PRENATAL-TO-3 POLICY CLEARINGHOUSE

EVIDENCE REVIEW SNAPSHOT

February 2024

Summary of the Rigorous Research on State Earned Income Tax Credits

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.

EMERGING EVIDENCE FOR IMPACTS ON CHILD AND FAMILY WELLBEING

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.

States can implement a refundable state EITC of 10% or more of the federal credit to effectively impact parental employment, household income, and healthy birth outcomes.

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.

RIGOROUS STUDIES FIND THE FOLLOWING IMPACTS

State EITCs improve parents' employment outcomes.

- 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.

- 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.

- 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.

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/state-earned-income-tax-credit/.
- Refer to our Prenatal-to-3 State Policy Roadmap for state progress and variation: https://pn3policy.org/pn-3-state-policy-roadmap-2023/us/state-eitc/.
- Refer to our state policy lever checklist for the choices states can make to maximize effectiveness of state EITCs: https://pn3policy.org/state-policy-lever-checklist-eitc/.