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A QUICK LOOK INTO IMPORTANT ISSUES OF THE DAY

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The State of the Earned Income Tax Credit

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The earned income tax credit (EITC) is a policy the federal government, 29 states, the District of Columbia, Guam, Puerto Rico and some municipalities have implemented to support the financial stability of low-income working families, especially those with children. EITCs reduce the tax liability of qualifying taxpayers in an amount determined mostly by their income level, marital status and number of dependent children. The federal EITC has been in place since 1975 and Rhode Island enacted the first state EITC in 1986.

Proponents of the earned income tax credit assert that research demonstrates its benefits. It reduces poverty, encourages employment, supports family asset development, stimulates local economies, and benefits the long-term health, educational and financial outcomes of impacted children. Those concerned about EITC policies contend they reduce tax revenue, are challenging to effectively administer and discourage workers from progressing in their careers because they lose the credit as earnings increase.

Federal EITC

The federal earned income tax credit (FEITC) is refundable to taxpayers and its exact amount changes

Glossary

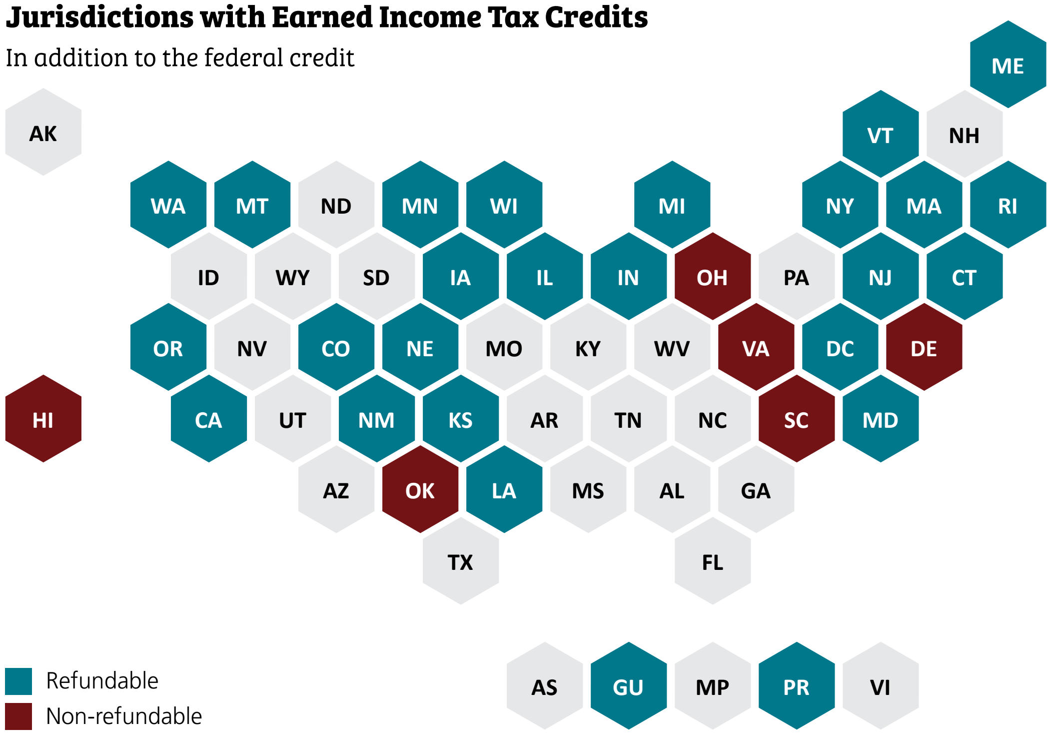
Tax Credit: An amount of money a taxpayer can deduct from the taxes he or she owes the government.

Refundable Tax Credit: Any tax credit amount that exceeds the amount of tax liability is paid to the tax filer as a refund.

Nonrefundable Tax Credit: The tax credit can only reduce the tax liability of the payer to $0, with no refund.

Jurisdictions with Earned Income Tax Credits

In addition to the federal credit



Source: NCSL 2017

Did You Know?

- The average amount of federal earned income tax credit (EITC) received nationwide in 2016 was $2,455.
- Twenty percent of people eligible for the federal EITC did not claim it in 2016. To increase awareness, the Internal Revenue Service sponsors awareness day and provides outreach materials.
- 8.1 million families lived in poverty in 2016, according to the U.S. Census Bureau.

year to year. For the 2017 tax year, the maximum FEITC is $6,318 and is available to taxpayers with three or more qualifying children who earn under $48,340 if single or $53,930 if married. For childless taxpayers who earn less than $15,010 if single, or $20,600 if married, the maximum FEITC available is $510. In 2016, 27 million qualified workers and families across all 50 states and D.C. received over $67 billion in federal earned income tax credits.

State EITCs

State earned income tax credits provide an additional benefit to the federal credit for low-income taxpayers by reducing their state income tax liability. For example, in addition to the $7.5 billion in FEITCs claimed by 3 million California taxpayers, nearly 380,000 California households received over $202 million in state EITCs during the 2016 tax year. Current state EITC policies are mostly modeled after the federal credit, but vary somewhat on eligibility standards, methods for calculating the credit amount, refundability, awareness and outreach efforts, and data tracking requirements.

State EITC eligibility requirements often closely match federal requirements. Colorado, Michigan and New York, like many other states, enable taxpayers who claim the federal credit to automatically qualify for their state EITC. There are some differences, however. Wisconsin's credit does not apply to childless workers, and California's credit focuses on a narrower segment of income levels than the federal credit. Similarly, most states—with notable exceptions including California, Indiana, Minnesota and New York (Tax § 606)—calculate their EITCs as a simple percentage of the federal credit, ranging from 3 percent in Montana to 125 percent in South Carolina.

Most state EITCs (23 states, D.C., Guam and Puerto Rico), like the federal credit, are refundable. In Maryland, tax filers can choose to claim either a 27 percent refundable credit or a 50 percent nonrefundable credit. To be eligible for EITC refunds at the state and federal levels, a tax return must be filed. Since many low-income workers are not required to file a return, they can often miss out on the full value of refundable credits. In response, several states have implemented measures to increase the awareness of EITCs. Iowa and Maine are among states that require beneficiaries of certain assistance programs to be informed of the benefits of EITCs. Laws in Oregon, Vermont and Virginia directly charge state agency heads with leading EITC outreach activities. Oregon requires its Bureau of Labor and Industries commissioner to adopt rules requiring employers to share information about state and federal EITCs with their employees. In addition, several states—including Iowa, Oklahoma, Texas and Virginia—appropriated funds or implemented measures to help state and federal EITC-eligible families prepare their tax filings.

Some states—including California, New Jersey and Hawaii—require state EITC statistical data to be collected and reported. Hawaii's law, for example, requires the director of taxation to prepare an annual report detailing the number of credits granted, the total dollar amount granted and the average credit value distributed for specified income ranges during the prior calendar year.

Overall, state legislative interest in EITC policies continues to be high. During 2017 sessions, more than 200 bills related to EITCs were introduced and at least nine states enacted new laws. Hawaii, Montana and South Carolina created state EITCs and California, Illinois, New Jersey and Rhode Island increased the percentage or reach of their credits.

What is the Return on EITC Investment?

- As the nation's largest anti-poverty program, the EITC positively impacts many aspects of life for participating low-income families, including educational, economic and health outcomes.
- During 2015, the EITC lifted approximately 6.5 million people out of poverty, including 3.3 million children. It also reduced the severity of poverty for another 21.2 million people, including 7.7 million children.
- The EITC also stimulates local economies, as the bulk of EITC recipients spend their refunds on immediate expenses. For example, the city of San Antonio, Texas, estimates that each additional EITC dollar results in $1.58 in local economic activity. Economists assert this EITC "multiplier effect" is generally between 1.5 and 2 for local economies.

How Much do State EITCs Cost?

- California estimates its expanded earned income tax credit will result in a general fund revenue loss of $140 million for 2017-2018.
- Hawaii estimates its new EITC (which takes effect this year) will reduce general fund revenue by $16.7 million in 2019.
- Montana estimates its new EITC (which takes effect in 2019) will reduce 2020 general fund revenue by $4.6 million.

Additional Resources

NCSL webpage, Tax Credits for Working Families

Internal Revenue Service, 2018 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates

Congressional Research Service, The Earned Income Tax Credit (EITC): An Economic Analysis

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