

State Earned Income Tax Credits Help Build Opportunity for People of Color and Women

The concentration of economic gains at the top of the income ladder and largely stagnant wages at the bottom harm the economic well-being of millions of workers, especially people of color and women. For example, African American and Latino workers are far more likely than white workers to earn poverty-level wages.¹ Women represent less than half of the total workforce but roughly 3 out of 5 workers in occupations with low pay. And African American and Latino women comprise almost twice as big a share of the low-wage workforce as they do the workforce as a whole.²

State earned income tax credits (EITCs) help people of color and women struggling on low wages afford basic necessities and, studies suggest, contribute to their children's future success. Twenty-nine states plus the District of Columbia have enacted their own version of the federal EITC to help low-wage, working households meet basic needs. State EITCs build on the success of the federal credit by keeping people on the job and further reducing hardship for working households and children. Because people of color and women are overrepresented in low-wage work, the state credits are also an important tool for advancing racial and gender equity.

State EITCs Reduce Poverty and Help Children of Color Go Further

Reduce poverty in communities of color. 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 the non-white and Hispanic populations out of poverty.³ This partly reflects the targeting of the EITC to working-poor households with children and the high poverty rates for children of color. Child poverty is nearly three times higher for African American and Hispanic children than for white children.⁴

Help children of color do better and go further in school. Multiple studies find that young children in low-income households that get an income boost from the state or federal EITC tend to do better and go further in school, reducing the disadvantages associated with exposure to poverty.⁵ 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.⁶

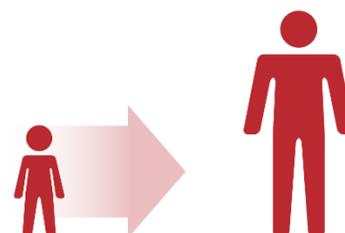
May boost earnings and work hours as children of color reach adulthood.

Children of color are more likely than white children to grow up in households struggling on low pay, due to wage and employment discrimination and other factors.⁷ Relative to better-off peers, children growing up poor tend to work less and earn less as adults,⁸ but children receiving additional income (from whatever source) have a boost that lasts into adulthood.⁹ One study found that low-income children whose households received an additional \$3,000 per year before age 6 were likely to work more hours and earn 17 percent more than otherwise-similar children without that additional support.¹⁰ (See figure.)

Higher Income for Poor Children Expected to Boost Work and Earnings Later in Life

**+\$3,000
a year**

**+135
working hours
a year**



For each \$3,000 a year in added income that children in a poor family receive before age 6...

...their working hours rise by 135 hours a year between ages 25 and 37, and their annual earnings rise by 17%.

Source: Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development*, January/February 2010, pp. 306-325

State EITCs Boost Women’s Work Hours and Income, May Improve Maternal Health

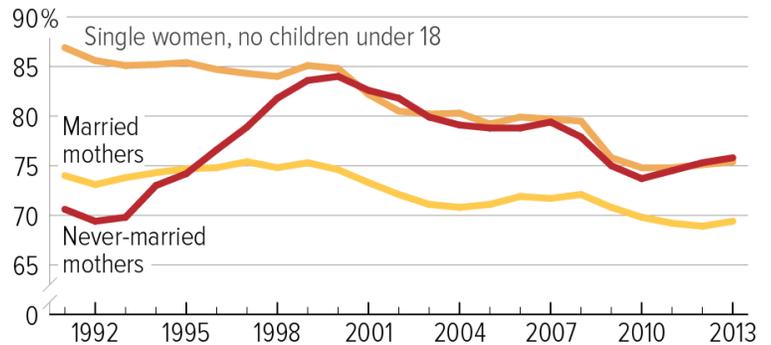
Encourage women to work, particularly unmarried mothers. State and federal EITCs are considered some of the most effective policies to encourage women to work more hours and increase their earnings, particularly for unmarried mothers earning low wages.¹¹ Unmarried mothers’ work rates increased substantially following the federal EITC expansion in the 1990s relative to married mothers and single women without children.¹² (See second figure.) Additionally, studies controlling for other factors found that the federal EITC expansion increased unmarried mothers’ work rates over and above their counterparts not receiving the EITC, and far more than welfare policies or labor market factors alone.¹³

Reduce poverty among senior women. EITCs reward and encourage work, especially for unmarried mothers, and often lead to better opportunities and higher pay over time.¹⁴ That additional working experience while young increases women’s Social Security retirement benefits and thereby reduces poverty among senior women.¹⁵ This is especially important because women over 65 are more likely to be poor than men, regardless of marital status, race, or educational background.¹⁶ State EITCs build on the federal credit’s poverty reduction record.

Improve the health of mothers and their infants. Research suggests that state and federal EITCs can help improve maternal and infant health. For example, one study found that women newly eligible for an expanded federal EITC in the 1990s experienced improvement in a number of health indicators.¹⁷ Research has also found that more generous state EITCs are associated with improved birth outcomes, and that states with refundable EITCs showed the greatest reductions in low-birthweight infants and largest increases in birth weights.¹⁸

Single Mothers’ Work Rates Jumped Following Earned Income Tax Credit Expansion in 1990s

Percent of women between ages 20 and 49 with any work during the year



Source: CBPP analysis of Current Population Survey

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¹ 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=*.

² Low wages are defined here as \$11.00 per hour. See Jasmine Tucker and Kayla Patrick, “Low-Wage Jobs Are Women’s Jobs: The Overrepresentation of Women in Low-Wage Work,” National Women’s Law Center, August 2017, <https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2017/08/Low-Wage-Jobs-are-Womens-Jobs.pdf>.

³ 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>.

⁴ Annie E. Casey Foundation, “2017 Kids Count Databook,” June 2017, <http://www.aecf.org/m/resourcedoc/aecf-2017kidscountdatabook.pdf>.

⁵ Chuck Marr et al., “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget and Policy Priorities, 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.

⁶ Michelle Maxfield, “The Effects of the Earned Income Tax Credit on Child Achievement and Long-Term Educational Attainment,” Michigan State University Job Market Paper, November 14, 2013, <https://www.msu.edu/~maxfiel7/20131114%20Maxfield%20EITC%20Child%20Education.pdf>; 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.

⁷ Lincoln Quillian et al., “Meta-analysis of field experiments shows no change in racial discrimination in hiring over time,” *Proceedings of the National Academy of Sciences*, October 10, 2017, <http://www.pnas.org/content/114/41/10870.full>; Roberta Spalter-Roth and Terri Ann Lowenthal, “Race, Ethnicity, and the American Labor Market: What’s at Work?” American Sociological Association, June 2005, http://www.asanet.org/sites/default/files/savvy/images/research/docs/pdf/RaceEthnicity_LaborMarket.pdf.

⁸ Greg J. Duncan et al., "Early Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development*, January/February 2010, pp. 306-325.

⁹ 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>.

¹⁰ Greg J. Duncan et al., "Early Childhood Poverty and Adult Attainment, Behavior, and Health," and personal communication with the author.

¹¹ Chris M. Herbst, "The labor supply effects of child care costs and wages in the presence of subsidies and the earned income tax credit," *Review of Economics of the Household*, November 17, 2009, http://www.chris Herbst.net/files/Download/C_Herbst_Labor_Supply_Effects.pdf.

¹² Austin Nichols and Jesse Rothstein, "The Earned Income Tax Credit (EITC)," NBER Working Paper No. 21211, May 2015, <http://www.nber.org/papers/w21211.pdf>.

¹³ Jeffrey Grogger, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Head Households," *Review of Economics and Statistics*, May 2003.

¹⁴ Erica Williams and Samantha Waxman, "States Can Adopt or Expand Earned Income Tax Credits to Build a Stronger Future Economy," Center on Budget and Policy Priorities, updated February 7, 2018, <https://www.cbpp.org/research/state-budget-and-tax/states-can-adopt-or-expand-earned-income-tax-credits-to-build-a>.

¹⁵ 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>.

¹⁶ Monique Morrissey, "Women over 65 are more likely to be poor than men, regardless of race, educational background, and marital status," Economic Policy Institute, March 8, 2016, <https://www.epi.org/publication/women-over-65-are-more-likely-to-in-poverty-than-men/>.

¹⁷ William N. Evans and Craig L. Garthwaite, "Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health," *American Economic Journal: Economic Policy* (6)2, 2014, pp. 258-290. Health indicators include self-reported "excellent" and "very good" health days per month, number of bad mental health days in the past month, and biomarkers of elevated stress levels from physical, blood, and urine tests.

¹⁸ Sara Markowitz, Kelli A. Komro, Melvin D. Livingston, Otto Lenhart, and Alexander C. Wagenaar, "Effects of state-level Earned Income Tax Credit laws in the U.S. on maternal health behaviors and infant health outcomes," *Social Science & Medicine* 194, October 16, 2017, p. 72.