

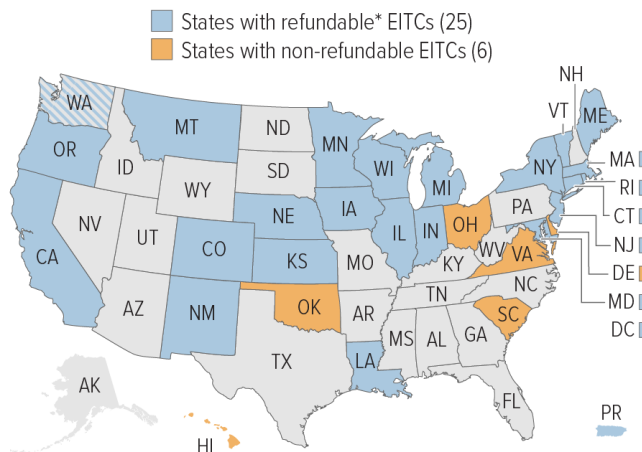
State Earned Income Tax Credits

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. State EITCs build on the success of the federal credit by 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.

EITCs Support Families Paid Low Wages

Many working families with children struggle to make ends meet on low wages. A full-time job at the federal minimum wage yields an income of about \$15,000, which is often insufficient for a family to afford basic necessities. The EITC, a 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 more of the fruits of their labor and share more fully in the benefits of economic growth.

29 States Plus DC 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.

State EITCs Build on the Federal Credit

State lawmakers can build on the proven effectiveness of the federal EITC to address low wages with a state-level credit.

Just like the federal EITC, state EITCs:

- **Help working families make ends meet.** Many low-wage jobs don't provide sufficient income on which to live. "Refundable" EITCs, which give working households the full value of the credit they have earned even if it exceeds what they owe in income taxes, 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-earning families pay for the very things that allow them to continue working, like child care and transportation. Not surprisingly, this boost in income makes it more rewarding to work additional hours. Unmarried mothers, in particular, work more hours as a result of the credit, research shows. That extra time and experience on the job can translate into better opportunities and higher pay over time. Three in five filers who receive the federal credit use it temporarily – for just one or two years at a time.
- **Reduce poverty, especially among children.** Eight million children in working families lived below the official poverty line (about \$25,500 for a family of four) in 2018, and millions of families modestly above that income level also 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. It kept 5.6 million people – over half of them children – out of poverty in 2018 and helped many others with somewhat higher incomes make ends meet. And by boosting the employment of working-age parents, particularly women, the EITC increases their Social Security retirement benefits, thereby reducing poverty among seniors. 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. Children of color and boys of all races and ethnicities particularly benefit, research suggests. While children who grow up in poverty tend to work less and earn less as adults relative to their better-off peers, poor children whose families receive additional income such as from the EITC are likelier to see their employment and earnings prospects improve. 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.

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State EITCs Are Easy to Administer, Offer Good Value to States

State EITCs are easy for states to administer and for working families to 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. Since 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, and 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. In states with an income tax and a refundable EITC, the EITC costs less than 2 percent of state tax revenues each year. Because state EITCs are well targeted to low- and moderate-income working families, they cost less than many other tax cuts states consider. A credit of a few hundred dollars can make a big difference to many families without making a major dent in a state’s treasury.

Also, if a state raises a tax that hits low-income households hardest, like the sales tax or gas tax, it can help make low-income families whole again by setting aside part of the resulting revenue to adopt or expand an EITC.

States without an income tax can also offer an EITC. In 2008, Washington State became the first such state to pass legislation for an EITC, though it has yet to implement the credit. 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. EITCs can help offset the impact of those taxes.

Updated March 9, 2020

For more information on state EITCs, see:

[States Can Adopt or Expand Earned Income Tax Credits to Build a Stronger Future Economy](#)

[State Earned Income Tax Credits and Minimum Wages Work Best Together](#)

[How Much Would a State Earned Income Tax Credit Cost in Fiscal Year 2021?](#)