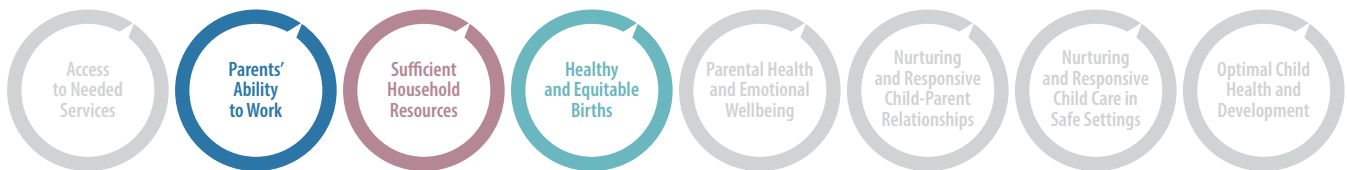


Excerpt from the 2020 Prenatal-to-3 State Policy Roadmap

POLICY

STATE EARNED INCOME TAX CREDIT

A refundable state EITC of at least 10% of the federal EITC is an effective state POLICY to impact:



A refundable state EITC of at least 10% of the federal EITC:

- promotes healthy births;
- reduces racial disparities in birth outcomes; and
- has mixed impacts on employment and family income.

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states have 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.

WHAT IS AN EARNED INCOME TAX CREDIT (EITC)?

The Federal EITC Is a Refundable Tax Credit for Low-Income Workers

Households with at least one working adult can receive the federal EITC either as a reduction in taxes owed or as a refund if the household has no tax liability. The amount of the federal EITC increases as a percentage of income until a plateau income range is reached, then the credit amount decreases slowly as income continues to rise.¹

The State EITC Is an Additional Credit Based on a Percentage of the Federal EITC

The state EITC is a tax credit for low-income workers, typically calculated as a percentage of the federal EITC. The value and administration of the state EITC is determined by each state, including whether the state credit is refundable or nonrefundable. States typically finance their state EITCs through state income and sales taxes and general fund dollars.²

WHY IS A STATE EITC IMPORTANT?

The EITC Incentivizes Work and Provides Lump-Sum Income, Both of Which Can Reduce Poverty

Because only working tax filers are eligible for the EITC, the tax credit is intended to incentivize labor force participation. Additional income from employment, coupled with the lump-sum income of the benefit, can reduce poverty experienced by low-income families.

The EITC Helps Millions of Workers Each Year, but Working Parents Benefit the Most

Although childless workers can receive a small credit, the value of the credit is much larger for parents. 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.³ The average federal EITC amount that year was \$3,191 for filers with children, and \$298 for filers without children.⁴ Adopting a state credit is one way for states to supplement the federal credit and increase the benefits families can receive.

The EITC Can Specifically Help Women of Color

The EITC can reduce disparities in income between racial and ethnic groups. Because many low-income families are headed by working single mothers, and women of color in particular,⁵ the EITC is expected to improve outcomes for these families more than other families.

WHAT IMPACT DOES A STATE EITC HAVE?

A refundable state EITC of at least 10% of the federal EITC leads to healthier and more equitable birth outcomes. Impacts on economic outcomes such as parents' ability to work and household resources are mixed, with mostly positive results, but some null results as well.

A Refundable State EITC Reduces Disparities in Birth Outcomes

Children whose parents receive a refundable state EITC of at least 10% of the federal EITC experience better outcomes, including higher birthweights and lower rates of having a child as an adolescent. Even more noteworthy, in states with generous refundable credits, Black mothers see the greatest reductions in low birthweight, relative to White and Hispanic mothers.

The EITC Also Can Support Parental Mental Health

The impacts of the state EITC on parent mental health are promising—the EITC leads to reductions in suicides and more quality-adjusted life years for adults. However, the impacts on physical health are not consistently positive, specifically for obesity and smoking. Because our policy goal combines both mental and physical health, the EITC cannot be considered effective at meeting this goal, despite its benefits on mental health specifically; therefore, the policy goal of parental health and emotional wellbeing is not highlighted in the chart on the following page.

Strong Causal Studies Show That a Refundable State EITC of at Least 10% of the Federal EITC Impacts Three Prenatal-to-3 Policy Goals

Examples of Impact:

Parents' Ability to Work

- A 10% state EITC supplement increased employment among single mothers by 2.1 percentage points compared to single women with no children (GG)
- Living in a state with an EITC boosted the likelihood of mothers' employment (for at least one week per year) by 19% (B)
- A \$100 increase in the maximum federal and state credits reduced annual labor force exit among single women by 2.5 percentage points (U)

Sufficient Household Resources

- States with a refundable EITC had child poverty rates that were 40% lower overall than states without a refundable state credit (A)
- State EITCs boosted mothers' annual wages by 32% (B)
- A \$1,000 increase in the state and federal credit amount led to a \$2,000 increase in annual pretax family earnings during ages 0 to 5 (HH)

Healthy and Equitable Births

- State EITC led to increases in birthweight of between 16 grams to 104 grams, depending on the generosity level (B, CC)
- In states with generous, refundable credits, Black mothers saw the greatest reductions in low birthweight (up to 3,760 fewer babies born low birthweight annually) (II)
- Increasing the maximum federal and state EITC by \$1,000 during childhood decreased the likelihood of giving birth before age 20 by 2% (BB)

Note. Results are based on comprehensive reviews of the evidence. The letters in parentheses in the table above correspond to a strong causal study in the comprehensive evidence review of the state EITC. Each strong causal study reviewed has been assigned a letter. A complete list of causal studies can be found in the references section at the end of this document. Comprehensive evidence reviews of each policy and strategy, as well as more details about our standards of evidence and review method, can be found at pn3policy.org.

WHAT DO WE STILL NEED TO LEARN ABOUT THE STATE EITC?

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.

Little Is Known About the EITC's Impact on Fathers, Especially Noncustodial Fathers

Study samples 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—especially those who share physical custody of their children and may still pay a significant share of the child's expenses. New York and the District of Columbia are currently the only jurisdictions that offer a credit to qualifying noncustodial parents.^{6,7}

More Research Will Help Highlight How a State EITC Impacts Child Outcomes Beyond Infancy

The impacts of the state EITC on birth outcomes are well documented, but the evidence on how the state EITC impacts later child health and safety currently shows mostly null impacts. The federal EITC, however, has been shown to have impacts in later childhood, beyond birth outcomes. The theory on how the EITC affects birth outcomes also remains unclear, and future research should work to pinpoint the mechanisms that affect birth outcomes.

More Research Is Needed to Identify the Best Ways for States to Implement an EITC

A more thorough understanding of the optimal EITC level of generosity would help states better implement an EITC. Several studies have shown that more generous and refundable state credits have larger positive impacts, but more research is still needed to determine the optimal percentage of the federal EITC that states should offer. Also, the bulk of the research focuses on families who are eligible to receive the EITC compared to those who are not eligible, rather than comparing families who actually receive the credit with those who do not. Future studies should target research on receipt of the credit rather than eligibility to receive the credit and should seek to explain variation in take-up rates.

Additional Studies Will Be Helpful to Further Understand the Effects of a State EITC on Other Policies

Unfortunately, many families who receive the EITC may become ineligible to receive certain public assistance benefits, due to the increase in earnings associated with more work. More research is necessary to understand whether the additional income offsets the loss of public assistance benefits, or whether the loss of benefits further jeopardizes financial security for the family. Because the EITC incentivizes more parents to work, additional research also will be necessary to understand how increased employment creates a higher demand for high-quality child care—and whether additional income adequately covers the cost of child care.

Tracking and Evaluating How States Have Responded to COVID-19 Will Be Essential

As of June 30, 2020, in response to the COVID-19 pandemic, California Governor Gavin Newsom passed legislation that expanded the California EITC to households making \$30,000 or less and to undocumented people who meet the same threshold with at least one child under age 6.⁸ In New York, Assemblywoman Pat Fahy introduced bill A10522 that would expand the state EITC from 30% to 40% of the federal EITC. In addition, eligibility criteria to claim the credit would expand to a larger pool of workers, including people under age 25 with no children and those with no social security numbers but who pay taxes.⁹ This bill was signed by Governor Andrew Cuomo on June 17, 2020.¹⁰ As states continue to respond to the economic impact of the pandemic, changes to EITC policy in other states remain to be seen.

HOW DO STATES VARY BASED ON THEIR ADOPTION AND IMPLEMENTATION OF THE STATE EITC?

Of the 23 states with a refundable state EITC, 18 have a credit of at least 10% of the federal EITC for all eligible families with any children under 3.

Many States Have an EITC or Some Form of Tax Break Similar to the EITC

A total of 23 states have a refundable EITC, six states have a nonrefundable EITC, and three states have a tax break for low-income residents that is similar to a nonrefundable EITC. In contrast, 19 states have no EITC or similar credit at all, nine of which have no state income tax. States without an income tax lack the tax-collection infrastructure necessary to implement a state EITC.

How Do We Determine States' Progress Toward Implementing Effective Policies and Strategies?

Policy adoption does not typically happen quickly. States may introduce legislation several times before adopting a policy and take even more time to fully implement it. States in which there has been considerable legislative initiative have made greater progress toward and are likely closer to adopting and implementing a policy compared to states in which there has been little to no legislative initiative. Once a policy is adopted, some states make the benefits more generous over time, whereas other states may rescind benefits in bills during subsequent legislative sessions. This variation in the legislative process provides greater insights to state policy leaders on where their state stands relative to others.

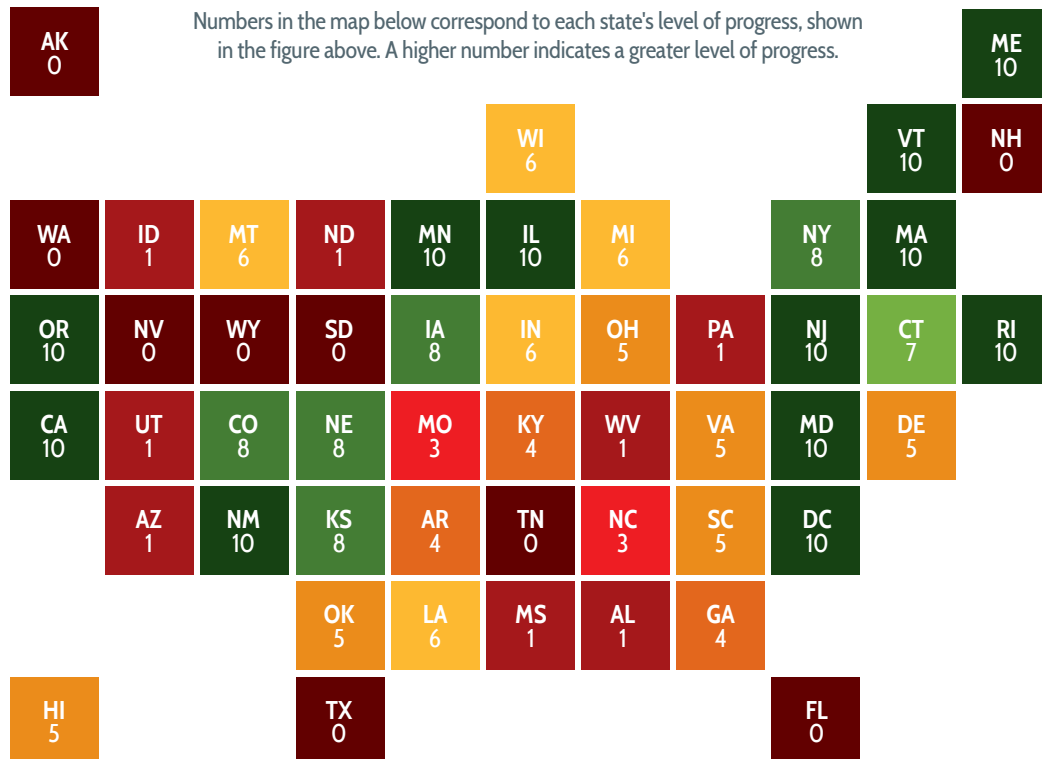
Relying on comprehensive research of state income tax statutes and filed legislation since 2015, we determined:

- whether (yes or no) each state had adopted and fully implemented a refundable EITC of at least 10% of the federal EITC for all eligible families with any children under 3 by October 1, 2020, and
- what progress each state had made by June 30, 2020, toward adopting and fully implementing a refundable EITC of at least 10% of the federal EITC.

The figure on the following page shows the progress states have made to date toward adopting and fully implementing a refundable EITC of at least 10% of the federal EITC for all eligible families with any children under age 3. For additional information, please refer to the Methods and Sources section of pn3policy.org.

Have States Adopted and Fully Implemented a Refundable EITC of at Least 10% of the Federal EITC?

Progress	Detail	# of States
Yes	10 Yes, and the state EITC has become more generous since it was initially enacted.	12
	9	
	8 Yes, but the generosity of the state EITC has not changed since it was initially enacted.	5
	7 Yes, but the state's refundable EITC has become less generous since it was initially enacted.	1
Some Progress	6 No, but the state does have a refundable EITC that is below 10% of the federal EITC.	5
	5 No, but the state does have a nonrefundable EITC.	6
	4 No, but the state does have a tax break for low-income residents that is similar to an EITC.	3
No	3 No, but there has been considerable legislative initiative to establish a state EITC.	2
	2	
	1 No, and there has been little legislative initiative around establishing a state EITC.	8
Regressive	0 No, and the state does not have an income tax.	9



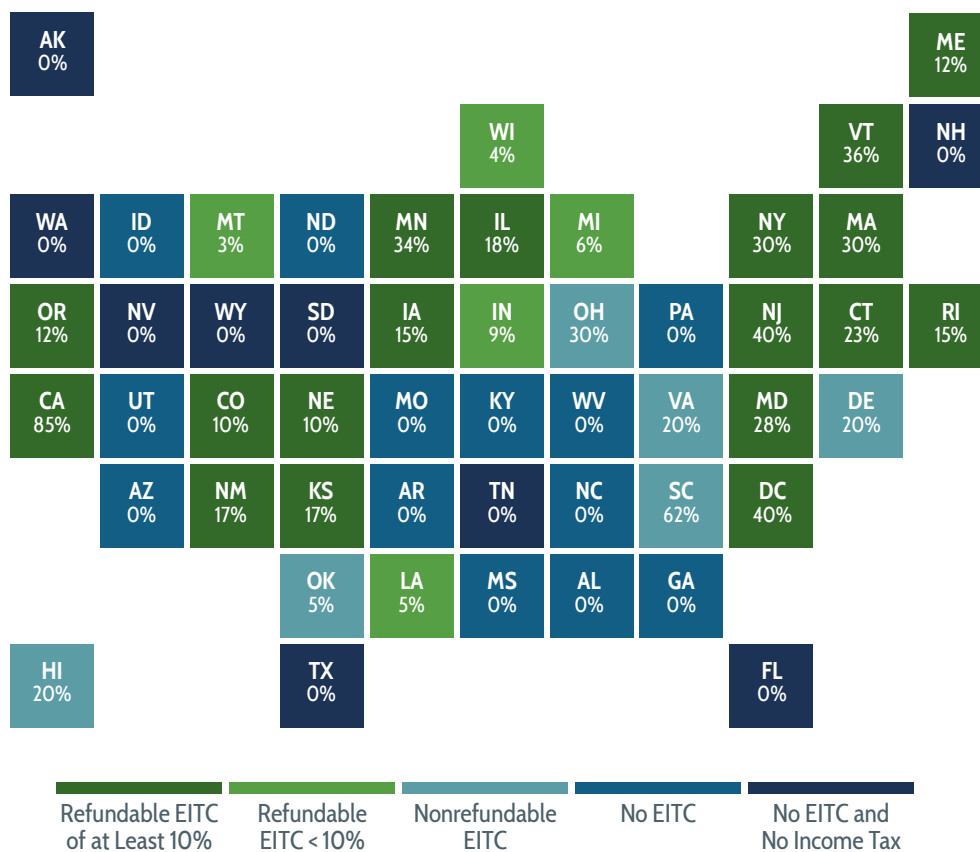
States Vary in the Tax Credits They Offer

Thirty-two states (23 with a refundable EITC, six with a nonrefundable EITC, and three with tax breaks) have some form of an income tax credit or tax break for low-income residents. New York and the District of Columbia also offer state credits to qualifying noncustodial parents.^{11,12}

The Value of Refundable EITCs Varies by State

States offering refundable EITCs range from 3% of the federal EITC in Montana to 85% of the federal EITC in California, the highest in the country.^a

Percent of Federal EITC by EITC Status



Note: Percentage in map reflects percentage of federal EITC.

Source: State income tax statutes, as of October 1, 2020. For additional information, please refer to the Methods and Sources section of pn3policy.org.

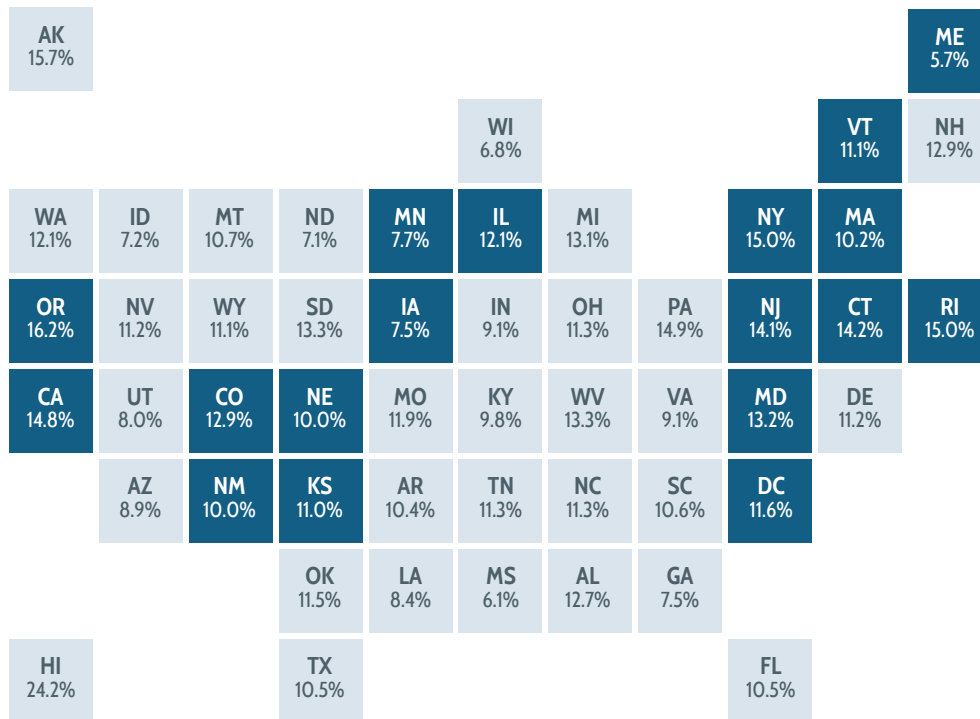
^a California does not calculate its EITC as a simple percentage of the federal credit, as most states do. California's credit is available to working families and individuals with wage or self-employment income of \$30,000 or less. The credit is worth 85% of a household's federal EITC until household income reaches approximately half of the level at which the federal credit is fully phased in; it then begins phasing out at varying rates, depending on family size. The majority of state EITC recipients receive a credit that is 85% of the federal credit.

The Percentage of Eligible Households Not Claiming the Federal EITC Varies by State

States vary in the percentage of eligible households that do not claim the federal EITC. To receive the state EITC, most tax filers must first claim the federal EITC, so this variable is a proxy for the percentage of eligible individuals in states that have a state EITC who do not claim the benefit. Ideally, states should track data on receipt of the state EITC; however, these data are currently insufficient to track the percentage of households claiming a state EITC. The percentage of eligible tax filers who do not claim the federal EITC ranges from 5.7% in Maine (best state) to 24.2% in Hawaii (worst state).

Lack of Federal EITC Take-Up

% of eligible tax filers who do NOT claim the federal EITC



States with a “Yes” have a refundable EITC of at least 10%.

Source: State income tax statutes, as of October 1, 2020; 2017-2019 Current Population Survey, Annual Social and Economic Supplement (CPS ASEC) Public Use Microdata Sample (PUMS). For additional information, please refer to the Methods and Sources section of pn3policy.org.

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State Earned Income Tax Credit

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