Federal Earned Income Tax Credit Expansion in the States

The Impact of the American Families Plan

A permanent expansion of the federal Earned Income Tax Credit (EITC) as President Biden has proposed in his American Families Plan could also strengthen state-level EITC benefits and further boost economic security for lower-wage earners.

The American Rescue Plan Act enhanced the federal EITC through tax year 2021 by increasing the credit for low-wage workers without children in the home and by making it available to more adults through expansions of the age and income limits. The Biden administration's proposed American Families Plan would make these changes permanent. The Senate budget reconciliation package also seeks to extend the expansion of the federal EITC.

If made permanent, these enhancements would provide a $12.4 billion boost to families in 2022. The enhancements would have a particularly meaningful impact on the bottom 20 percent of eligible households who would receive more than three-fourths of the total benefit. Forty-one percent of households in the bottom income group would benefit, receiving an average income boost of 6.3 percent, or $740.

Without further action by Congress, the EITC will revert to a credit where workers without children in the home under 25 and over 64 receive no benefit and where workers ages 25 to 64 receive one-third of the maximum amount available to them in 2021 under the enhanced credit. Fortunately, the proposed American Families Plan would ensure that young and older workers (19 to 24, and 65 and older) remain eligible while boosting the maximum credit from roughly $540 to $1,525 for workers without children in the home making up to nearly $22,000 in tax year 2022.

Thirty states plus the District of Columbia offer state-level EITCs, many of which are a direct percentage of the federal credit. A federal EITC expansion would bolster the effects of state-level EITCs across the country. Table 1 below shows the impact of the EITC component of the American Families Plan if enacted and states coupled to these changes in 2022. Some current state EITC beneficiaries—adults without children in the home—would benefit, and a number of new beneficiaries would be added in most states due to age enhancements.

A growing number of states (now seven) have lowered their state-level age eligibility to include young workers. California, Maine, Maryland, New Mexico, and New Jersey include 18- to 24-year-old workers without children in the home. Colorado recently made the change to include 19- to 24-year-old workers and Minnesota extends their eligibility to those 21 to 24 years of age. In a recent report, ITEP estimated the impact of both state-level age expansions for younger and older adults and the impact of bringing existing credits for that population up to 100 percent of the federal credit.[1]

1. Davis, Aidan. "Expanding State EITCs: Age Enhancements and a Credit Increase for Workers without Children in the Home," February 18, 2020. https://itep.org/expanding-state-eitcs-age-enhancements/

State rules on federal conformity are a major factor in how and whether states will adopt the federal EITC enhancements. To date, twenty-two states and the District of Columbia adopt rolling conformity. This means they implement changes to the Internal Revenue Code on an ongoing basis (with some exceptions). For many of these states, an enhanced federal EITC should be immediately reflected in their own state EITCs as well. The other 21 states with income taxes adopt static conformity, which means that they implement changes to the Internal Revenue Code as of a specific date and must decide whether to update their conformity to the new federal EITC rules through subsequent legislation.

Federal lawmakers have made major strides in improving the lives of workers without children in the home through an enhanced and strengthened federal EITC, temporarily for now and potentially on a permanent basis in the near future. The opportunity is ripe for states to couple to those changes and to continue to seek more permanent improvements to their state-level EITCs.

TABLE 1

Impact of Federal American Families Plan in 2022, States with Exisiting EITCs

STATE	STATE BENEFIT/COST	AVERAGE ADDITIONAL BENEFIT INCREASE FOR THOSE BENEFITTING	ADULT BENEFICIARIES	STATE EITC	
				% OF FEDERAL	REFUNDABLE
California[i,ii,iii,iv]	See footnote				X
Colorado[ii, vii]	$34,859,000	$126	301,800	20%	X
Connecticut	$33,194,000	$193	192,400	30.5%	X
Delaware[v]	$2,516,000	$113	22,400	20%	
District of Columbia[vi]	$23,623,000	$713	33,500	70%/ 100%	X
Hawaii	$5,957,000	$128	48,700	20%	
Illinois	$78,510,000	$136	615,000	18%	X
Indiana	$25,617,000	$69	413,200	10%	X
Iowa	$13,831,000	$101	145,600	15%	X
Kansas	$21,490,000	$135	174,700	17%	X
Louisiana	$9,583,000	$35	309,700	5%	X
Maine[iii, vi]	$14,852,000	$173	95,400	12%/ 25%	X
Maryland[ii, iii]	$92,152,000	$302	317,000	50%	X
Massachusetts	$55,623,000	$209	274,700	30%	X
Michigan	$22,385,000	$42	565,200	6%	X
Minnesota[vii]	$840,000	$121	10,500	37%+	X
Missouri	$4,777,000	$39	123,100	10%	
Montana	$1,249,000	$22	62,400	3%	X
Nebraska	$8,705,000	$81	115,600	10%	X
New Jersey[iii, iv]	$104,972,000	$266	418,500	40%	X
New Mexico[ii, iii, viii]	$17,798,000	$130	147,300	20%	X
New York	$219,362,000	$220	1,068,300	30%	X
Ohio[ix]	See footnote			30%	
Oklahoma	$6,556,000	$38	198,000	5%	X
Oregon[ii, x]	$16,081,000	$71	254,500	9%	X
Rhode Island	$5,468,000	$118	47,400	15%	X
South Carolina[ix]	See footnote			104%	
Vermont	$8,755,000	$308	33,100	36%	X
Virginia	$18,247,000	$123	148,000	20%	
Washington[i, ii]	See footnote				X
Wisconsin[xi]	$8,530,000	$35	278,400	34% / 11%/ 4%	X

FOOTNOTES:

i. Not included in the analysis because state EITC is modeled after the federal EITC but is not a direct percentage of the federal credit.
ii. State has expanded EITC to ITIN filers.
iii. State has permanently lowered age eligibility to include 18-24 year olds.
iv. State has permanently increased age eligibility to include those 65 and older.
v. Delaware now offers the option of either a 20 percent non-refundable EITC or a refundable credit equal to 4.5 percent of the federal credit.
vi. The District of Columbia allows 100 percent of the federal credit for workers without children in the home. Maine provides a 25% credit to this population.
vii. State has permanently lowered age eligibility to include 19-24 year olds (CO) or 21-24 year olds (MN). Here we are modeling lowering the age to 19 and 20 year olds in Minnesota. Minnesota's credit is structured as a percentage of income rather than a direct percent of the federal credit.
viii. Modeling the 2022 impact of New Mexico's credit. The credit is set to increase to 25 percent in 2023.
ix. Given the nonrefundable nature of the state's EITC and tax provisions in the state that either reduce taxable income or negate tax liability for low- and moderate-income taxpayers, childless workers are not impacted by the expansion.
x. Oregon's EITC is 12% of the federal for families with one or more children less than three years old.
xi. Wisconsin's EITC is 34% for families with 3 children, 11% for families with 2 children, and 4% for families with 1 child. Wisconsin currently does not offer an EITC to workers without children in the home. Here we assume that the state applies a credit at 4% of the federal.

SOURCE: Institute on Taxation and Economic Policy tax model, August 2021