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State Earned Income Tax Credits

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The federal earned income tax credit (EITC) was established in 1975 as part of the individual income tax to offset payroll taxes for low-income working families. After several expansions, the refundable tax credit is now the largest federal cash assistance program for low-income families.

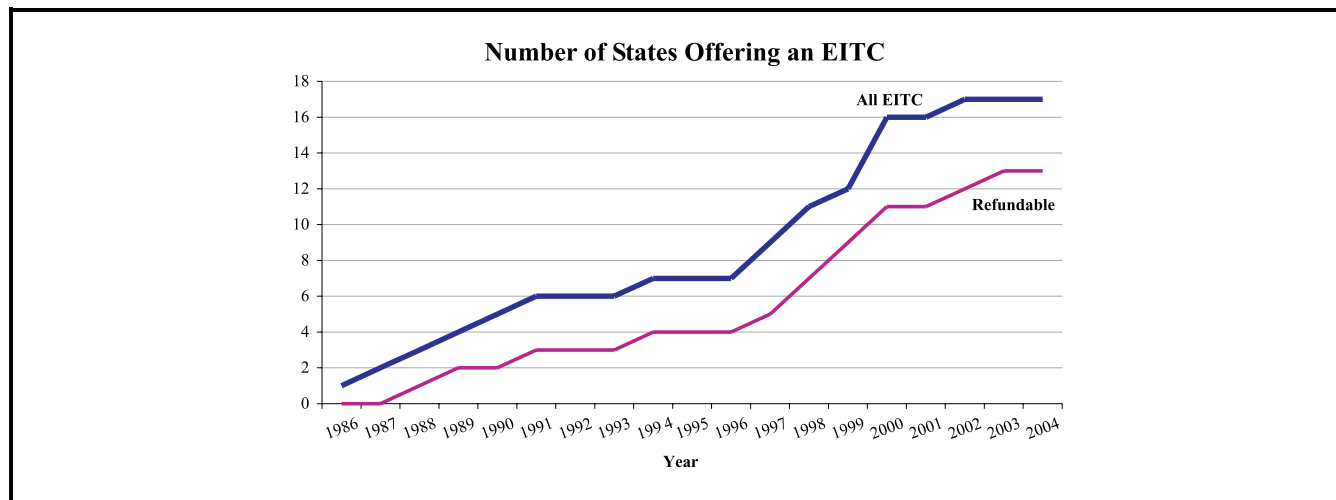
State income and sales taxes are more regressive than federal taxes, and many households that are exempt from federal income tax are subject to state income taxes. In fact, the tax filing threshold is below the poverty line in many states. To mitigate these tax burdens, a growing number of states have adopted their own EITCs.

In 1986, Rhode Island established a nonrefundable EITC equal to a percentage of the federal credit. Since then, 15 more states and the District of Columbia have created their own credits. Eligibility for each of these credits is based on the federal EITC; every state except Minnesota determines its credit as a fraction of the

federal one. As a result, state EITCs are relatively simple to calculate.

The size and the structure of the credits varies across states. Thirteen state EITCs are refundable. The credits range from 5 percent of the federal credit in Oklahoma, Maine, and Oregon to a maximum of 43 percent in Wisconsin. (The maximum federal credit in 2004 is \$4,300 for a household with two or more children.) Minnesota and Wisconsin vary the share of the federal credit based on the number of children. Maryland offers a nonrefundable credit equal to half of the federal credit, but only 32 percent of its credit is refundable.

The number of states offering the EITC has grown substantially, and the generosity of state credits has also grown. Between 1997 and 2000, the number of states offering credits doubled. Almost all of the states with credits have expanded them or restructured them since their inception. No new credits have been introduced during the state fiscal crisis of the past few years, and Colorado, which only offers its EITC during years of budget surplus, suspended the credit in 2002 and 2003. No states have repealed their EITC, however, and many are considering creating their own credits.



Sources:

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