

# State Earned Income Tax Credits: A Proven Way To Help Improve Family Wellbeing

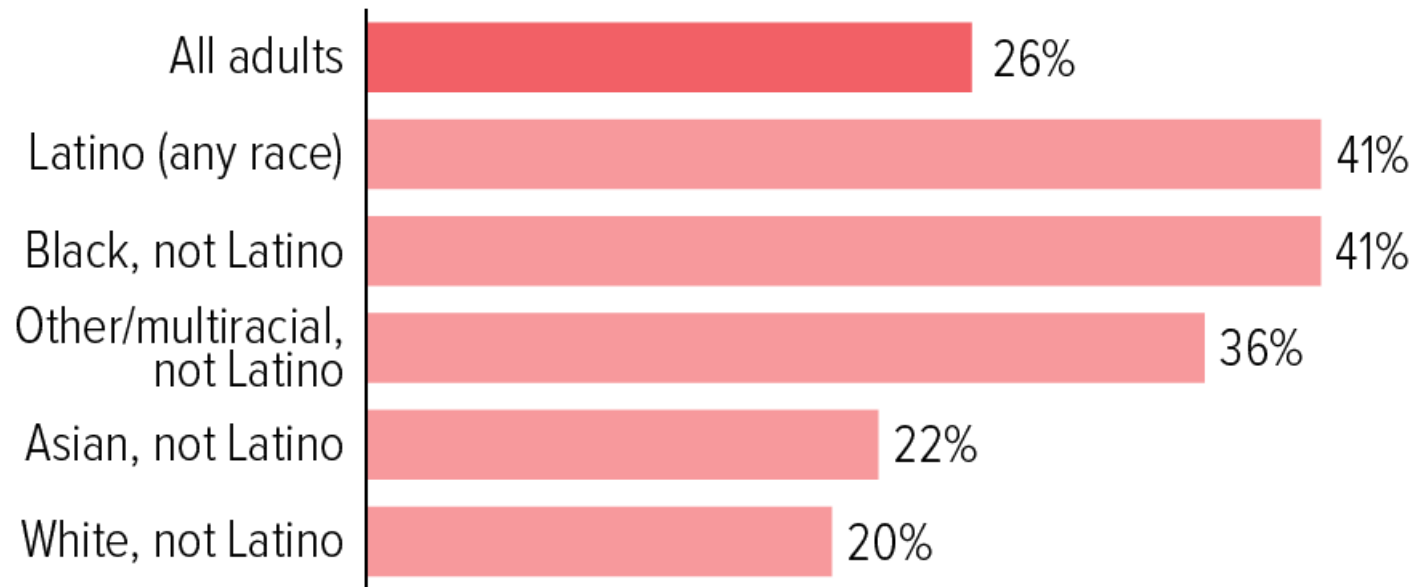
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# 1 in 4 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses

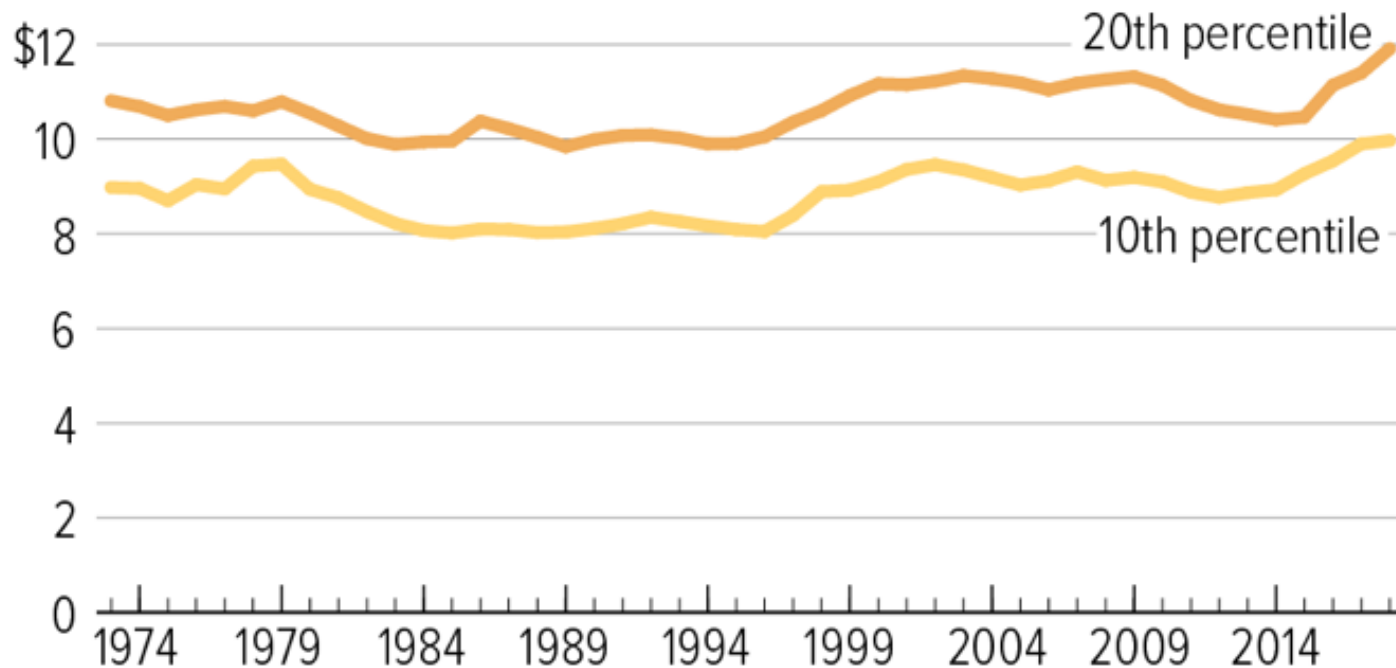


Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

Source: CBPP analysis of Census Bureau Household Pulse Survey tables for April 14-26, 2021

# Wages for Low-Paid Workers Nearly Same as 40 Years Ago

Hourly wages at the 10th and 20th percentiles of the wage scale, adjusted for inflation, 1973 to 2017

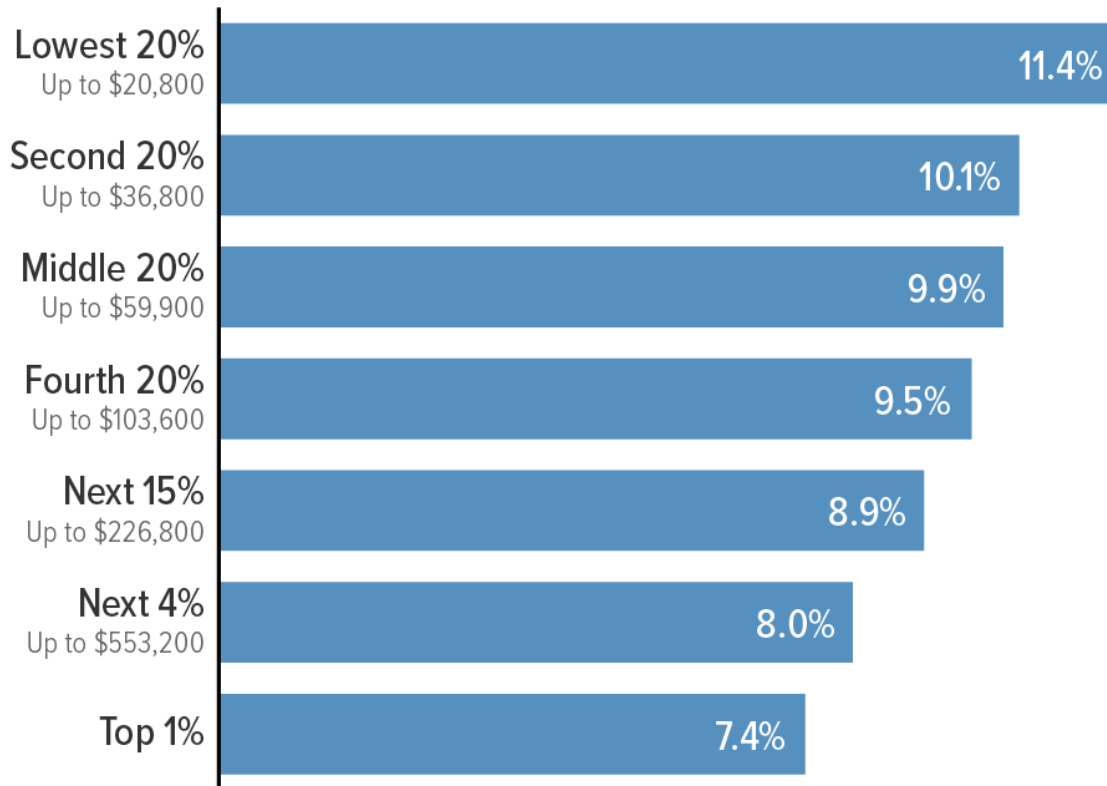


Note: At the 10th percentile of the wage scale, 90 percent of American workers earn more in wages. At the 20th percentile, 80 percent of American workers earn more in wages.

Source: Economic Policy Institute

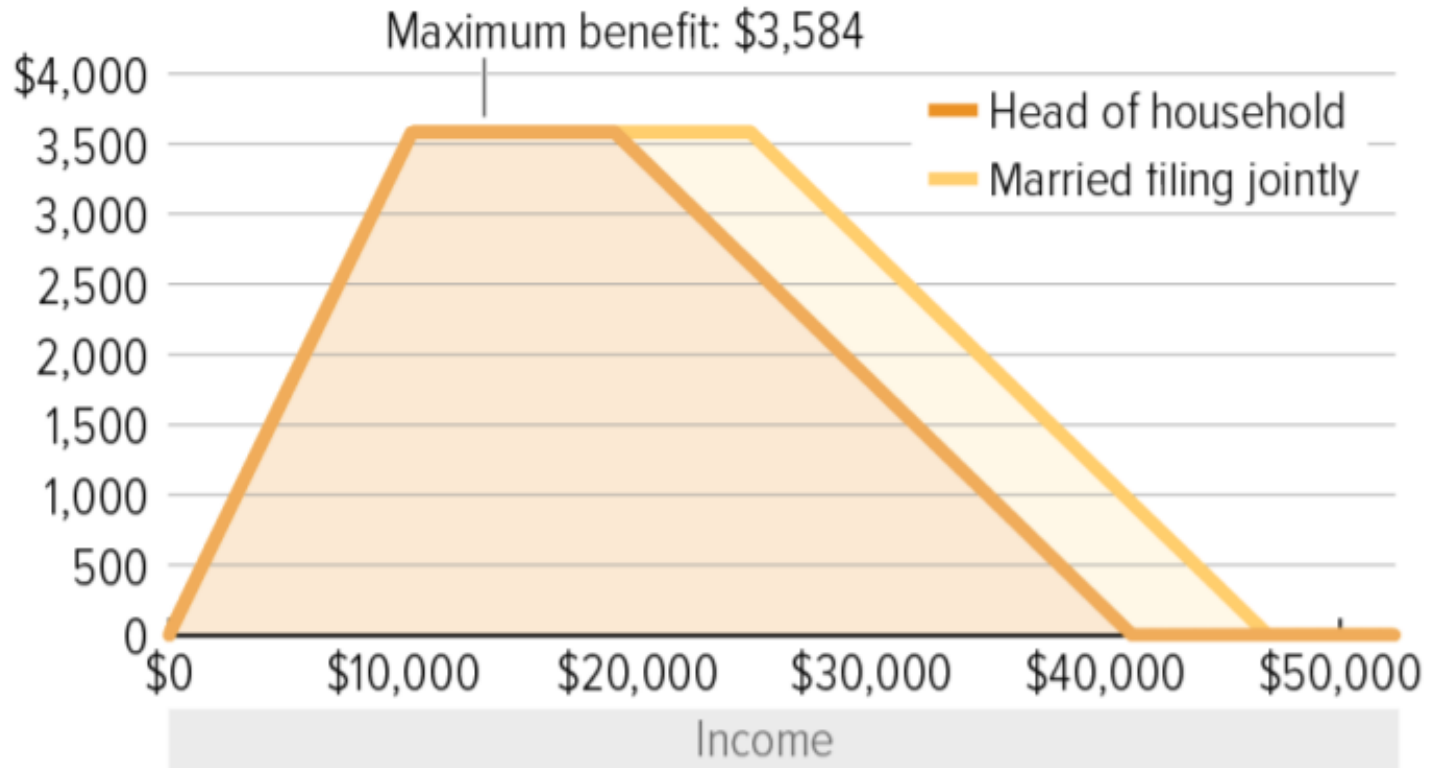
# Lowest-Income Households Pay Highest Share of State and Local Taxes

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," 6<sup>th</sup> ed., October 2018, <https://itep.org/whopays/>.

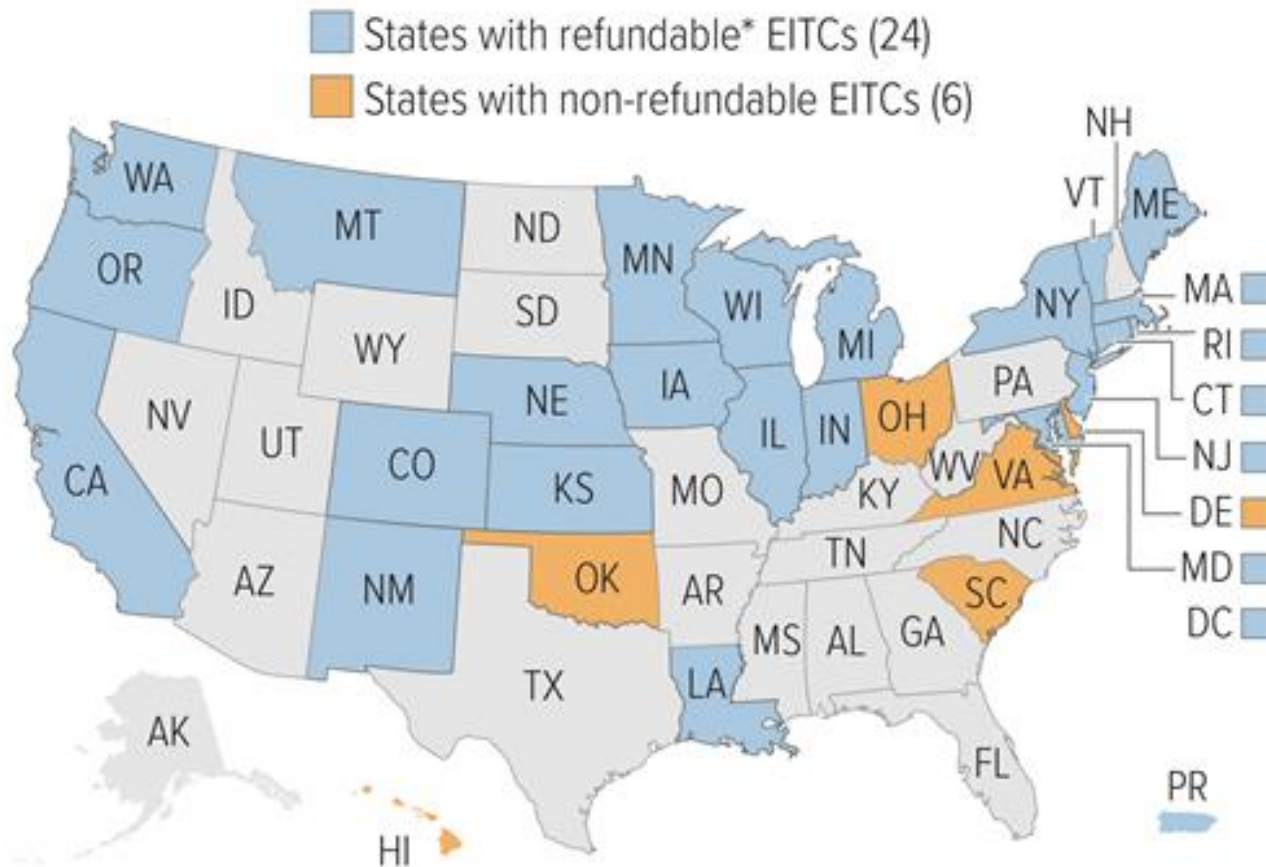
# Earned Income Tax Credit for Households With One Child, 2020



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

Source: Internal Revenue Service

# Twenty-Nine States Plus D.C. and Puerto Rico Have Enacted EITCs



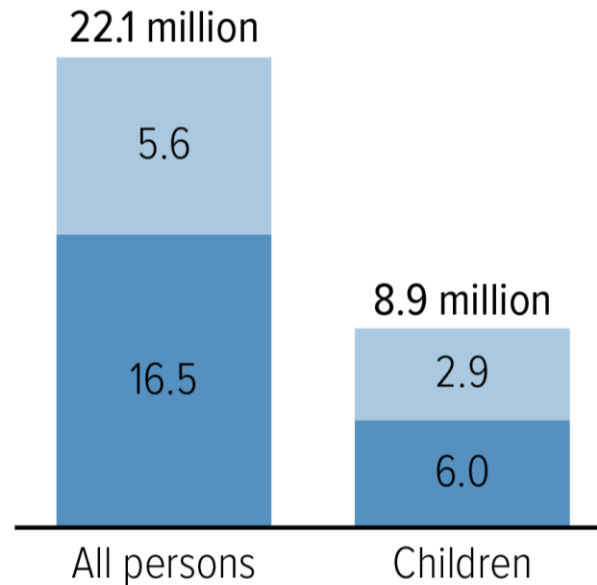
\*Refundable EITCs give working households the full value of the credit they earn even if it exceeds their income tax liability.

Source: CBPP analysis

# EITCs Help Reduce Poverty and Hardship

Millions of people lifted out of poverty or made less poor by federal EITC, 2018

■ Lifted out of poverty   ■ Made less poor



Note: These figures use the Supplemental Poverty Measure. Unlike the Census Bureau's official poverty measure, the SPM counts the effect of non-cash government programs like housing and food assistance, and tax credits.

Source: CBPP analysis of Census Bureau March 2019 Current Population Survey.

# Working-Family Tax Credits Help Families Thrive In The Long-Term



Improve health



Increased work & earnings in the next generation



Greater college enrollment



Help kids learn



Social Security retirement



# States Can Build Stronger Futures By Enacting and Strengthening State EITCs

## States can:

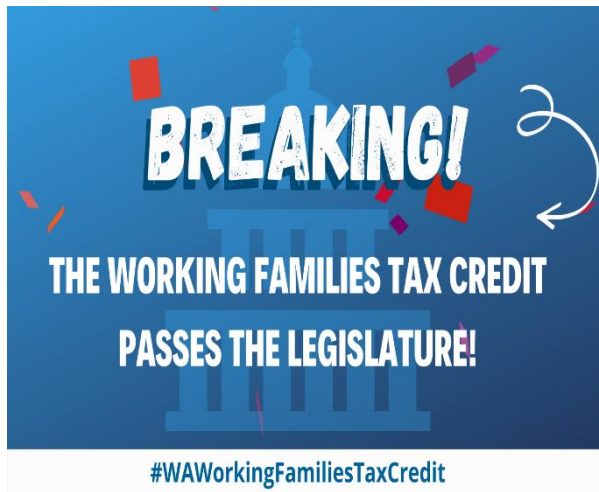
- **Enact a new, refundable credit**
- **Make existing credits fully refundable**
- **Increase the credit for working adults without children in the home and eliminate age restrictions for these individuals**
- **End the exclusion for people using ITINs to file taxes**

Note: A provision in the American Rescue Plan Act 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.

# 7 States Improved Their EITCs During The Pandemic

<b>California</b>	Inclusive of tax filers using an ITIN Additional payments to EITC recipients this year
<b>Colorado</b>	Larger credit Inclusive of tax filers using an ITIN
<b>Indiana</b>	Larger credit
<b>Maryland</b>	Larger credit (temporary) Inclusive of tax filers using an ITIN
<b>New Mexico</b>	Larger credit Inclusive of tax filers using an ITIN
<b>New Jersey</b>	Young workers 21-24 not claiming children can receive it
<b>Washington</b>	Implements and expands existing credit (never previously funded)

# States Without an Income Tax Can Enact a State EITC



1. Eligible families apply to the Washington state Department of Revenue
2. State verifies eligibility by matching IRS data to the application
3. Dept. of Revenue must work with the IRS to make payments as quickly as is feasible

# States Can Help Families Claim EITCs

## States can:

- **Support free tax preparation through VITA (Volunteer Income Tax Assistance)**
- **Pre-fill and send tax forms for families likely to be eligible for EITCs**
- **Educate the public**
- **Conduct targeted outreach to families already enrolled in economic security programs**
- **Encourage employers share information about the EITC with employees**

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