico enacted a local EITC (2018).



Maryland raised its credit to 28 percent of the federal EITC from 25 percent, phased in over four years (2014). And the state extended the credit to younger workers in 2018.



Rhode Island expanded its credit for most recipients by making it fully refundable, though the state also cut the credit to 10 percent of the federal EITC from 25 percent (2014). The next year Rhode Island raised its credit to 12.5 percent of the federal EITC (2015) and then to 15 percent (2016).



Washington, D.C. became the first jurisdiction to expand the credit for workers without dependent children in the home, extending the credit's reach to childless workers with somewhat higher incomes and setting its value at 100 percent of the federal credit (2014).

Unfortunately, some states have cut their credits back. Most recently, in 2017, **Connecticut** reduced its credit from 27.5 percent of the federal credit to 23 percent, well below its original 30 percent level.⁸

Because state lawmakers have moved to support working families through state EITCs, almost half of recipients of the federal EITC are also eligible for a state credit, and state EITCs boost the earnings of working families by nearly \$5 billion annually.

EITC's Design Boosts Work

The EITC goes to working families and is designed to boost work. For families with very low earnings, the EITC increases as earnings rise, which encourages families to work more hours when possible. Working families with children earning up to about \$40,000 to \$55,000 (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 \$24,000. Workers without 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.

The EITC's design also reflects the reality that larger families face higher living expenses than smaller families: the maximum benefit varies for families with one, two, and three or more children. For example, the maximum federal benefit for families with two children in tax year 2018 is \$5,716, compared to \$3,461 for families with one child. (As with most other federal tax provisions, the IRS adjusts EITC benefit amounts and eligibility levels each year for inflation.)⁹ However, recent federal tax changes will erode the value of the credit over time (see Box 2).

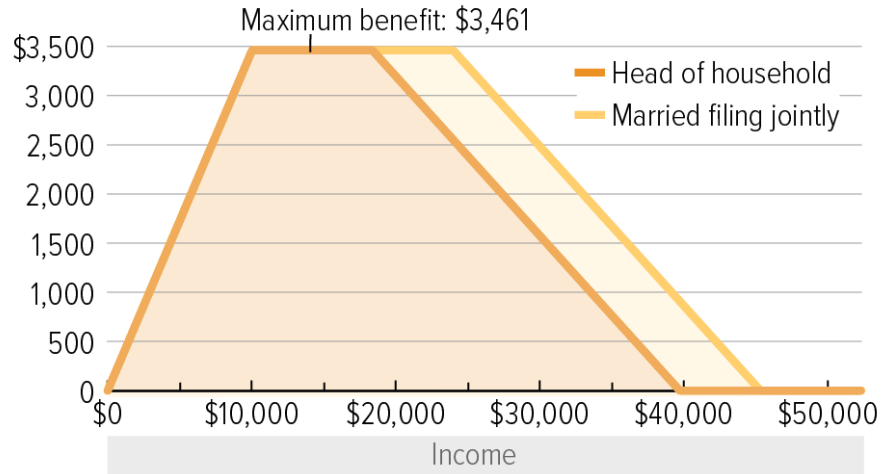
Figure 2 shows how the federal EITC works for a single-mother family with one child earning the minimum wage in 2018 (about \$15,000 a year for full-time, year-round work). For every dollar she earns, she gets 34 cents in EITC benefits. The value of the credit continues rising at that rate until her earnings reach \$10,180. At that point, she receives the maximum benefit of \$3,461. Once her earnings exceed \$18,660, the credit shrinks by about 16 cents for each additional dollar of earnings until reaching zero at about \$40,000 in earnings.

⁸ Other recent cuts include: Oklahoma cut its credit by nearly 70 percent in 2016, shrinking it to only cover state income tax liability. In 2013, North Carolina allowed its EITC to expire and cut it by 10 percent in its final year of existence. In 2011, Michigan cut its credit by 70 percent and Wisconsin cut its credit by 21 percent for families with two or more children. In 2010, New Jersey cut its credit to 20 percent of the federal EITC from 25 percent, though it has since raised the value of the credit.

⁹ The 2009 Recovery Act included two key provisions to help the EITC go further. First, it expanded “marriage penalty relief” by raising the EITC income eligibility level for married workers by \$2,000, thereby extending eligibility for the maximum credit to more married-couple working families with low incomes. Second, it provided, for the first time, a third benefit tier for larger families. Working families with three or more children receive an EITC equal to 45 cents for each dollar earned up to \$14,290, for a maximum credit of \$6,431 in 2018. The credit completely phases out for single-parent families with three or more children when their income exceeds \$49,194 and for *married-couple* families of this size when their income exceeds \$54,884. These expansions were extended in 2012 and made permanent at the end of 2015.

FIGURE 2

Earned Income Tax Credit for Households with One Child, 2018



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

Source: Internal Revenue Service

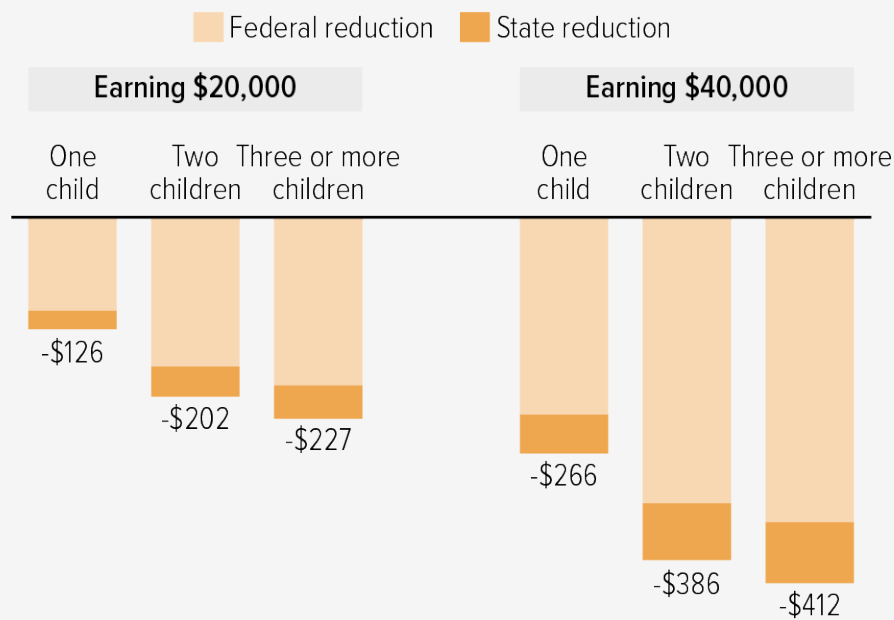
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Box 2: Recent Federal Tax Changes Weaken the EITC

The Tax Cuts and Jobs Act, which went into effect in 2018, erodes the EITC's value over time by using a different measure of inflation, the "chained" Consumer Price Index. Using this new measure, the maximum value of the federal credit will rise more slowly over time than under previous law.^a (See chart.) This change will also reduce the value of state EITCs that rely on the federal inflation adjustment, as most do. States can mitigate this effect by increasing their credits, or putting in place incremental increases over time.

GOP Tax Law Erodes Federal and State EITCs Over Time by Slowing Their Inflation Growth

Change in credit relative to current law for a married couple in a state with a 20 percent refundable credit, 2027



Source: CBPP calculations based on Congressional Budget Office inflation projections

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^a 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>.

Most States Model Their EITCs on Federal Credit

Nearly all state EITCs are modeled directly on the federal EITC: they use federal EITC eligibility rules and are a specified percentage of the federal credit. (The percentages are shown in Table 1.)

A few state credits, however, differ somewhat from the federal credit:

- **California's** EITC, enacted in 2015, is available to only a share of workers who would claim the federal credit — those with incomes less than about \$25,000 for those with dependent children, or workers earning up to about \$17,000 for those without dependent children.¹⁰ All working people 18 and older are able to access the state credit, starting in 2018.
- **Indiana** uses old federal guidelines that exclude recent expansions and improvements to the federal credit.
- **Maryland** eliminated the lower age limit for workers without children in the home as of 2018. The federal credit stipulates that workers without children in the home must be between 25 and 64 to receive the federal EITC.
- **Massachusetts** permits survivors of domestic abuse who are separated from a spouse to receive the credit, as they would otherwise be ineligible.
- **Minnesota** uses federal eligibility rules and its credit parallels major elements of the federal structure, but it has its own schedule for the income levels at which the credit phases in and out. With its 2017 expansion, it also allows younger workers — down to age 21 — without qualifying children to claim the state credit.
- **New York** offers an EITC to non-custodial parents.
- **Puerto Rico** enacted a local EITC in 2018. Puerto Rican families are not allowed to claim the federal EITC. This means that the credit could not be set as a percentage of the federal EITC despite its similar design. Like state credits, it is substantially smaller than the federal EITC. Unlike most state credits, it phases in and out more quickly than the federal credit.
- **Washington, D.C.'s** expanded EITC for workers without dependent children phases in following federal guidelines, but the maximum credit extends to 150 percent of the poverty line (for an individual), and the credit fully phases out at twice the poverty line. D.C. also offers an EITC to non-custodial parents.

Twenty-three states, Washington, D.C., and Puerto Rico follow the federal practice of offering a *fully refundable* EITC. (See Figure 3.) Without this feature, state EITCs would fail to offset the other substantial state and local taxes families pay, such as sales taxes, property taxes, and others. It is the reason that the EITC is so effective at boosting income and reducing hardship, because it lets families keep more of what they earn and helps them keep working despite low wages.

¹⁰ California's credit is worth up to 85 percent of the federal credit for workers earning up to \$14,500, depending on family size, and it is only available to workers earning up to about \$25,000, also depending on family size. In 2018, the maximum credit ranges from \$223 for workers without dependent children to about \$2,775 for workers with three or more children. The value of the credit is set each year by the legislature.

Box 3: Expanding EITC for Workers Not Raising Children Would Improve Equity

Expanding the EITC for workers not raising children in their home would ensure that the credit offers a hand up to *all* workers struggling to get by on low wages.^a The federal EITC largely leaves out these workers, even though they are integral members of their communities and local economies — and many are non-custodial parents or future parents. The EITC reaches far fewer people not raising children in the home than those who are, and offers them a much smaller benefit. Partly as a result of this, these workers are the lone group that federal income and payroll taxes push into poverty (or deeper into poverty). Proposals to expand the federal credit for these workers — such as the nearly identical proposals of former President Obama and former House Speaker Paul Ryan — would address this problem.^b

An expansion also would modestly reduce the income gap between high- and low-income households by boosting incomes at the bottom. Some 13 million workers would benefit from the Obama/Ryan proposals — people who do important but low-paid work in hospitals, schools, office buildings, and construction sites across the country. Just under half of them are women, more than half are under age 35, and more than half are white. People of color would also benefit substantially, since they are likelier than whites to have low incomes. Lesbian, Gay, Bisexual, Transgender, and Queer (LGBTQ) people also would benefit, both because LGBTQ adults are more likely to earn low wages than heterosexual adults and because same-sex couples are less likely to be raising a qualifying child than other families.^c

In addition to making work pay and narrowing the income gap, an expansion of the EITC for workers not raising children in the home would likely produce other benefits. Many researchers posit that it could increase employment rates among workers not raising children, as EITC expansions in the early 1990s did among single mothers. It also could strengthen attachment to the labor force among less-educated, younger workers, whose rates of employment and incomes have fallen over the last couple of decades.

States need not wait for an expansion of the federal credit for childless workers. The District of Columbia expanded its own EITC to fully match the federal credit for workers without children in the home in 2014. In 2017 Minnesota expanded its Working Families Credit so that young workers without dependent children can qualify for the credit at age 21, and in 2018 California expanded its EITC to all workers 18 and over and Maryland eliminated its lower age limit. Several other states are considering similar expansions.

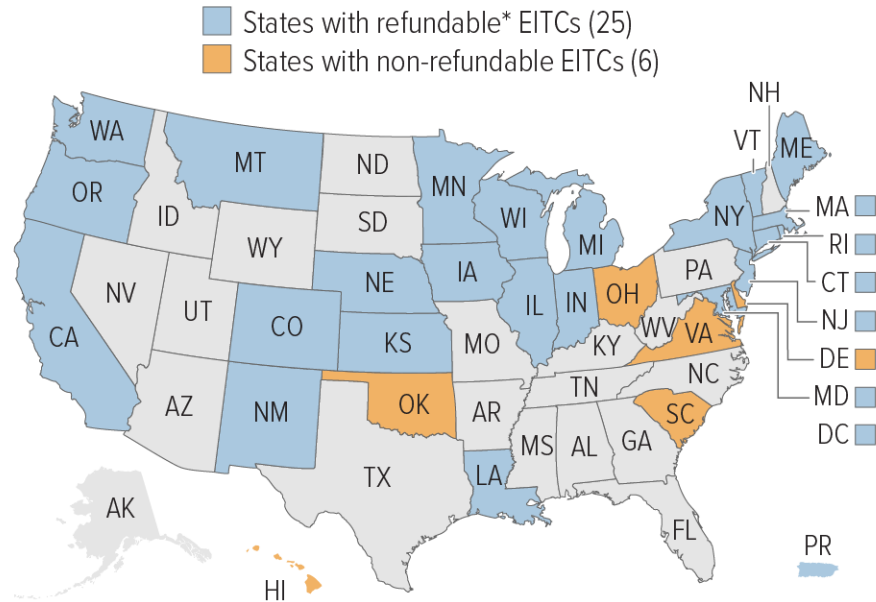
^a Chuck Marr, “EITC Could Be Important Win for Obama and Ryan,” CBPP, November 16, 2015, <https://www.cbpp.org/blog/eitc-could-be-important-win-for-obama-and-ryan>.

^b See Chuck Marr *et al.*, “Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty,” CBPP, April 11, 2016, <http://www.cbpp.org/research/federal-tax/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce>.

^c “Paying an Unfair Price: The Financial Penalty for Being LGBT in America,” Center for American Progress and Movement Advancement Project, <http://www.lgbtmap.org/file/paying-an-unfair-price-exec-summary.pdf>, and Census Bureau, Characteristics of Same-Sex Couple Households: 2005 to Present.

FIGURE 3

Twenty-Nine States, D.C., and Puerto Rico Have Enacted EITCs as of 2018



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

Source: CBPP analysis

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The remaining six state EITCs — in **Delaware, Hawaii, Ohio, Oklahoma, South Carolina, and Virginia** — are available only to the extent that they offset a family’s state income tax. Thus, while these non-refundable EITCs can reduce *income* taxes for families that owe them, they do not make up for other taxes that working families pay; nor do they do much, if anything, to help keep families working and out of poverty. Ohio’s EITC is limited even further, to no more than half of state income taxes owed on taxable income above \$20,000.

TABLE 1

State Earned Income Tax Credits, 2018

State	Percentage of Federal Credit	Refundable?	Eligibility Expansions Beyond the Federal Credit
California	85% of federal credit, up to 50% of the federal phase-in range ^a	Yes	Workers without children in the home 18 and older
Colorado	10%	Yes	
Connecticut	23%	Yes	
Delaware	20%	No	
District of Columbia ^b	40%/100%	Yes	Adults without dependent children with incomes up to twice the poverty line, and non-custodial parents
Hawaii	20%	No	
Illinois	18%	Yes	
Indiana ^c	9%	Yes	
Iowa	15%	Yes	
Kansas	17%	Yes	
Louisiana	5% ^d	Yes	
Maine	5%	Yes	
Maryland ^e	28%	Yes	Workers without children in the home under age 24
Massachusetts ^f	30%	Yes	Survivors of domestic abuse who would otherwise be ineligible
Michigan	6%	Yes	
Minnesota ^g	Avg. 34%	Yes	Workers without children in the home 21-24
Montana ^h	3% (when implemented)	Yes	
Nebraska	10%	Yes	
New Jersey	40% ⁱ	Yes	
New Mexico	10%	Yes	
New York	30%	Yes	Non-custodial parents ^j
Ohio ^k	10%	No	
Oklahoma	5%	No	
Oregon ^l	8%/11%	Yes	
Rhode Island	15%	Yes	
South Carolina ^m	20.83%	No	
Vermont	36%	Yes	
Virginia	20%	No	
Washington ⁿ	10% (when implemented)	Yes	
Wisconsin	4% - one child	Yes	

TABLE 1

State Earned Income Tax Credits, 2018

State	Percentage of Federal Credit	Refundable?	Eligibility Expansions Beyond the Federal Credit
	11% - two children 34% - three children No credit - childless workers		
Puerto Rico	Follows a separate schedule, credit between \$300-\$2,000 based on family size ^o	Yes	

^a California's credit is available to working families and individuals with wage income below \$22,300 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. The value of the credit will be set each year by the legislature.

^b The District of Columbia now 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.

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

^d Louisiana increased its EITC from 3.5 to 5 percent, and the increase will take effect in 2019.

^e 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.

^f Massachusetts' credit will increase to 30 percent starting in 2019. Additionally, Massachusetts confirms that 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 which they may not be eligible for.

^g Minnesota's credit, unlike the other credits shown in this table, is structured as a percentage of income rather than a percentage of the federal credit. It does not include the federal EITC's larger credit for families with three or more children. 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.

^h Montana's EITC will take effect in 2019.

ⁱ New Jersey's credit will reach 40 percent starting in 2020.

^j 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.

^k Ohio's EITC is non-refundable and limited to half of income taxes owed on income above \$20,000.

^l Oregon's EITC is set to expire at the end of tax year 2019. In 2016 lawmakers increased the credit for workers with children 3 years and younger to 11 percent of the federal credit.

^m South Carolina's EITC will be 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.

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

^o For additional information about Puerto Rico's EITC parameters, see Javier Balmaceda, "Puerto Rico on Verge of Implementing an EITC," Center on Budget and Policy Priorities, December 10, 2018, <https://www.cbpp.org/blog/puerto-rico-on-verge-of-implementing-an-eitc>.

State EITCs Are Easy to Administer and Less Expensive Than Many Other Tax Cuts

State EITCs are easy to administer and claim. States incur virtually no costs for determining eligibility for their credit because in most cases, families eligible for the federal credit also are eligible for the state credit. And because state credits typically are set at a fixed percentage of the federal credit, state revenue departments need only add one line to a state's income tax form. State EITCs are easy to claim because filers need only multiply their federal EITC by a specified rate to determine their state credit.

State EITCs also offer a good value to states. Existing refundable EITCs in states with income taxes cost less than 1 percent of state tax revenues each year.¹¹ Because state EITCs are well targeted to low- and moderate-income working families, the cost is more modest than other tax cuts that states often consider.¹² Though low-income households tend to comprise a substantial share of all taxpayers, they account for a smaller share of tax revenue. A few hundred dollars for each family makes a big difference to the family's ability to make ends meet without making a major dent in a state's treasury.

States can also use an EITC to help make low-income families whole again after raising a tax that hits low-income households hardest, like the sales tax or gas tax, by setting aside part of the resulting revenue to finance an EITC.

States finance their EITCs in whole or part from their general fund. Federal regulations allow states to finance the refundable part of a credit going to families with children from a state's share of the federal Temporary Assistance for Needy Families (TANF) block grant. Most states, however, have few such funds, because the value of the TANF block grant — which does not adjust for inflation each year — has eroded over time.

¹¹ Four factors affect the cost of a state EITC: the number of families that claim the federal credit, the percentage of the federal credit at which the state credit is set, whether the state credit is refundable, and how many state residents who receive the federal credit also claim the state credit.

¹² For further information about estimating the cost of a state EITC, see Erica Williams, "How Much Would a State Earned Income Tax Credit Cost in Fiscal Year 2020?" CBPP, updated March 7, 2019, <https://www.cbpp.org/research/state-budget-and-tax/how-much-would-a-state-earned-income-tax-credit-cost-in-fiscal-year>.

Box 4: Even States Without an Income Tax Could Offer a State EITC

Like the federal EITC, state EITCs have a long, successful history of using the income tax to improve the economic security of low-income working families. Some question whether a state with no income tax could offer similar assistance, since state revenue departments in these states do not typically collect the information about family income and structure needed to determine EITC eligibility. The example of Washington State's Working Families Tax Rebate, however, illustrates how states without an income tax could work with the IRS to provide a state credit.^a

To confirm eligibility, Washington State will use data on federal EITC claimants provided by the IRS to state revenue departments under a data-sharing arrangement. Piggybacking on federal efforts saves administrative costs for the state. When the credit is fully phased in, state officials estimate that administration will constitute only about 4 percent of the cost of the EITC.^b If the state were to increase the size of the credit, this share would be even smaller.

The other states without a broad-based income tax (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming) could follow Washington State's lead. 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 pay a 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 — in large part because of the recession and resulting revenue shortfalls — policymakers have not yet financed the credit.

^b Fiscal note for Washington ESSB 6809. Note that administrative costs in states that already have an income tax are substantially lower, typically well below 1 percent of the credit's value.

^c ITEP, "Who Pays, 6th Edition," <https://itep.org/whopays/>.