

State Earned Income Tax Credit: An Effective Policy to Improve Child Outcomes

WHAT IS A STATE EITC AND WHY IS IT IMPORTANT?

A state EITC is a supplement to the federal EITC, which is a refundable tax credit designed to reduce poverty by helping workers with low- to moderate- incomes keep more of their wages. Households with at least one working adult can receive the federal credit as a reduction in tax liability or as a refund if the household has no tax liability or the credit amount exceeds total taxes owed. States determine whether to offer an EITC in addition to the federal credit, set the generosity of the credit (typically a percentage of the federal credit), determine whether

the credit is refundable or only reduces existing tax liability, and decide eligibility within constraints of federal law. State EITCs are typically financed through general fund dollars. The general fund is the primary state fund for ongoing expenses, mainly composed of revenue from income, sales, and other taxes.

Although the federal EITC has been studied extensively, research exploring the added value of state EITCs, and particularly a refundable credit of 10% or more of the federal credit, has grown in recent years. Evidence shows that state EITCs improve birth outcomes, incentivize labor force participation, and increase the economic security of families with infants and toddlers. Nearly all

beneficiaries are families with children in the home. Impacts tend to be more beneficial when studies look at the combined outcomes of the federal and state credit, because the total value of benefits is greater.

EVIDENCE-BASED POLICYMAKING

The Prenatal-to-3 Policy Impact Center at Vanderbilt University analyzes rigorous evidence to determine which policies are proven to produce positive outcomes for young children, their families, and society. Our comprehensive review of evidence demonstrates that a refundable state earned income tax credit (EITC) of at least 10% of the federal credit promotes healthier and more equitable birth outcomes, increases parents' workforce participation, and improves household economic security, with the greatest effects for single mothers and their children.

WHAT IMPACT DO STATE EITCS HAVE?

State EITCs improve parents' employment outcomes.

Rigorous studies find that:

- With each additional \$1,000 in average EITC benefits, unmarried mothers were 9 percentage points more likely to work.
- Living in a state with an EITC increased the likelihood of mothers' employment for at least 1 week per year by 19%.

State EITCs increase household resources and reduce child poverty.

Rigorous studies find that:

- State EITCs increased mothers' annual wages by 32%.
- A \$1,000 increase in average EITC benefits led to an increase of \$2,400 in the pre-tax earnings of households with infants and toddlers.
- If all states adopted the most generous state EITC (43% and refundable, at the time of the study), child poverty would be reduced by 1.2 percentage points.

State EITCs improve birth outcomes and reduce racial disparities in low birthweight.

Rigorous studies find that:

- A state EITC led to increases in birthweight by 16-104 grams, depending on the level of the tax credit.
- In states with refundable EITCs of at least 10% of the federal credit, Black mothers with a high school education or less had greater reductions in low birthweight rates for their infants compared to White mothers with the same level of education.

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For more information on state earned income tax credits refer to our:

- Comprehensive evidence review for additional detail on and citations for the above-referenced studies: <https://pn3policy.org/policy-clearinghouse/2022-state-earned-income-tax-credit/>.
- Prenatal-to-3 State Policy Roadmap for state progress and variation: <https://pn3policy.org/pn-3-state-policy-roadmap-2022/us/state-eitc/>.
- State policy lever checklist for the choices states can make to maximize effectiveness and equitable access to state EITCs: <https://pn3policy.org/state-policy-lever-checklist-eitc/>.