**How do state earned income tax credits work?**

States typically structure their earned income tax credit (EITC) as a percentage of the federal EITC. In 2015, state EITCs varied from 3.5 to 40 percent of the federal credit. Some state EITCs are not refundable, which make them much less valuable to very low-income families who rarely owe income tax.

Twenty-six states and the District of Columbia had their own earned income tax credit in 2015, although Colorado's credit was not funded in that year and Washington's credit has never been implemented or funded. Washington is the only state without an income tax to have an earned income tax credit.

All but one state set their credits as a percentage of the federal credit, the exception being Minnesota which calculates its credit as a percentage of income (table 1). State credits varied from 3.5 percent of the federal EITC in Louisiana and North Carolina to 40 percent of the federal credit in DC. California's credit is 85 percent of the federal credit but is based on a smaller earnings range than the federal EITC. Setting state credits as a percentage of the federal credit avoids added complexity for families filing a state income tax return. After filling out a federal tax return, families can use that information to calculate their state credit on their state tax return.

The state EITC is refundable in all but three states (Delaware, Ohio, and Virginia). A non-refundable EITC can only offset state income taxes but no other state-level taxes paid by low-income working families.

TABLE 1

## Description of State Earned Income Tax Credits

2015

| State | Year enacted | Refundable | Percentage of federal EITC |
|---|---|---|---|
| California | 2015 | Yes | 85 percent of the federal credit, up to half of the federal phase-in |
| Colorado | 1999 (replaced)<br>2013 (but not yet funded) | | 10 |
| Connecticut | 2011 | Yes | 27.5, 30 in 2016 |
| Delaware | 2005 | No | 20 |
| District of Columbia | 2000 | Yes | 40 |
| Illinois | 2000 | Yes | 10 |
| Indiana | 1999 | Yes | 9 |
| Iowa | 1989 | Yes | 15 |
| Kansas | 1998 | Yes | 17 |
| Louisiana | 2007 | Yes | 3.5 |
| Maine | 2000 | Yes | 5 |
| Maryland | 1987 | Yes | Refundable: 25; nonrefundable 50 |
| Massachusetts | 1997 | Yes | 23 |
| Michigan | 2006 | Yes | 6 |
| Minnesota | 1991 | Yes | Varies |
| Nebraska | 2006 | Yes | 10 |
| New Jersey | 2000 | Yes | 30 |
| New Mexico | 2007 | Yes | 10 |
| New York | 1994 | Yes | 30 |
| Ohio | 2013 | No | 10, limited to 50 percent of liability for Ohio Taxable Income over $20,000 |
| Oklahoma | 2002 | Yes | 5 |
| Oregon | 1997 | Yes | 8 |
| Rhode Island | 1986 | Yes | 12.5 |
| Vermont | 1988 | Yes | 32 |
| Virginia | 2004 | No | 20 |
| Washington | 2008 (but not yet implemented) | Yes | 10 (or $50, whichever is greater) |
| Wisconsin | 1989 | Yes | 4 for families with one child; 11 for families with two children; 34 for families with three children |

**Source:** Tax Credits for Working Families.

## DATA SOURCES

Tax Credits for Working Families. 2015. "Earned Income Tax Credit (EITC)." Accessed October 12, 2015.

## FURTHER READING

Maag, Elaine. 2015. "Investing in Work by Reforming the Earned Income Tax Credit." Washington, DC: Urban Institute.

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