

State Earned Income Tax Credit




Evidence Review Findings: Effective / Roadmap Policy

A refundable state earned income tax credit of at least 10 percent of the federal credit has been shown to promote healthy births and reduce racial disparities in birth outcomes. Findings on employment and family income are mixed, but most are in the beneficial direction.

The state earned income tax credit (EITC) is a tax credit for low-income working individuals, typically calculated as a percentage of the federal EITC. The value and administration of the state credit is determined by each state. By incentivizing labor force participation and providing a lump-sum income benefit, the EITC is intended to reduce poverty among low-income families and may thereby improve the physical and mental wellbeing of children and their families through greater access to needed resources. Although workers without children can receive a small credit, the value of the credit is much larger for parents. States vary in whether they offer their own EITC, the percentage of the federal credit that is offered in the state credit, and whether the credit is refundable or can only reduce tax liability. The evidence demonstrates that a refundable state earned income tax credit set at 10 percent of the federal credit or higher can lead to healthier and more equitable birth outcomes. Impacts on economic outcomes such as parents' ability to work and household resources are mixed, but lean positive. The effects of the state EITC on other policy goals are mixed, including some detrimental impacts, or mostly null.

Decades of research in the field of child development have made clear the conditions necessary for young children and their families to thrive.¹ These conditions are represented by our eight policy goals, shown in Table 1. The goals positively impacted by the state EITC are indicated below.

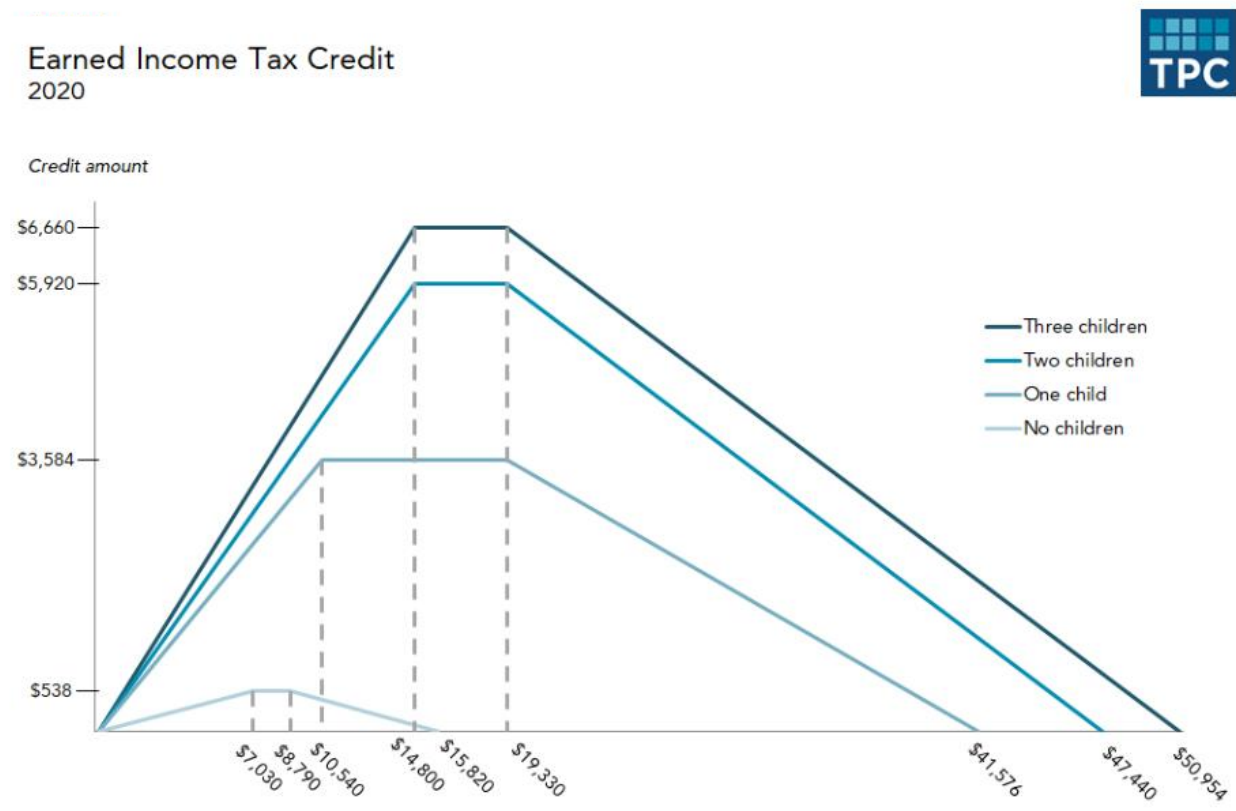
Table 1: Impacts of the State Earned Income Tax Credit on Policy Goals

Positive Impact	Policy Goal	Overall Findings
	Access to Needed Services	Mostly null impacts on access to prenatal care and other health care
	Parents' Ability to Work	Mixed impacts, leaning positive on employment and weeks worked per year
	Sufficient Household Resources	Mixed impacts, leaning positive on earnings and child poverty
	Healthy and Equitable Births	Positive impacts for birthweight, gestation weeks, and reduced adolescent births
	Parental Health and Emotional Wellbeing	Mixed impacts, with positive impacts for adult mental health and longevity, but detrimental impacts on smoking and obesity
	Nurturing and Responsive Child-Parent Relationships	Trending null impacts on quality of the home environment
	Nurturing and Responsive Child Care in Safe Settings	No strong causal studies identified for this goal
	Optimal Child Health and Development	Mostly null impacts on child maltreatment, with some positive impacts on long-term health and behavioral outcomes

What Is the State Earned Income Tax Credit?

The federal EITC is a refundable tax credit for low-income working families. Households with at least one working adult can receive the credit through the tax system as a reduction in tax liability or as a refund if the household has no tax liability. The federal EITC was first enacted in 1975 and has become more generous in benefit size and eligibility several times. The credit amount increases as a percentage of income until a plateau income range is reached, at which point the credit amount decreases slowly as income continues to rise. The trapezoidal structure of the federal credit schedule varies by family size, marital status, and income (see Figure 1, below). Beginning in 1986 with Rhode Island, a number of statesⁱ (now 29) have built on the federal EITC to offer their own tax credits to offset state and local tax liability.²² State EITCs are typically calculated as a percentage of the federal benefit an eligible family receives. If a state chooses to implement a nonrefundable EITC, the credit can eliminate state tax liability but cannot pay additional refunds in the absence of a tax liability.

Figure 1: Federal EITC Structure by Number of Children and Household Income, as of 2020. Reprinted with permission from the Tax Policy Center (2020).¹⁷



Source: Urban-Brookings Tax Policy Center (2020). Internal Revenue Procedure 2019-44, Internal Revenue Service.
Notes: Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income \$5,890 higher than shown.

ⁱ State counts include the District of Columbia.

Who Is Affected by the State EITC?

Although a small credit is available to working individuals without dependents, the credit value is much higher for custodialⁱⁱ caregivers. New York and the District of Columbia are the only states that offer a credit to qualifying noncustodial parents (NCPs).^{15,16} The Center on Budget and Policy Priorities estimated that in 2018, 22 million families and individuals in the US received support from the *federal* earned income tax credit, and the credit lifted 5.6 million people out of poverty, 3 million of whom were children.² The average federal EITC amount was \$3,191 for families with children, and \$298 for families or adults without children.² A 2019 report by the National Academies of Sciences, Engineering, and Medicine (NASEM) found that the federal earned income tax credit was one of the most effective policies for reducing child poverty, and the authors suggested that a more generous credit would be beneficial for further reducing child poverty.⁴ Adopting a state credit is one way for states to supplement the federal credit and increase the benefits families can receive.

What Are the Funding Options for the State EITC?

State EITCs are typically financed through state income and sales taxes and general fund dollars. States can also use alternative funding sources for an EITC, such as Temporary Assistance for Needy Families (TANF) block grant Maintenance of Effort (MOE) funds.³

Why Should the State EITC Be Expected to Impact the Prenatal-to-3 Period?

Because it is only available to low-income working individuals, the EITC can incentivize labor force participation, increasing earned income. The additional wages, in combination with the after-tax income from the credit itself, may help lift families out of poverty. Childhood poverty is associated with increased adversity and parental stress, which can negatively affect early brain development and the quality of relationships between parents and children.⁴ Poverty reduction through the EITC may reduce parental stress,¹ improve parent and child health,⁵ and change parent health behaviors, such as smoking.⁶ Two mechanisms through which the EITC can positively influence these outcomes are: (a) increased spending on nutritious foods, medical care, reliable transportation, reduced debt, or improved housing enabled by the additional income; and (b) a shift from public to more comprehensive employer-provided private health insurance that enables more timely medical care for both parents and children.⁷ This shift may take place if more mothers join the workforce as a result of the EITC.

However, increased parental labor force participation may sometimes be associated with less parent-child time together, and lower-quality child care arrangements can negatively impact child development during the earliest years.^{19,20} Additionally, earnings from increased labor force participation can move parents beyond eligibility thresholds for other safety net programs, which can have negative impacts on family wellbeing if the increased income does not offset the loss of benefits.^c

The EITC has the potential to reduce disparities in income and health between racial and ethnic groups. Because many low-income families are headed by working single mothers, and women of color in particular,⁸ the EITC is expected to improve outcomes for these families more than other families.

States have the power to determine the structure and generosity of their own EITCs. If a state chooses to implement a nonrefundable credit or sets the credit rate to be a small percentage of the federal credit, we would expect to see smaller impacts on income and work than in states with more generous, refundable credits.

ⁱⁱ A caregiver is considered custodial if the child lives with him or her for more than 6 months out of the year.

What Impact Does the State EITC Have, and for Whom?

More research exists on the impacts of the federal EITC than the state credit, and many studies examine the combined impacts without separate analyses of the state credit. However, sufficient research examining the added value of the state credit, and particularly a refundable credit of 10 percent or more of the federal credit, exists to support the effectiveness of the state EITC as a policy to strengthen birth outcomes and the economic security of families with infants and toddlers.

The research discussed here meets our standards of evidence for being methodologically strong and allowing for causal inference, unless otherwise noted. Each strong causal study reviewed has been assigned a letter, and a complete list of causal studies can be found at the end of this review, along with more details about our standards of evidence and review method. The findings from each strong causal study reviewed align with one of our eight policy goals from Table 1. The Evidence of Effectiveness table below displays the findings associated with the state EITC (beneficial, null,ⁱⁱⁱ or detrimental) for each of the strong studies (A through JJ) in the causal studies reference list, as well as our conclusions about the overall impact on each studied policy goal. The assessment of the overall impact for each studied policy goal weighs the timing of publication and relative strength of each study, as well as the size and direction of all measured indicators.

Table 2: Evidence of Effectiveness for the State EITC by Policy Goal

Policy Goal	Indicator	Beneficial Impacts	Null Impacts	Detrimental Impacts	Overall Impact on Goal
Access to Needed Services	Prenatal Care Use		J, Q	CC	Mostly Null
	Health Insurance Coverage		I, K		
	Avoided Doctor Visit Due to Cost	I			
	Doctor or Dentist Visit		K		
Parents' Ability to Work	Employment	B, T, U, W, Z, GG	I, S, X, Y, DD		Mixed
	Weeks Worked	U, Z			
Sufficient Household Resources	Child Poverty	A, W	GG		Mixed
	Earnings/Income	B, W, Z, GG, HH	D, P, S		
	Average Wages		DD		
	After-Tax-and-Transfers Income	W		C*	
	Savings Account Balance	D**			
	Debt		D		
	Housing Cost Burden	E			
	Evictions and Foreclosures		E		
Reliance on Public Assistance	Z				

ⁱⁱⁱ An impact is considered statistically significant if $p < 0.05$.

Table 2: Evidence of Effectiveness for the State EITC by Policy Goal (continued)

Policy Goal	Indicator	Beneficial Impacts	Null Impacts	Detrimental Impacts	Overall Impact on Goal
Healthy and Equitable Births	Birthweight	B, J, Q, V, CC, II			Positive
	Gestation Weeks	J, CC, II			
	Reduction in Adolescent Births	BB			
Parental Health and Emotional Wellbeing	Maternal Mental Health	I ⁺			Mixed
	Adult Suicide Rates	AA, EE			
	Drug-Related Mortality		EE		
	Smoking	B	J	F, CC	
	Obesity			G	
	Quality-Adjusted Life Years	H			
Nurturing and Responsive Child-Parent Relationships	Quality of the Home Environment		JJ		Trending Null ⁰
Optimal Child Health and Development	Foster Care Entry	R	M [‡] , N		Mostly Null
	Substantiated Abuse/Neglect Reports		N		
	Abusive Head Trauma		O		
	Obesity		K, L		
	Long-Term Health	L, FF			
	Asthma-Related Hospitalizations		Q		
	Behavior Problems	JJ			

^{*}Effects were most detrimental for lower-skilled, less educated single mothers, for whom the EITC expansions were offset by losses in other transfer income. Effects were null for other subgroups.

^{**}This study found that a \$1,000 increase in the federal and state combined credit was associated with a \$700 increase in savings account balances; however, when analyzed separately, the effect of the state EITC alone was not significantly associated with greater savings.

[†]This study found a significant reduction of 4 percentage points in the likelihood that married mothers in states with an EITC reported a poor mental health day in the past 30 days. No significant effects were found for unmarried mothers.

[‡]This study found null effects (in the beneficial direction) for ages 0 to 5 and 6 to 10, but it found significant beneficial effects for ages 11 to 20.

⁰Trending indicates that the evidence is from fewer than two strong causal studies or multiple studies that include only one location, author, or data set.

Access to Needed Services

By increasing income, the EITC is expected to promote greater use of health care, including prenatal care.^l However, three studies that examined the impact of the state EITC on the use of prenatal care found overall mixed results that were largely insignificant.^{j,o,cc} A 2017 study that examined both the generosity and refundability of state credits found mostly null impacts on first trimester prenatal care, with a significant increase of 4.8 percentage points only in states with a low, nonrefundable EITC compared to the period within the state prior to the implementation of the EITC.^j A 2019 study of the DC credit found results that trended in the negative direction, with a reduction of 6.9 mothers receiving first trimester prenatal care for every 100 live births when the credit increased from 10 percent to 25 percent.^{cc} The authors posited that women may have less time to seek prenatal care if they work more as a result of the EITC.^{cc} However, there was no significant effect of the initial implementation of the credit or the increase from 25 to 35 percent of the federal EITC. A third study found no significant link between New York's EITC and prenatal care use.^o

A fourth study, in 2019, examined the effects of greater EITC benefits on access to health coverage and medical care.^l The authors found that a \$1,000 increase in the maximum EITC credit did not lead to a significant change in the likelihood of being insured, but the increase did lead to a 1.1 percentage point decline in avoiding a doctor's visit due to cost (for married mothers) and a 0.9 percentage point decrease among unmarried mothers. A 2016 study found no effect of a \$100 increase in the value of the state EITC on the likelihood of health insurance coverage for children ages 0 to 5, and no significant impact on the likelihood of a doctor or dentist visit in the past 12 months.^k

Parents' Ability to Work

Research on the *federal* EITC, informing later studies of state credits, has found that its poverty-reduction effects can be attributed in part to an increase in women's labor force participation.⁹ One of the first and most widely cited studies (in 1996) to establish the EITC's effect on women's labor force participation found that between 1984 to 1986 and 1988 to 1990 (before and after the 1986 Tax Reform Act expanded the EITC), the federal credit was linked to a 2.8 percentage point increase in the labor force participation of single women with children relative to single women without children, from a base rate of 73 percent.¹⁰ In addition, a study with a sample of over 86,000 unmarried women estimated that the 1993 federal EITC expansion boosted the probability of working by 5 percentage points for unmarried women with two or more children, with the largest effects for the women who had a high school degree or less.¹¹ A 2006 study of the federal EITC's effects in California found that among single parent families who had ever used welfare, the EITC had a significant positive influence on labor force participation – in particular, EITC expansions accounted for 11.8 percent of the average increase in employment from 1991 to 2000 in this population, and explained 77 percent of the difference in employment increases between families with two or more children and those with one child.¹²

Less research on the *state* EITC's influence on labor force participation exists; most studies that include the state EITC examine the effects of the combination of federal and state credits. However, most of the existing research suggests that this combination has a positive effect on women's workforce participation, with a strong influence on single mothers with lower education levels.^{11,t,u} A 1999 study of over 100,000 single mothers found that 63 percent of the increase in weekly employment between 1984 and 1996 could be attributed to a combination of the federal and state EITCs, as well as 37 percent of the weekly employment increase from 1992 to 1996.^t A 2018 study that examined the effects of the federal and state credits found that among single women with a high school degree or less, a \$100 increase in the maximum credit "increased the number of weeks worked in a year by 0.83 weeks and reduced year-to-year exit among single women who were previously employed by 2.5 percentage points" (p. 42).^u The author suggested that the EITC may have a stronger effect on keeping individuals attached to the labor force rather than inducing new entrants into the workforce. A 2012 simulation study examining the state credit in New York also projected a positive employment effect; in particular, the authors estimated that an increase in the New York State EITC from 30 percent to 45 percent of the federal credit would result in up to 21,363 single mothers entering the workforce.^w A 2011 study found that a 10 percent state EITC increased employment among single mothers by 2.1 percentage points compared to single women with no children,^{gg} and a 2010 study found that living in a state with an EITC boosted the likelihood of mothers' employment (for at least 1 week per year) by 19 percent.^b

A 2019 study found that a \$1,000 increase in the maximum EITC amount increased average annual weeks worked by 0.61 weeks, employment by 0.6 percentage points, and earnings by \$558 among women ages 19 to 64, and this increase

reduced public assistance receipt by \$243 per household.² The authors ran a number of alternative models and found that these results held whether they defined the maximum EITC “as federal, state, or federal plus state” (p. 12).²

The research is not consistent, however. A 2006 study that compared women in Wisconsin (with a state supplement) to women in states without a state EITC found null effects on employment,^x and a 2019 study of all federal and state EITC reforms concluded that the only expansion that independently influenced employment, separate from the effects of welfare reform and other economic factors, was the 1993 federal reform.^y Another 2019 study using a natural experiment method across state borders found null effects on employment and wages, but the authors cautioned that their study did not examine poverty, which in their view is the key goal of the state EITC program.^{DD} They also speculated that the credit levels may have been too low to affect the examined outcomes, and that a county-level analysis of the entire state border, rather than just the metropolitan and urban areas, may have shown different effects. A 2019 study found that although expansions in the federal credit were linked to increased employment for single mothers, the state credit was too small to have a significant additional effect.¹ Finally, another 2019 study found overall insignificant effects of the EITC (federal and state) on women’s employment, but the effects were significant in the positive direction for some subgroups (such as single women who had children between ages 22 and 24).⁵ The authors found a 24.9 percentage point increase in employment at age 40 for that subgroup for each 10 percentage point increase in the EITC phase-in rate for families with two children.

Sufficient Household Resources

The federal EITC has been shown to reduce poverty rates among low-income families.⁴ For example, a 2018 study found that the 1993 federal EITC expansion reduced poverty among families headed by single women by 8.4 percentage points for each additional \$1,000 in the federal credit, but the effects were greatest between 75 and 150 percent of the federal poverty level, and smaller for families in more severe poverty.¹⁴ The authors suggested that the credit had a smaller effect on families below 75 percent of the federal poverty level because such families were less attached to the labor market in the first place, and the credit therefore had a weaker work-incentive effect.

Evidence shows that the state EITC contributes to poverty reduction as well, although the impact of the state EITC on earnings is more mixed. One study found that states with a refundable EITC have child poverty rates that are 40 percent lower than other states, holding other state characteristics and policies constant.^A Similarly, a simulation study of the New York State EITC estimated that a 45 percent refund rate (increased from the current level of 30 percent) could lead to between 68,000 and 98,000 individuals moving out of poverty, given positive effects on earned income.^W A study with a large, representative sample found that the state credit was associated with 32 percent higher annual earnings,^B although another study found that higher earnings through EITC expansions may lead to a reduction in other safety net benefits, leaving families with fewer resources overall.^C As the authors explained: “A 1 percentage point increase in the EITC subsidy rate lowers after-tax income among mothers with less than a high school education by about 0.5 percent, suggesting that transitions into work induced by the expanded generosity of the EITC results in lower total income among the less skilled” (p. 82).^C

A 2011 study found that a 10 percent state EITC was associated with a 2.2 percent increase in earnings but had no statistically significant effect on overall poverty.^{GG} However, the study did find a beneficial effect of the EITC on reducing the share of families whose earnings were below 50 percent of the federal poverty level.

A 2018 study of the effects of EITC exposure during childhood on later economic outcomes found no significant effects of exposure during ages 0 to 5, but found significant benefits for children ages 13 to 18 on their later circumstances (a 4.2 percent greater likelihood of completing college, a 1 percent greater likelihood of being employed, and 2.2 percent higher earnings for each additional \$1,000 in EITC exposure).^{HH} The study found that the EITC boosted contemporaneous family income for children ages 0 to 5, however; a \$1,000 increase in the credit amount led to a \$2,000 increase in annual pre-tax family earnings during ages 0 to 5 in this study.^{HH}

One study of DC’s EITC expansion found a positive impact on earnings, but the effect became statistically insignificant after controlling for citywide wage increases.^P Finally, a study using nationally representative data on women ages 22 to 39 found that the EITC had positive but statistically insignificant effects on the long-run employment and earnings of

mothers with children under age 6,^{iv} although significant effects were found for some subgroups (such as mothers who had children between ages 22 and 24, or mothers with older children).⁵

A study of a large sample of single mothers found that a \$1,000 increase in the federal and state combined credit was associated with a \$700 increase in savings account balances; however, when analyzed separately, the state EITC alone was not significantly associated with greater savings.^d The study also found null effects on earnings and household debt. Another study of single mothers found that the combined federal and state credits were associated with a 3.9 percentage point reduction in the odds of being cost-burdened by housing^v and a 5.2 percentage point reduction in being severely cost-burdened.^e The study found insignificant (0.1-0.6 percentage points) reductions in the likelihood of being evicted or experiencing homelessness.

Healthy and Equitable Births

Through increased income, the EITC is expected to promote greater use of health care and reduced stress among low-income women, which may lead to better birth outcomes.^j Although a review of the evidence found mixed impacts on the use of prenatal care, research has demonstrated that the state EITC has positive impacts on birth outcomes, although the effect sizes are generally small. One study of the combined local and state credits in New York City found that higher credits were associated with a small but statistically significant reduction in low birthweight rates at the community level (specifically, a 15 percentage point increase in the combined credit rates was linked to a 0.45 percentage point reduction in low birthweight).^q Another study with a large sample of single mothers found that the state EITC was associated with a 0.5 ounce (16 grams) increase in birthweight.^b Research on the District of Columbia's credit changes over time found beneficial effects ranging from 1.9 to 4.7 fewer low birthweight births per 100 live births and 48 to 104 gram increases in average birthweight (depending on the generosity of the credit; the 104 gram increase was linked to the 40 percent EITC).^{cc} Another study of a local credit in Montgomery County, Maryland, found that the introduction of the EITC reduced the likelihood of low birthweight by 1.9 to 2.4 percentage points among likely eligible mothers (an 18 percent change).^v

An additional study found small but significant impacts of the EITC on birth outcomes – an increase of 27.3 grams and an increase in gestation weeks of less than 0.1 weeks in states with generous, refundable credits (generosity was defined as 10 percent or more of the federal credit).^l However, the study found no overall significant effect on prenatal care utilization or health behaviors during pregnancy in those states, and thus the pathway to improved birth outcomes remains unclear. A subsequent analysis by the same authors using the same data found that the improvements were larger in magnitude (37.2 grams and 0.2 gestation weeks) for Black mothers in states with generous, refundable credits compared to the effects for White and Hispanic mothers, indicating that the state credit has the potential to reduce racial disparities in birth outcomes.^{ll}

Finally, a 2019 study found that increasing EITC exposure from birth to age 15 by \$1,000 decreased adolescent births; in particular, the incidence of births before age 20 was reduced by 0.6 percentage points or 2 percent.^{bb}

Parental Health and Emotional Wellbeing

Overall, the evidence shows mixed impacts of the state EITC on caregiver mental and physical health. However, the only outcomes showing any negative results were smoking^{f,cc} and obesity,^g whereas other key outcomes, including mental health,^l suicides,^{aa,ee} and longevity,^h all showed positive impacts.

A recent working paper examined the pathways between the state EITC and maternal mental health and concluded that the credit, through increased earnings, was associated with a 4 percentage point decrease in poor mental health among married mothers, but no significant effect was found for single mothers.^l The authors posited that because federal and state EITC expansions may benefit unmarried mothers who are *already* working (which has been found in other studies as well^u), the credit may have no impact on bad mental health days for this group, whereas for married mothers whose spouses work, the credit expansions may reduce their employment and increase family income, improving overall mental health.^l Two

^{iv} See Tables 5A, 5B, and 6 in the original study.

^v The US Dept. of Housing and Urban Development defines cost-burdened families as those who pay more than 30 percent of their income for housing, and severely cost-burdened as more than 50 percent.²¹

additional studies found that the state EITC, and specifically a 10 percent or greater credit, was associated with a 3.9 to 5.5 percent reduction in state suicide rates, although these study samples were not limited to parents/caregivers only.^{AA,EE}

Studies have also examined the associations between income and smoking^{B,F} and between income and obesity,^G using the EITC as an instrumental variable for income, and have found both positive and negative associations. The study on obesity concluded that income from the EITC was associated with a 1.1 pound increase in bodyweight and higher rates (5.4 to 6.9 percentage points) of obesity among those who were already overweight, but this effect was significant for women only.^G Two studies on smoking found contrasting results: one found that greater income, as instrumentalized by simulated credit receipt, was associated with 5 percent lower odds of smoking,^B whereas a second study found that higher income led to higher odds of smoking (and smoking more: a 10 percent increase in income led to an additional 3.4 cigarettes per day).^F The authors suggested that in some cases, the increased income allowed individuals to buy more cigarettes, but in other cases, the increased income reduced stress, which in turn reduced smoking. Another study of the variable impact of the state EITC by credit generosity found that smoking during pregnancy was reduced by 1.6 percentage points with the introduction of an EITC, but only for those in low-generosity states (less than 10 percent of the federal credit) with no refund.^I Finally, a study of the DC credit found an association with increased smoking during pregnancy at all four generosity levels (10, 25, 35, and 40 percent credit), but the increase was only statistically significant for the change from a 10 percent to 25 percent credit (an increase of 2.1 mothers who smoked per 100 live births).^{CC}

Finally, a study on health-related quality of life and longevity found that individuals in states with their own EITC had 2.2 additional quality-adjusted life years compared to residents of states without a credit.^H Further research is needed to resolve the contradictory findings of the impact of the state EITC on caregiver health.

Nurturing and Responsive Child-Parent Relationships

A 2016 longitudinal study measured the impact of an additional \$1,000 in EITC exposure (federal and state) on the quality of the home environment, and the study found no significant impact at a 2-year follow-up interview.^J The study used the Home Observation for Measurement of the Environment (HOME inventory), which includes “objective items scored by the interviewer” such as “whether the home is cluttered” as well as “questions asked directly of the mother” such as “how often the mother reads to the child” (p. 777).^J

Optimal Child Health and Development

Several studies have considered the impact of the state EITC on a range of child health and safety outcomes, including child obesity,^{K,L} asthma-related hospitalizations,^O foster care entries for abuse and neglect,^M substantiated abuse or neglect cases,^N and abusive head trauma.^O The studies found no statistically significant associations with health and safety outcomes in the prenatal-to-3 time period but some evidence of a positive impact on older children (ages 6 to 14). One study found a significant 11 percent decrease in foster care entries for states with a refundable EITC compared to states with no EITC, but the study did not disaggregate results by child age to allow an examination of prenatal-to-3 outcomes.^R

Evidence does show potential for long-term positive impacts of the EITC. A recent longitudinal working paper found that likely exposure to more generous earned income tax credits (a \$100 increase in federal and state credits) from ages 0 to 18 was significantly associated with a 2.7 percentage point (4.1 percent) increase in self-reported “very good or excellent” health in adulthood, with an effect of 1.7 percentage points for exposure between ages 0 and 5.^L The study found that the effects were larger among families at the lower end of the income distribution (below the 40th percentile), who are most likely to receive the EITC. Another 2019 study found that prenatal exposure to the EITC (specifically, a \$1,000 increase in maximum credit exposure during pregnancy) was associated with a small (less than 0.1 point) increase in the child’s health status in adulthood on a 5 point scale of poor to excellent health.^{FF}

The longitudinal 2016 study mentioned in the nurturing parenting section above also examined the effects of exposure to an additional \$1,000 in EITC payments (both federal and state) on children’s behaviors. The authors found that the additional payment led to improved scores of 0.57 points on the child Behavior Problems Index (a 28-item questionnaire with a mean normalized score of 100).^J However, the Behavior Problems Index is only completed by mothers of children ages 4 and older, so it does not capture the behavior of infants and toddlers (under age 3).

Is There Evidence That the State EITC Reduces Disparities?^{vi}

One study showed that the EITC was associated with larger positive impacts on birth outcomes for Black mothers compared to White and Hispanic mothers, indicating the potential to reduce racial disparities in maternal and child health.ⁱⁱ When states with any EITC were compared to states without, Black mothers saw a 1.2 percent increase in infants' birthweight, compared to a 0.9 percent increase among infants with White mothers. Hispanic mothers saw a 1.1 percent increase in infants' birthweight in states with an EITC. In the most generous EITC states (those with a refundable credit of 10 percent or more of the federal EITC), Black mothers saw significantly larger benefits than White and Hispanic mothers in the likelihood of low birthweight (a 1.4 percentage point decrease, compared to 0.7 for White and Hispanic mothers).ⁱⁱ Studies have also found larger effects of the EITC among likely recipients (those with lower socioeconomic status and lower education status who are in the workforce) than those with higher education levels or incomes in the credit phase-out range.^l

Has the Return on Investment for the State EITC Been Studied?

A 2019 study of the return on investment for the EITC (federal and state) found that the credit largely “pays for itself” by increasing taxes paid (by \$92 per household) and reducing public assistance received (by \$243 per household).^z The analysis found that “states with EITCs gain more from the federal EITC, perhaps because state EITCs independently increase labor supply” (p. 21).^z In 2017, low-income families received \$73 billion in total EITC assistance for a net cost to the government of only \$12 billion.^z A more comprehensive analysis of the return on investment is forthcoming.

What Do We Know, and What Do We Not Know?

Through increased labor force participation, higher earnings, and lump-sum credit income, a strong theory of change links the earned income tax credit to reduced poverty and improved outcomes for parents and young children. Research on the federal credit supports these outcomes empirically, whereas a review of the evidence shows that the *state* EITC has smaller, more mixed effects on employment, sufficient resources, and caregiver physical and mental health, likely because it is a smaller credit intended to supplement the federal EITC and its impacts. The evidence does not show a significant association between the state EITC and child health and safety in the short term, although there is some evidence of long-term beneficial impacts. However, research has found consistently beneficial impacts of a refundable state EITC (of 10 percent or more of the federal credit) on birth outcomes, including the potential to reduce racial disparities in healthy births. In addition, the combination of the federal and state credits is supported by seven studies as a way to increase maternal employment, labor force attachment, or household resources.^{D,E,T,U,Z,GG,HH}

The research on state EITCs has several gaps to be addressed in future work. First, researchers should work to clarify the theoretical links between the EITC and outcomes of interest. Whereas the theory is clear on how the EITC should affect parents' ability to work and their earnings, it is less clear what the effects should be on health and birth outcomes and why. Research generally suggests that greater income can promote access to health care, including prenatal care, but the empirical findings on this pathway are mixed, although the results for birth outcomes are positive. Identifying the mechanisms or pathways through which the EITC affects outcomes for families, parents, infants, and children will help to clarify where the EITC is making a significant impact and where it is not.

Another limitation of the research is that many studies examine the combined effects of the federal and state credits and do not separately analyze the contribution of the state credit to economic security or other outcomes. In addition, much of the research examines outcomes based on differential *eligibility* for the EITC rather than measuring outcomes for families who actually receive the credit compared to those who do not. Over time, and to the extent that available data allow such analyses, it will be important to investigate the barriers to take-up among families and the outcomes associated with receipt of the credit rather than eligibility.

Research should further examine the variable impact of the state EITC by credit generosity and refundability. Several studies have shown that more generous, refundable state credits have larger positive impacts,^{A,j} and research shows that a

^{vi} Disparities are defined here as differential outcomes by race, ethnicity, or socioeconomic status (SES).

10 percent or greater credit is effective for positive birth outcomes, but most studies examine the impacts of an additional \$1,000 in total EITC funds rather than examining the optimal state credit level. Future research is also needed to understand how an increase in earnings associated with greater work participation is balanced by reductions in benefits for those with incomes near the safety net eligibility threshold, to determine whether families are left financially better off overall. Research on whether the EITC is associated with greater use of quality child care, given mothers' increased work participation, would also be valuable.

Study samples in the EITC literature focus primarily on single mothers as likely recipients of the credit, but future work should expand the scope to consider the impacts on fathers, other custodial caregivers, and noncustodial parents as well. Preliminary findings from a pilot study of an expanded New York City credit for single adults and noncustodial caregivers (up to \$2,000 for those making up to \$30,000) found that the credit increased employment, reduced poverty, and increased the likelihood of making child support payments by 7.2 percentage points.¹³

Long-term health and economic impacts from the receipt of state credits in childhood should also be studied further, as this outcome is relatively new in the literature.

Finally, although we see some evidence of reduced racial disparities in birth outcomes as a result of a refundable 10 percent or greater credit,¹⁴ future research should further examine how the state EITC affects existing health and income disparities across race, ethnicity, and socioeconomic status. Addressing these future research needs will contribute to the growing body of evidence for the state EITC.

Is the State EITC an Effective Policy for Improving Prenatal-to-3 Outcomes?

Ultimately, the evidence suggests that implementing a state earned income tax credit, and in particular a refundable credit of at least 10 percent of the federal EITC, can amplify the impact of the federal EITC and increase the employment and earned income of lower-income and less-educated families. The evidence suggests that the credit has the clearest impact on improving birth outcomes, with particularly positive effects for families of color, given that all studies in the review that examined birth outcomes found beneficial results (no null or detrimental results).

How Does the State EITC Vary Across the States?

As of October 1, 2020, 23 states^{vii} will have adopted and implemented refundable state EITCs, and only six states will have implemented nonrefundable credits. Of the 23 states with a refundable credit, 18 have a credit of at least 10 percent or more of the federal credit that applies to all eligible taxpayers with children under age 3. The levels of these refundable state credits range from 3 percent of the federal credit in Montana to a maximum of 40 percent in DC (or 85 percent in California, but California has its own phase-in structure that does not directly mirror that of the federal credit).¹⁸ Of the remaining 22 states that have not implemented their own EITC, nine do not have a state income tax; without this source of funding, states will need to explore other financing options if they choose to implement a credit.

^{vii} State counts include the District of Columbia.

Table 3: State Variation in the State Earned Income Tax Credit

State has adopted and fully implemented a refundable EITC of at least 10% of the federal EITC for all eligible families with any children under age 3			
	Policy Adoption	Generosity and Variation	
State	Yes/No	State EITC Detail	State EITC Value as a % of the Federal EITC
Alabama	No	No EITC	No EITC
Alaska	No**	No EITC, No Income Tax	No EITC, No Income Tax
Arizona	No	No EITC	No EITC
Arkansas	No	No EITC	No EITC
California	Yes	Refundable EITC	85%
Colorado	Yes	Refundable EITC	10%
Connecticut	Yes	Refundable EITC	23%
Delaware	No	Nonrefundable EITC	20%
District of Columbia	Yes	Refundable EITC	40%
Florida	No**	No EITC, No Income Tax	No EITC, No Income Tax
Georgia	No	No EITC	No EITC
Hawaii	No	Nonrefundable EITC	20%
Idaho	No	No EITC	No EITC
Illinois	Yes	Refundable EITC	18%
Indiana	No*	Refundable EITC	9%
Iowa	Yes	Refundable EITC	15%
Kansas	Yes	Refundable EITC	17%
Kentucky	No	No EITC	No EITC
Louisiana	No*	Refundable EITC	5%
Maine	Yes	Refundable EITC	12%
Maryland	Yes	Refundable EITC	28%
Massachusetts	Yes	Refundable EITC	30%
Michigan	No*	Refundable EITC	6%
Minnesota	Yes	Refundable EITC	34%
Mississippi	No	No EITC	No EITC
Missouri	No	No EITC	No EITC
Montana	No*	Refundable EITC	3%
Nebraska	Yes	Refundable EITC	10%
Nevada	No**	No EITC, No Income Tax	No EITC, No Income Tax
New Hampshire	No**	No EITC, No Income Tax	No EITC, No Income Tax
New Jersey	Yes	Refundable EITC	40%
New Mexico	Yes	Refundable EITC	17%
New York	Yes	Refundable EITC	30%
North Carolina	No	No EITC	No EITC
North Dakota	No	No EITC	No EITC
Ohio	No	Nonrefundable EITC	30%
Oklahoma	No	Nonrefundable EITC	5%
Oregon	Yes	Refundable EITC	12%
Pennsylvania	No	No EITC	No EITC

Table 3: State Variation in the State Earned Income Tax Credit (continued)

State has adopted and fully implemented a refundable EITC of at least 10% of the federal EITC for all eligible families with any children under age 3			
	Policy Adoption	Generosity and Variation	
State	Yes/No	State EITC Detail	State EITC Value as a % of the Federal EITC
Rhode Island	Yes	Refundable EITC	15%
South Carolina	No	Nonrefundable EITC	62%
South Dakota	No**	No EITC, No Income Tax	No EITC, No Income Tax
Tennessee	No**	No EITC, No Income Tax	No EITC, No Income Tax
Texas	No**	No EITC, No Income Tax	No EITC, No Income Tax
Utah	No	No EITC	No EITC
Vermont	Yes	Refundable EITC	36%
Virginia	No	Nonrefundable EITC	20%
Washington	No**	No EITC, No Income Tax	No EITC, No Income Tax
West Virginia	No	No EITC	No EITC
Wisconsin	No*	Refundable EITC	4%
Wyoming	No**	No EITC, No Income Tax	No EITC, No Income Tax
Best State	N/A	N/A	85%
Worst State	N/A	N/A	Multiple states with no EITC
State Count	18	23 with Refundable EITC	N/A

** is used to denote states with no tax on individual earned income.

* is used to denote states with a refundable EITC which does not meet the threshold of at least 10 percent of the value of the federal EITC for all eligible families with any children under age 3.

Policy adoption and generosity/variation data: As of October 1, 2020. State income tax statutes.

For additional source and calculation information, please refer to the Methods and Sources section of pn3policy.org.

How Did We Reach Our Conclusions?

Method of Review

This evidence review began with a broad search of all literature related to the policy and its impacts on child and family wellbeing during the prenatal-to-3 period. First, we identified and collected relevant peer-reviewed academic studies as well as research briefs, government reports, and working papers, using predefined search parameters, keywords, and trusted search engines. From this large body of work, we then singled out for more careful review those studies that endeavored to identify causal links between the policy and our outcomes of interest, taking into consideration characteristics such as the research designs put in place, the analytic methods used, and the relevance of the populations and outcomes studied. We then subjected this literature to an in-depth critique and chose only the most methodologically rigorous research to inform our conclusions about policy effectiveness. All studies considered to date for this review were released on or before March 31, 2020.

Standards of Strong Causal Evidence

When conducting a policy review, we consider only the strongest studies to be part of the evidence base for accurately assessing policy effectiveness. A strong study has a sufficiently large, representative sample, has been subjected to methodologically rigorous analyses, and has a well-executed research design allowing for causal inference—in other words, it demonstrates that changes in the outcome of interest were likely caused by the policy being studied.

The study design considered most reliable for establishing causality is a randomized control trial (RCT), an approach in which an intervention is applied to a randomly assigned subset of people. This approach is rare in policy evaluation because policies typically affect entire populations; application of a policy only to a subset of people is ethically and

logistically prohibitive under most circumstances. However, when available, randomized control trials are an integral part of a policy's evidence base and an invaluable resource for understanding policy effectiveness.

The strongest designs typically used for studying policy impacts are quasi-experimental designs (QEDs) and longitudinal studies with adequate controls for internal validity (for example, using statistical methods to ensure that the policy, rather than some other variable, is the most likely cause of any changes in the outcomes of interest). Our conclusions are informed largely by these types of studies, which employ sophisticated techniques to identify causal relationships between policies and outcomes. Rigorous meta-analyses with sufficient numbers of studies, when available, also inform our conclusions.

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