prenatal-to-3 policy IMPACT CENTER

VANDERBILT Peabody College

State Policy Lever Checklist

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State Earned Income Tax Credit

State earned income tax credits (EITCs) vary in terms of value, refundability, and eligibility for the credit. Below is a list of policy considerations for state leaders to help maximize the effectiveness of a state EITC. **States should consider the implications of these policy choices and their collective impact on equitable access to the EITC among eligible families in their state.**

We use the following symbol to highlight where policy choices can promote greater equity. ⭐

A state EITC is an effective policy to increase parents' workforce participation, improve household economic security, and even promote healthier and more equitable births. The most rigorous research to date finds that **a refundable state EITC of at least 10% of the federal credit** is necessary to promote positive outcomes.

Has your state fully implemented a refundable state EITC of at least 10% of the federal credit?

YES / NOT YET

This checklist covers the following components of a state EITC:

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To learn more about how states vary in their implementation of earned income tax credits, please view our state EITC variation table online.

Program Characteristics

State EITCs are often modeled after the federal credit, which means states use federal EITC eligibility and benefit rules and set the state EITC as a percentage of the federal credit. As of tax year 2023, 32 states (including the District of Columbia) have either a refundable or nonrefundable state EITC. Of those states, 22 have fully implemented a refundable state EITC of at least 10% of the federal credit.

1. Is your state EITC refundable or nonrefundable?

States have the option to determine whether the state EITC is refundable or nonrefundable. A nonrefundable credit is capped at the taxpayer's state tax liability, whereas a taxpayer receives the full value of a refundable credit. If the value of a refundable credit exceeds a taxpayer's state tax liability, then the remainder is provided as a payment from the state. States typically offer either nonrefundable or refundable credits, but sometimes, offer both and allow families to choose the credit that provides them with the greatest benefit.

For families with little taxable income, a refundable EITC can promote equity by offsetting state income tax while also putting money back into families' pockets to help cover household expenses.

- ☐ Refundable
- ☐ Nonrefundable
- ☐ Both

2. What is the value of your state EITC?

State EITCs are typically calculated as a percentage of the federal EITC benefit an eligible family receives. As of tax year 2023, state EITC values ranged from 3% to 125% of the federal credit. States may also set varying EITC values based on household size and composition. Three states have unique credit structures, not based on the federal credit.

State EITCs of higher values promote equity by helping eligible families make ends meet.

- ☐ The state EITC is ____________ % of the federal credit.
- ☐ The state EITC is set as a percentage of the federal EITC, but the percentage varies by household size or structure.
  - ☐ Workers without dependents: ____________ %
  - ☐ Based on the number of dependents: ____________ % for 1 child
    ____________ % for 2 children
    ____________ % for 3 or more children
  - ☐ Based on the age of dependents: ____________ % for age ____________
    ____________ % for age ____________
    ____________ % for age ____________
- ☐ The value of the state EITC is determined based on the following criteria:

  ____

Eligibility

1. Who is eligible?

The federal EITC is available to working families with children that have low to moderate incomes. Many states align their state EITC eligibility criteria with the federal EITC. States also have the option to expand eligibility to ensure a greater number of families with low incomes are eligible for the state EITC. As of tax year 2023, eight states have extended eligibility to tax filers with an Individual Taxpayer Identification Number (ITIN) and eight states have extended eligibility to tax filers between the ages of 18-24.

Expanding EITC eligibility to as many workers as possible promotes equitable access to the state EITC and improves economic security for more children and families.

- [ ] The state EITC eligibility rules match the federal eligibility rules.
- [ ] Eligibility has been expanded to also include:
  - [ ] ITIN holders
  - [ ] Younger filers (ages 18-24)
  - [ ] Noncustodial parents
  - [ ] Workers without dependents
  - [ ] Other populations: ____________________

Administration and Funding

1. How is the program funded?

State EITCs are typically financed through state income tax, sales tax, and other general revenue streams. States can also use alternative funding sources, such as the Temporary Assistance for Needy Families (TANF) block grant Maintenance of Effort (MOE) funds. If a state does not have an income tax, it may find alternative ways to fund or structure the state EITC.

- [ ] The program is funded through state general revenue.
- [ ] The program is funded through the TANF block grant MOE funds.
- [ ] Other: ____

2. How do eligible families apply for and receive your state EITC?

Most states with a state EITC administer the credit through the annual tax filing process. States without an income tax, however, may need to create an alternative process for families to apply for the credit.

- [ ] Annual tax filing
- [ ] Alternative method: ________________________________