The Expansion of the EITC Across States

By Michael Bogdanos

The Earned Income Tax Credit (EITC) is a tax credit for low-income workers. While the federal EITC gets most of the attention, EITC programs have been increasingly adopted by states as credits against state-level taxes. State-level EITC programs allow recipients to deduct a certain percentage of their federal EITC benefit from their state tax liability. Previously, PWBM described the effects of the federal EITC on poverty and work. In this post, we map the history of state-level expansions across the U.S., and explore the political dynamic driving its growth.

What is the EITC?

The federal EITC is a refundable tax credit that is calculated as a percentage of earnings. Workers receive a larger credit as they earn more, up to a specified maximum amount. At this limit the credit flattens out for a period and then phases out. The credit benefits low and moderate income individuals and is more generous for families with more children.

The federal EITC was enacted at the federal level in 1975, and Rhode Island introduced the first state-level version of the credit in 1986. Each state EITC program works by allowing recipients to claim a credit against state income tax liability, calculated as a percentage of their federal EITC. In most states with EITC programs, the EITC is fully refundable, meaning that if the credit exceeds the tax owed, the recipient will receive a tax refund from the state.

State expansion has increased rapidly since 1986. Today, twenty-eight states (and the District of Columbia and Puerto Rico) operate state-level EITC programs. In addition, Congress has expanded the federal EITC five times since the 1980s. In 2018, 25 million households received the federal EITC.

Figure 1 shows an animated map of the United States, illustrating the size of each state’s EITC program relative to the federal-level and how that program changed over time. Click on the play button below the map to see how it changes over time and hover over a particular state to see more details on that state.

Figure 1: State Earned Income Tax Credits (EITC) Interactive Map

**To view additional years please view online***
The Impact of the EITC

A large body of econometric evidence shows that EITC programs--both federal and state--encourage work. Specifically, the EITC has been found to increase labor force participation among low-income households. The credit has little impact on the hours that recipients work once employed, implying that the effects are concentrated along the extensive (participation) margin, not the intensive (number of hours worked) margin. However, the lower-earning spouse in a married couple may reduce hours worked. Nonetheless, the increase in labor supply participation is the dominant effect, meaning that on net, the work incentives of the EITC are positive.

Additionally, research suggests that the EITC transfers money to low-income families and alleviates poverty. Conservative estimates suggest that each year, the credit lifts 5.8 million (including 3 million children) out of poverty, as assessed by the Census Bureau’s Supplemental Poverty Measure. Work by Hoynes and Patel (2015) finds that accounting for the EITC’s indirect benefits (including the increase in labor supply) may mean that these
estimates actually understate the anti-poverty effects by as much as 50 percent. Other research shows that the EITC improves poor children’s educational attainment and health.

Bastian and Jones (2018) find that the actual cost of the EITC is 13 percent of the "sticker price." By encouraging recipients to work, it decreases enrollment in other public assistance programs and increases payroll and sales tax revenues. Thus, for every dollar spent on the EITC program, the government recuperates 87 cents.

**Federal Expansion of the EITC**

The EITC has been expanded at the federal level many times. In fact, expansions of the federal EITC program have occurred under both Republican and Democratic Presidents–during the Ford, Reagan, Bush I, Clinton, Bush II, and Obama administrations. Recently, Senators have introduced legislation to further expand the EITC.

**State Expansion of the EITC**

EITC programs have also been expanded at the state level. In 1986, Rhode Island became the first state to enact a state-level EITC. Since then, 28 states (plus the District of Columbia and Puerto Rico) have enacted EITC programs, while existing programs have been expanded a total of 53 times.

Table 1 shows that, similar to federal expansions, state EITC introductions and expansions have occurred under both Republican and Democratic governments. Historically, Democratic governments and Democrat-Republican mixed governments have been more likely to introduce or expand state EITC programs than Republican governments, a difference that is statistically significant at the 0.05 significance level.

**Table 1: State Enactment or Expansion of the EITC by Political Control of State Government**

<table>
<thead>
<tr>
<th>Periods of State Legislature Leadership</th>
<th>EITC Enactments and Expansions</th>
<th>Rate of Enactment and Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republican-Controlled Government</td>
<td>389</td>
<td>9</td>
</tr>
<tr>
<td>Democrat-Controlled Government</td>
<td>396</td>
<td>23</td>
</tr>
<tr>
<td>Mixed Government</td>
<td>865</td>
<td>46</td>
</tr>
</tbody>
</table>

Note: These results include the 50 states. Territories, districts and federal enclaves are not included.

1. Minnesota offers a “Working Families Credit” that is similar to the EITC but is structured differently.


11. Including North Carolina, which offered an EITC from 2008 to 2013.

12. As state-level EITCs are calculated as a share of the federal EITC, expanding a state's EITC means either (i) increasing the magnitude of the credit relative to the federal EITC or (ii) making the credit fully refundable without decreasing its magnitude.

13. Specifically, we looked at each state's legislative body, and if the Republican party held a majority in both chambers of the state legislature as well as the governorship, that state was considered to be under Republican control; if the Democratic party held a majority in both chambers as well as the governorship, that state was considered to be under Democratic control; otherwise, the state was considered mixed.