

Refundable State EITC Would Lead to Substantial Returns on Investment in Pennsylvania

Performed at the request of the United Way of Pennsylvania, our analysis, [Implementing a State Earned Income Tax Credit \(EITC\) in Pennsylvania: A Benefit Cost Analysis](#), estimates the benefits and costs to Pennsylvania of a 10% or 25% refundable earned income tax credit (EITC), an evidence-based anti-poverty policy, beyond the state's existing tax forgiveness program. The existing Special Provision eliminates a percentage of state personal income tax liability based on family characteristics.

The benefits to Pennsylvania of an elective refundable EITC would outweigh its costs by approximately 7 to 1 with a 10% credit and 3 to 1 with a 25% credit.

- ▶ With a new 10% refundable state EITC, the average annual benefit per eligible household would be \$197, representing an additional \$111 beyond the average benefits received with only the Special Provision program. With a 25% refundable credit, this figure increases to an average annual benefit of \$594, representing an additional \$415 beyond the Special Provision program.
- ▶ A 10% refundable state EITC would benefit approximately 715,652 households and a 25% refundable state EITC would benefit approximately 873,923 households.

State refundable EITCs positively impact young children and their families.

Strong causal research demonstrates that EITCs increase employment and earnings, improve families' economic, social, and health outcomes, and reduce disparities in birth outcomes. State EITCs can also boost tax revenue through increased economic activity and reduce public assistance spending. A refundable 10% or 25% credit could provide an improvement in the quality of life for workers and families in Pennsylvania.

Summary of estimated benefits and costs of a refundable EITC in Pennsylvania

	10% Refundable EITC	25% Refundable EITC
Approximate # of Households Benefiting	715,652	873,923
Average Annual Benefit per Household	\$197	\$594
Total Additional Costs	\$81 million	\$366 million
Total Benefits (including cost avoidance)	\$562 million	\$1.2 billion
Benefit-to-Cost Ratio	7 to 1	3 to 1

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