

## The State of State (and Local) Tax Policy

How do state earned income tax credits work?

SPECIFIC STATE AND LOCAL TAXES

6/9

### Q. How do state earned income tax credits work?

**A. In 2018, 28 states and the District of Columbia offered their own earned income tax credit (EITC). States typically set their credits as a percentage of the federal EITC. However, unlike the federal credit, some state EITCs are not refundable, which makes them much less valuable to very low income families who rarely owe income tax.**

Twenty-eight states and DC offered their own earned income tax credit (EITC) in 2018. This does not include Washington's credit which, while a part of the state's tax code, has never been implemented or funded. If Washington did fund its credit, it would be the only state without an income tax to offer an EITC.

In all but six states—Delaware, Hawaii, Ohio, Oklahoma, South Carolina, and Virginia—state EITCs, like the federal credit, are refundable. That is, if a refundable credit exceeds a taxpayer's state income tax, the taxpayer receives the excess amount as a payment from the state. A nonrefundable EITC can only offset state income taxes, so the benefit is limited for low-income families with little taxable income.

All states but one 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 as a percentage of the federal credit ranged from 3 percent in Montana to a nonrefundable 125 percent in South Carolina. The highest refundable credit is in the District of Columbia (40 percent).

California's credit is 85 percent of the federal credit but is based on a smaller earnings range than the federal EITC. In 2018, the state will expand the income range and allow previously ineligible self-employed workers to qualify for the credit.

Wisconsin's EITC depends on the number of qualified children: 4 percent of the federal credit for filers with one child, 11 percent for filers with two children, and 34 percent for filers with three or more children. A filer in Wisconsin without children is not eligible for the state EITC.

The District of Columbia also offers 100 percent of the federal EITC to earners without qualifying children and expanded the range of eligible income beyond the federal limits. The maximum federal credit for earners without a qualifying child is far lower (\$519) than the max credit for earners with at least one child (\$3,461), and the eligible income range is also far smaller for earners without qualifying children.

In 2018, Maryland passed legislation that extends eligibility for the state's credit to workers without a qualifying child who are between 21 and 24 years old (workers without qualifying children must be between 25 and 65 years old to claim the federal credit).

# The State of State (and Local) Tax Policy

## How do state earned income tax credits work?

TABLE 1

Description of State Earned Income Tax Credits  
2018



State	Year enacted	Refundable	Percentage of federal EITC
California	2015	Yes	85 percent (applies to a smaller range of eligible income than the federal credit)
Colorado	2015		10
Connecticut	2011	Yes	27.5
Delaware	2005	No	20
District of Columbia	2000	Yes	40 (100 for childless workers)
Hawaii	2018	No	20
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: 27; nonrefundable: 50
Massachusetts	1997	Yes	23
Michigan	2006	Yes	6
Minnesota	1991	Yes	Calculated as a percentage of income
Montana	2020	Yes	3
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	No	5
Oregon	1997	Yes	8
Rhode Island	1986	Yes	12.5
South Carolina	2018	No	125
Vermont	1988	Yes	32
Virginia	2004	No	20
Washington	2008 (never 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 or more children

Source: Tax Credits for Workers and Their Families, "State Tax Credits."

# The State of State (and Local) Tax Policy

How do state earned income tax credits work?

---

## Data Sources

Tax Credits for Workers and Their Families. "[State Tax Credits](#)." Accessed June 1, 2018.

## Further Reading

Maag, Elaine. 2015a. "[Earned Income Tax Credit in the United States](#)." *Journal of Social Security Law* 22 (1): 20–30.

———. 2015b. "[Federal and State Income Taxes and Their Role in the Social Safety Net](#)." Washington, DC: Urban Institute.

———. 2015c. "[Investing in Work by Reforming the Earned Income Tax Credit](#)." Washington, DC: Urban Institute.

Rueben, Kim, Frank Sammartino, and Kirk Stark. 2017. "[Upward Mobility and State-Level EITCs: Evaluating California's Earned Income Tax Credit](#)." *Tax Law Review* 70: 477–511.

Urban Institute. "[State Earned Income Tax Credits](#)."