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The State of State EITCs: An Overview and Their Implications for Low- and Moderate-Income Households

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The federal Earned Income Tax Credit (EITC) has long been considered one of the most robust antipoverty cash-transfer programs targeting low- and moderate-income (LMI) families in the United States. The EITC is refundable—households can receive a check for what is left of the credit after any tax obligation is paid. To qualify for the EITC, households must meet income eligibility limits that vary by the number of dependent children in the household, though single or married households without dependent children may also qualify. Income limits for EITC eligibility in tax year 2017 ranged from below \$15,010 to \$48,340 for a single household and from \$20,600 to \$53,930 for a married household (both ranges are conditional on the number of dependents). The maximum credit for a household with no qualifying children was \$510, and the maximum credit for a household with three or more qualifying children was \$6,318.¹

The EITC has reduced poverty and improved the economic position of many LMI households. It has reduced tax burdens, increased employment by incentivizing work, and provided a cushion against periods of uncertainty.² The success of the federal EITC has prompted numerous U.S. states to develop and administer their own EITC programs, which offer working LMI households a refundable credit worth a fixed percentage of the federal credit. As of 2017, 29 states and the District of Columbia have developed such credits using federal EITC eligibility requirements.³ Although the federal EITC was introduced in 1975, Wisconsin was the first state to offer its own credit—it did so in 1983.⁴

The evidence on state EITC programs is limited in scope but suggests that the credits supplement and even enhance the opportunities afforded recipients of the

federal credit. Like the federal credit, state EITCs have been shown to improve the health, economic, and labor outcomes of recipients: They increase employment and college enrollment,⁵ reduce poverty,⁶ and improve the health of child dependents.⁷ One recent study found that state EITCs are associated with increases in birth weight for infants and reductions in maternal tobacco use.⁸

However, existing studies have mirrored policy evaluations of the federal credit in that they have focused primarily on labor and wage outcomes. They have ignored the widespread use of the credit to address immediate or unanticipated consumption needs,⁹ to pay off debt, and to retire outstanding bills.¹⁰ In fact, findings from the Refund to Savings (R2S) Initiative, which is the source of the data used in this brief, have indicated that the most common uses for the EITC include paying down debt; purchasing basic necessities like food, housing, or clothing; and buffering against large, unanticipated expenditures.¹¹

To better understand some of the mechanisms through which state and federal EITCs improve economic mobility over time, it is important to examine whether and how these credits work in concert to influence short-term financial outcomes. This brief makes unique contributions to the evolving EITC research by using a large sample of LMI households to learn more about the relationship between state and federal EITCs as well as about their relationships with financial behaviors and the experience of financial and material hardship. Given that many EITC beneficiaries face a substantial risk of experiencing income volatility and financial shocks, insights gained from this brief can assist policymakers in understanding the importance of expanded EITCs and their role in promoting financial security at tax time.

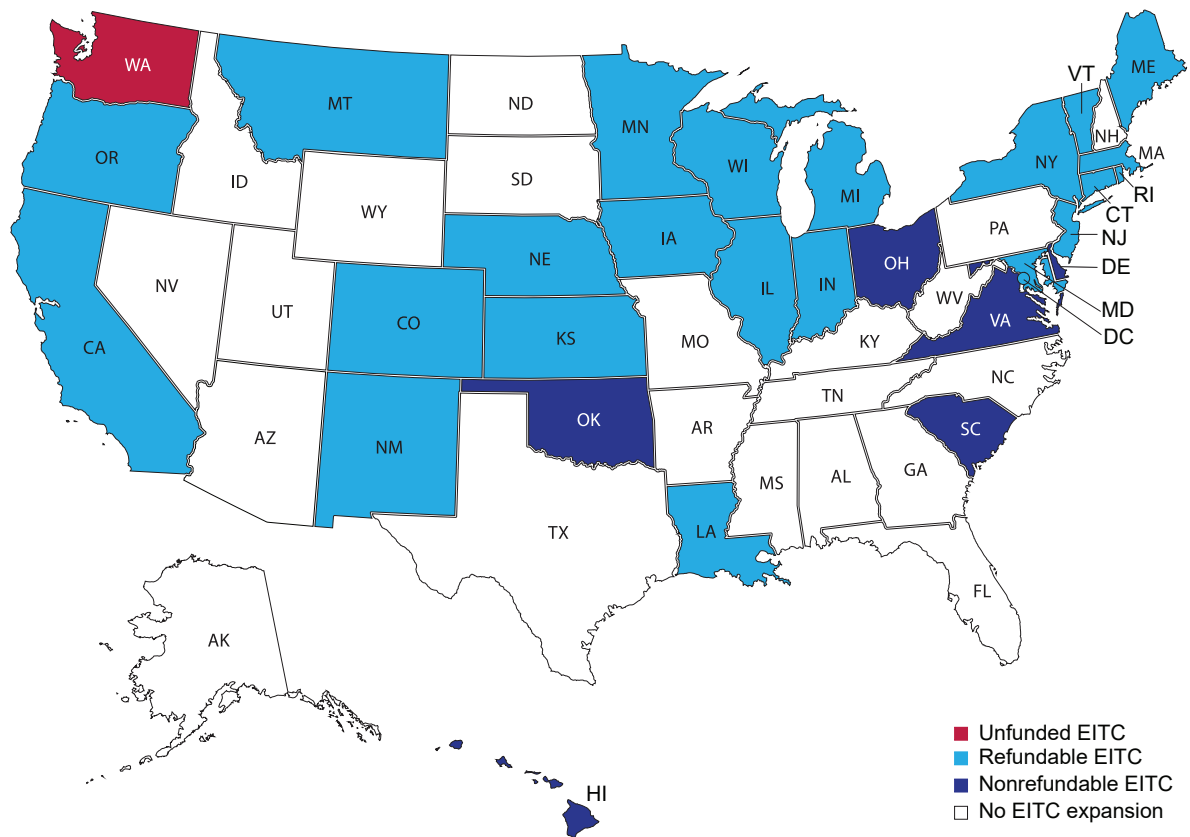


Figure 1. U.S. states with a state Earned income Tax Credit (EITC) as of January 2018. Source: Tax Credits for Workers and Their Families (n.d.).

Background

The data in this brief were collected in 2016 through the R2S Initiative, an ongoing collaboration between Washington University in St. Louis, Duke University, and Intuit, Inc. The purpose of the initiative is to test the impact of behavioral interventions that encourage LMI tax filers to save all or part of their federal tax refunds. The experiment is embedded in Intuit’s TurboTax Freedom Edition, a free tax-preparation platform available to LMI tax filers and offered as part of the IRS’ Free File Alliance.¹² Tax filers qualified for the 2016 release of the TurboTax Freedom Edition if, in 2015, they had an adjusted gross income of less than \$31,000, qualified for the EITC, or lived in a household that included someone on active duty in the U.S. military and had an adjusted gross income of less than \$61,000. Data in this brief are from the TurboTax Freedom Edition administrative records for the 2016 tax season and the Household Financial Survey (HFS). The HFS is a comprehensive survey of tax filers’ financial behaviors. Filers are invited to participate in the HFS baseline immediately after filing their taxes and to participate in the follow-up 6 months later.

All results reported in this brief were weighted, and the population weights were based on the U.S. Census Bureau’s American Community Survey for 2015.¹³ The total, weighted sample size was 19,846 for the first wave of the survey and 8,552 for the second wave of the survey. The analyses in this brief primarily focus on recipients of the federal EITC, of whom there were 6,904 in the first wave of the survey and 2,860 in the second wave of the survey.

Overview of State EITCs

In this section, we present an overview of state EITC expansions. The results reported in this section come from analyses limited to survey participants who completed the baseline of the HFS and did not file state tax returns in more than one state ($n = 17,058$; 6,887 received the federal EITC).¹⁴

As of 2018, 29 states and the District of Columbia have implemented state EITCs (see Figure 1). Four (Delaware, Ohio, Oklahoma, and Virginia) had nonrefundable credits, and Washington’s state EITC remained unenacted. The majority of state EITCs were calculated as a percentage the federal EITC, though the credits in California and Minnesota use their own criteria based on income and number of dependents.¹⁵ Table 1 outlines the specific criteria for receiving state EITCs.

The first step in our analysis was to understand the relationship between state EITC expansion and the size of the tax refund. As our data were collected in 2016, our subsequent analyses did not include the three states that opted to expand the EITC in 2017 (Hawaii, Montana, and South Carolina).

State EITCs are one policy tool states have to increase the refund amount for LMI households. Just because a state has chosen not to adopt its own EITC does not mean that policymakers in that state have not taken other steps to provide such support—for example, by offering

Table 1. State EITC Percentages, Refundability, and Recent Legislative History as of January 2018

State	Percentage of Federal Credit	Refundable?	History
California	85% of the federal credit for those earning up to \$22,300	Yes	Est. 2015. For implementation details, see Montialoux and Rothstein (2015).
Colorado	10% (contingent on state surplus)	Yes	Est. 1999. Contingent on the state having surplus revenue. Last available in 2001; available again in tax year 2015 and subsequent tax years.
Connecticut	30%	Yes	Est. 2011. Reduced from 30% to 25% in 2014, then expanded to 27.5% in 2015 and back to 30% in 2016.
Delaware	20%	No	Est. 2005.
Hawaii	20%	No	Est. 2017.
Illinois	18%	Yes	Est. 2000. Originally 5% but increased to 10% in 2013 and to 18% in 2018.
Indiana	9%	Yes	Est. 1990. Raised from 6% to 9% in 2009.
Iowa	15%	Yes	Est. 1989. Raised from 7% to 14% in 2013 and up to 15% in 2014.
Kansas	17%	Yes	Est. 1998. Temporary increase from 17% to 18% in tax years 2010-2012.
Louisiana	3.5%	Yes	Est. 2007.
Maine	5%	Yes	Est. 2000. Made refundable in 2015.
Maryland	28% refundable 50% nonrefundable	Yes No	Est. 1987, the nonrefundable credit is equal to the lesser of 50% of the federal credit or the state income-tax liability in the taxable year. If the nonrefundable credit reduces a taxpayer's liability to zero, the taxpayer is eligible to claim a refundable credit equal to 27% of the federal credit in tax year 2017, minus any precredit state tax liability. The credit increases to 28% in tax year 2018.
Massachusetts	23%	Yes	Est. 1997. Increased from 15% to 23% in August 2015.
Michigan	6%	Yes	Est. 2006. Reduced from 20% to 6% in 2011.
Minnesota	Based on income rather than the federal EITC (credit ranges from 25% to 45% of federal EITC)	Yes	Est. 1991.
Montana	3%	Yes	Est. 2017.
Nebraska	10%	Yes	Est. 2006.
New Jersey	35%	Yes	Est. 2000. Reduced from 25% to 20% in 2010, increased to 30% in 2015 and to 35% in 2016.
New Mexico	10%	Yes	Est. 2007.
New York	30%	Yes	Est. 1994.
Ohio	10% (limited to 50% of tax liability for state taxable income above \$20,000)	No	Est. 2013. Increased from 5% to 10% in 2014.
Oklahoma	5%	No	Est. 2002. Made nonrefundable in May 2016.
Oregon	8% or 11% for families with children under age 3	Yes	Est. 1997. Increased from 6% to 8% in 2014; starting tax year 2017, increased to 11% for families with children under 3.
Rhode Island	15%	Yes	Est. 1986. Reduced from 25% to 10% in 2014 but increased to 12.5% in 2015 and 15% in 2016.
South Carolina	125%	No	Est. 2017.
Vermont	32%	Yes	Est. 1988.
Virginia	20%	No	Est. 2004.
Washington	10% (not enacted)	Yes	Est. 2008. Not yet enacted (Washington has no state income tax)
Wisconsin	4% for one child 11% for two children 34% for three children	Yes Yes Yes	Est. 1989. Reduced by \$56.2 million in 2011.
District of Columbia	40%	Yes	Est. 2000.

Sources: Hathaway (2017); Tax Credits for Workers and Their Families (n.d.).

Note: EITC = Earned Income Tax Credit; Est. = established.

other credits or deductions. To better understand the relationship between a state's EITC and the overall financial support available to households from the state at tax time, we calculated the average state refund for states that had their own EITCs (hereafter, credit states) and for states that did not (non-credit states): The average state refund (excluding states without income tax) was \$165 for non-credit states; in comparison, the average was \$332, more than double, for credit states. Although state refunds can vary significantly due to other state tax credits and differences in state income tax, this difference in average refunds indicates that state EITCs very likely increase the overall size of taxpayers' yearly refund.

To further explore the relationship between state EITCs and tax refunds, we estimated the mean calculated state EITC for each state offering the credit and plotted those means against mean state refund amounts (Figure 2).¹⁶ Although differences in state EITC refundability and the presence or absence of other state tax credits complicate the relationship, it appears that there is a loose, positive association between average state EITC and average state refund.¹⁷ This provides further support for the assertion that state tax-refund size is influenced by the size of the state EITC. The relationship, taken together with the difference between credit and non-credit states in the size of the average state refund, suggests that the presence and size of a state EITC are positively associated with the overall size of the state tax refund. It further suggests that the state credit boosts the amount of money going to LMI households at tax time.

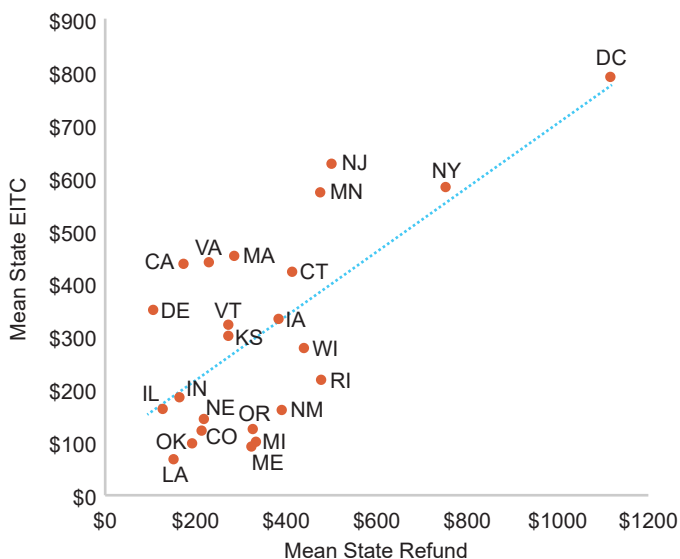


Figure 2. Weighted mean calculated state Earned Income Tax Credit (EITC) plotted against mean state refund for states with refundable EITC. Mean calculated state EITCs were estimated from data on respondents who received the federal EITC ($n = 2,706$), but those state EITCs are plotted against mean state refunds for all participants in expansion states ($n = 8,720$).

Table 2. Weighted Demographic Characteristics of Federal EITC Recipients in States With and Without State EITCs

Characteristic	Non-Credit States	Credit States
Age (in years, $n = 6,893$)	43.7	43.2
Gender ($n = 6,893$)		
Male	36.2	36.6
Female	63.8	63.4
Race ($n = 6,893$)		
White*	55.4	52.5
Black	20.7	18.1
Asian**	3.4	8.1
Hispanic	18.1	18.6
Other	2.5	2.6
Education ($n = 6,893$)		
High school diploma or less	54.6	54.7
Some college	32.0	31.4
College degree or higher	13.4	13.9
Filing status ($n = 6,893$)		
Single	37.7	40.6
Head of household	38.7	40.8
Married*	23.4	18.6
Has dependents (% yes; $n = 6,893$)	60.2	57.6
Employment status ($n = 6,880$)		
Employed full time**	50.3	44.1
Employed part time*	26.2	30.3
Not employed	23.5	25.6
Recipients by state type (%; $n = 6,893$)	49.6	50.4

Note: EITC = Earned Income Tax Credit. All results except those for age are shown as percentages. Between-group differences were determined using linear probability modeling.

* $p < .05$; ** $p < .01$.

Characteristics of EITC Recipients: Differences Between Credit and Non-Credit States

Next, we examine the financial and demographic profiles of LMI households in credit and non-credit states. The weighted percentages of respondents from credit and non-credit states were roughly even. Federal EITC recipients in non-credit states resembled credit-state counterparts with respect to age, gender, education, and number of dependents. However, recipients in credit states were significantly less likely to identify as White (52.5% vs. 55.4%) and to select one of the “married” filing-status categories (18.6% vs. 23.4%).¹⁸ They were significantly more likely to identify as Asian (8.1% vs. 3.4%). The ratio of part-time employees to full-time ones is higher in credit states than in non-credit states (Table 2).

The financial profiles of federal EITC recipients in non-credit states also closely resembled those of counterparts in credit states. Recipients in credit states had slightly lower incomes and less unsecured debt (such as credit card or payday loan debt), but their total liquid assets (including any cash or money held in checking or savings accounts) were comparable to those of recipients in non-credit states (Figure 3). No differences in these financial characteristics were statistically significant.

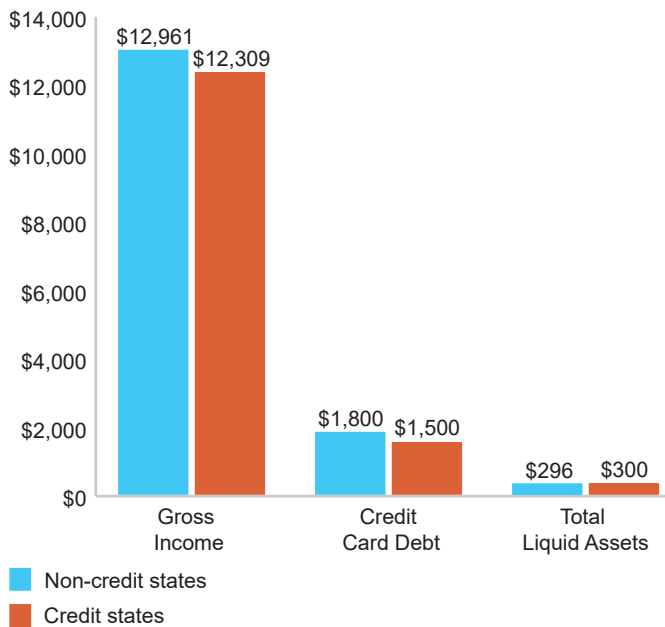


Figure 3. Weighted median gross income ($n = 6,904$), credit card debt (for 65.5% of respondents with credit cards; $n = 3,649$), and total liquid assets ($n = 6,904$) of federal Earned Income Tax Credit recipients at tax time: Credit states and non-credit states.

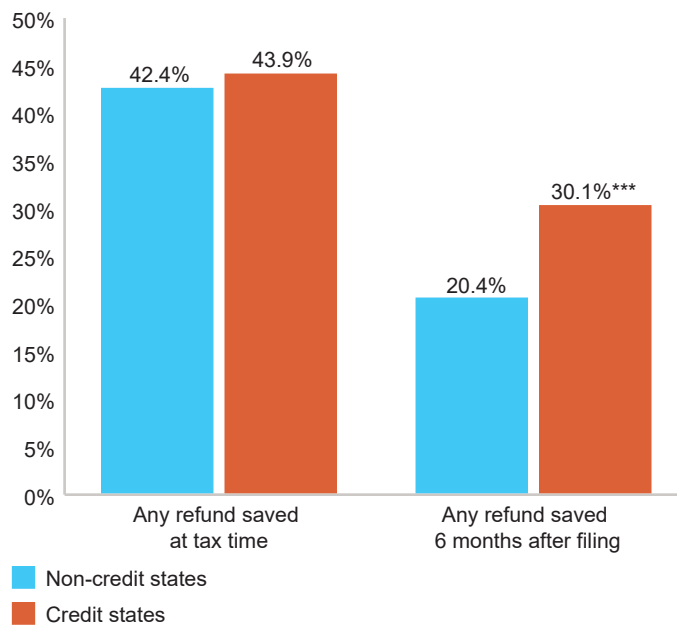


Figure 4. Weighted percentage of federal Earned Income Tax Credit (EITC) recipients who reported having any of their tax refund saved at tax time and at the 6-month follow-up survey: Credit states vs. non-credit states. Linear probability modeling was used to determine differences ($n = 2,617$).

*** $p < .001$.

Savings and Hardship in Credit and Non-Credit States

In this section, we use data from the 6-month follow-up of the HFS to examine several aspects of LMI tax filers' financial lives after they received the tax refund. The larger refund received by filers in credit states may influence a number of different aspects of their lives in

the months after receiving the tax refund, including their savings behaviors and their experience of hardship.¹⁹

The size of a filer's refund may influence how he or she uses it, and the larger average refunds in credit states may be tied to differences between credit and non-credit states in refund uses. Despite similarities in financial characteristics, federal EITC recipients in credit states were around 50% more likely than counterparts in non-credit states to report having some of their tax refund saved at the 6-month follow-up survey (30.1% vs. 20.4%). Filers in credit and non-credit states did not significantly differ in baseline savings behaviors (Figure 4). Given that average state refunds in credit states were almost twice as high as those in non-credit states, EITC recipients in credit states may find it easier to keep some of their refund in savings. If this is true, it may also be that larger state tax refunds could promote longer term savings behavior among EITC recipients.

We also examined the issue of savings in households from credit and non-credit states. Interestingly, the pattern in the period between the baseline and the 6-month follow-up was roughly stable for both groups (Figure 5). Both at tax time and 6 months later, a significantly higher percentage of households from credit states reported that they could access \$2,000 in an emergency. Although this could have something to do with intrinsic differences between the finances of households in credit states and those of households in non-credit states, it could also be due to the larger refunds received by households from credit states: Larger refunds may translate to higher rates of access to substantial emergency resources.

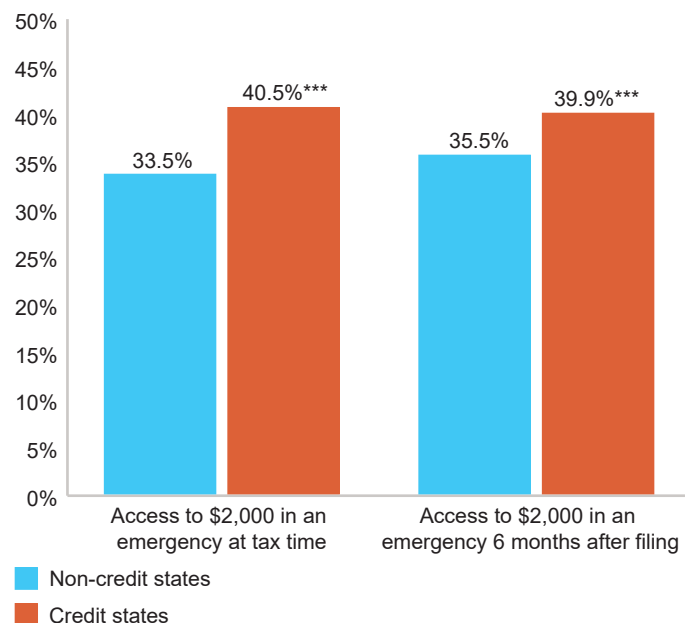


Figure 5. Weighted percentages of federal Earned Income Tax Credit recipients who reported that they had access to \$2,000 in an emergency. Access at the baseline (tax time) and follow up (6 months after filing) are shown. Linear probability modeling was used to determine differences between credit and non-credit states ($n = 2,859$).

*** $p < .001$, credit states different from non-credit states.

At the point when they filed taxes, households from states that offered an EITC were roughly similar to households from states that did not. At the 6-month follow-up, the rate of saving was higher and the percentage reporting hardship was lower among credit-state households than among households in states that offered no credit.

Emergencies arise in all sorts of households but can cause hardships in those lacking the resources to meet the challenges. Both waves of the HFS asked respondents about experience of hardship. As Figure 6 illustrates, credit and non-credit states differed modestly in the rates of hardship reported at the baseline.²⁰ Hardship was measured in three domains: material hardship (skipped rent, bills, or meals), medical hardship (skipped necessary medical care, dental care, or prescriptions), and financial hardship (overdrew accounts or had a credit card declined). At the follow-up survey, however, recipients in non-credit states were over 15% more likely to report experiencing a hardship in the period since the baseline (80.2% vs. 69.5% in credit states), and the difference was statistically significant. The pattern observed for all hardships was similar to those observed if a specific type of hardship (material, medical, or financial hardship) was examined in isolation. From this we can see that roughly equal percentages of the two groups reported hardships in the 6 months prior to receiving their tax refund (baseline) but that a

smaller percentage of filers from credit states reported experiencing hardships at the follow-up, 6 months after filing their tax return.²¹

Although the findings reported in the brief are correlational and the associations may be due to other factors that distinguish credit states from non-credit states (e.g., different laws regarding payday lending or differential access to social services), it is also possible that larger state tax refunds are associated with more tax-refund saving and ultimately less financial hardship.

Conclusion

The limited number of state EITCs and substantial variation in their generosity provide an opportunity to explore the correlates of this particular state tax credit among federal EITC recipients. More work must be done to uncover the full scope and exact nature of the relationships among state EITCs, tax-time saving, financial behaviors, and financial outcomes. This brief suggests that such research is worth pursuing.

The generosity of state EITCs appears to be associated with the overall size of state refunds, and the average refunds received by survey participants were larger in states that offered a credit than in states that did not. Federal EITC recipients in credit and non-credit states also differed on several financial indicators, including whether any of the tax refund remained in savings at the follow-up, access to emergency resources, and experiences of financial hardship. Of particular note is the positive relationship between state EITCs and refund saving as well as the negative association between state EITCs and hardship: At the point when they filed taxes, households from states that offered an EITC were roughly similar to households from states that did not. At the 6-month follow-up, the rate of saving was higher and the percentage reporting hardship was lower among credit-state households than among households in states that offered no credit.

The federal EITC has lifted millions out of poverty, and this brief, along with previous research,²² suggests that state EITCs are also valuable tools for improving the financial well-being of LMI households. Indeed, the use of the credits to augment state tax refunds may bolster the savings of LMI households and insulate them against

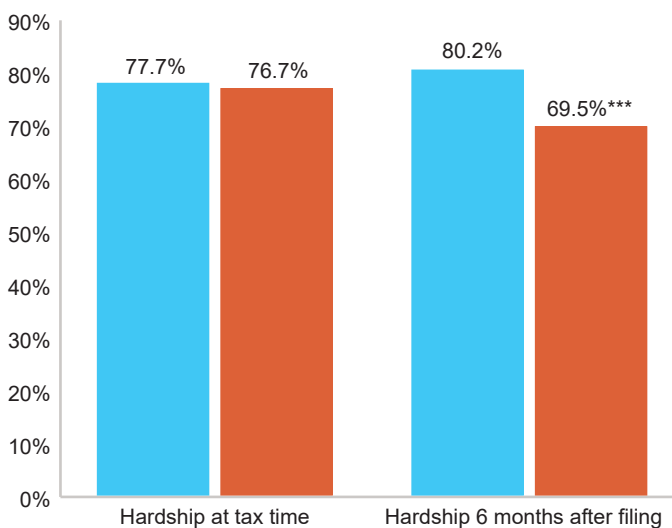


Figure 6. Weighted percentages of federal Earned Income Tax Credit recipients who reported experiencing any financial hardship. “Hardship at tax time” illustrates reported prevalence (weighted) of hardship experienced in the 6 months prior to tax time, and “Hardship 6 months after filing” illustrates reported prevalence (weighted) between the baseline and the 6-month follow-up survey. Linear probability modeling was used to determine differences between respondents in credit states and those in non-credit states ($n = 2,886$).

*** $p < .001$.

financial shocks (e.g., unexpected vehicle repair) that can lead to hardship.

At present, 21 states do not offer a state EITC. Of these, six states (Alaska, Florida, Nevada, South Dakota, Texas, and Wyoming) do not have a state income tax and two only tax income from investments (New Hampshire and Tennessee). However, three states (Georgia, North Carolina, and West Virginia) are considering state EITC legislation and seven others considered such legislation at some point in the last 3 years (Alabama, Arkansas, Kentucky, Mississippi, Missouri, North Dakota, and Utah).²³ States with a credit regularly consider legislation to alter the credit's size or its refundability, and changes are common (Table 1). None of the states that offers a state EITC is currently considering elimination of the credit.²⁴

The Recent Tax Cuts and Jobs Act did not make any changes to the federal EITC²⁵—though the Child Tax Credit was expanded under this legislation—but policymakers remain interested in the use of the EITC to address households' financial needs. For example, House Speaker Paul Ryan has indicated support for extending eligibility to childless adults and President Trump has previously proposed using the existing tax credit to give child-care spending rebates to LMI households.²⁶ Increasing the federal credit for childless adults would likely increase state credits for this demographic, though the potential effect of child care rebates is unclear.

The federal EITC continues to enjoy strong, bipartisan support, and additional states may adopt their own versions. This brief offers evidence to inform policymakers considering such expansions. Given the generally high levels of hardship and the generally low levels of observed short- and long-term saving in LMI households, policies that address both hardship and saving would do much to improve the financial situation of this population. Substantial evidence suggests that the federal EITC has reduced poverty.²⁷ This brief contributes to emerging evidence that state tax credits may also have a role to play in improving savings behaviors and mitigating the hardships faced by LMI populations. Future research should explore the possible causal link between state EITCs and financial outcomes as well as the influence of credit size on household well-being.

End Notes

1. Internal Revenue Service (2017).
2. Meyer (2010).
3. Center on Budget and Policy Priorities (2017).
4. Wisconsin Legislative Fiscal Bureau (2015).
5. Leigh (2010); Michelmore (2014).
6. Gundersen and Ziliak (2004); Lim (2009).
7. Baughman (2012).
8. Strully, Rehkopf, and Xuan (2010).
9. Romich and Weisner (2000).
10. Sykes, Križ, Edin, and Halpern-Meekin (2015).
11. Despard, Perantie, Oliphant, and Grinstein-Weiss (2015).
12. For more on the Free File program, see <https://www.irs.gov/uac/about-the-free-file-program>.
13. The most recent year for which ACS data were available was 2015.
14. The decision to restrict the analysis to tax filers who only filed returns in one state was due to the fact that our data do not capture certain measures (such as the amount of income that was earned in one state versus another) required to assess state EITC eligibility or amount for filers who filed returns in multiple states. In our sample, 13.6% of filers had multiple state returns.
15. Hathaway (2017); Tax Credits for Workers and Their Families (n.d.).
16. Although we have administrative tax measures of federal refund amount, federal EITC amount, and state refund amount, we do not have an administrative tax measure of the state EITC amount. However, using administrative tax measures of adjusted gross income, marital status, number of dependents, and federal EITC amount, we calculate the amount of state EITC received based on the state EITC rules outlined in Table 1 above.
17. This positive trend holds if Washington, DC, is excluded. The district is somewhat of an outlier and also has relatively few respondents in our sample ($n = 11$). The mean state refund for Washington, DC, was \$1,116, and the mean calculated state EITC was \$790.
18. That is, they were less likely to select “married filing jointly” or “married filing separately” as the filing status in 2016, when they completed the federal return for 2015.
19. The results reported in this section come from analyses restricted to survey respondents who received the federal EITC and completed both the baseline and 6-month follow-up of the HFS.
20. Hardship included material, medical, and financial hardships reportedly experienced in the 6 months prior to the survey. To measure material hardship, we asked the respondent whether financial constraints in that period forced him or her to skip a rent payment, a bill payment, or a meal. To measure medical hardship, we asked whether financial constraints in that period prompted him or her to skip necessary medical care or dental care or to not fill a prescription for medication. To measure financial hardship, we asked whether, because of financial constraints in the prior 6 months, the respondent overdrew a bank account or had a credit card declined.
21. These results hold when controlling for baseline hardship and an array of demographic and financial variables in a regression framework.

22. Gunderson and Ziliak (2004); Lim (2009).
23. Tax Credits for Workers and Their Families (n.d.).
24. Tax Credits for Workers and Their Families (n.d.).
25. Tax Foundation (2017); Tax Cuts and Jobs Act (2017).
26. Donaldjtrump.com (2016); Marr (2015).
27. Gunderson and Ziliak (2004); Lim (2009); Meyer (2010).

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Disclaimer

Statistical compilations disclosed in this document relate directly to the bona fide research of, and public policy discussions concerning savings behavior as it relates to tax compliance. Compilations are anonymous and do not disclose information containing data from fewer than 10 tax returns or reflect taxpayer-level data with the prior explicit consent from taxpayers. Compilations follow Intuit's protocols to help ensure the privacy and confidentiality of customer tax data.

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