

The State of State (and Local) Tax Policy

SPECIFIC STATE AND LOCAL TAXES

How do state earned income credits work?

Q. How do state earned income tax credits work?

A. In 2020, 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 2020. 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 62.5 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 (up to \$30,000 if there is one or more qualifying children) than the federal EITC ([up to \\$56,844](#) if married with three or more qualifying children).

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 (\$538) than the max credit for earners with at least one child (\$3,584), and the eligible income range is also far smaller for earners without qualifying children.

[California, Maine, and Maryland](#) are the first states to make residents without qualifying children ages 18 to 24 eligible for their state credit. (These filers are not eligible for the federal credit, which can only be claimed by childless workers ages 25 to 64.) Minnesota allows such filers ages 21 to 24 to claim their credit.

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TABLE 1

Description of State Earned Income Tax Credits
2020

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	Yes	10
Connecticut	2011	Yes	23
Delaware	2005	No	20
District of Columbia	2000	Yes	40 (100 for childless workers)
Hawaii	2018	No	20
Illinois	2000	Yes	18
Indiana	1999	Yes	9
Iowa	1989	Yes	15
Kansas	1998	Yes	17
Louisiana	2007	Yes	5
Maine	2000	Yes	12 (25 for childless workers)
Maryland	1987	Yes	Refundable: 28; nonrefundable: 50
Massachusetts	1997	Yes	30
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	37
New Mexico	2007	Yes	17
New York	1994	Yes	30
Ohio	2013	No	30, limited to 50 percent of liability for Ohio taxable income over \$20,000
Oklahoma	2002	No	5
Oregon	1997	Yes	9
Rhode Island	1986	Yes	15
South Carolina	2018	No	62.5
Vermont	1988	Yes	36
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

Sources: TPC analysis of state department of revenue websites; Tax Credits for Workers and Their Families, "State Tax Credits," 2020.

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Data Sources

Tax Credits for Workers and Their Families. "[State Tax Credits](#)." Accessed March 9, 2020.

Further Reading

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