REPORT

Taxing the Poor

State Income Tax Policies Make a Big Difference to Working Families

Seth Hartig | Curtis Skinner | Mercedes Ekono

November 2014

NCCP

National Center for Children in Poverty
Mailman School of Public Health
Columbia University

The National Center for Children in Poverty (NCCP) is dedicated to promoting the economic security, health, and well-being of America's low-income families and children. Using research to inform policy and practice, NCCP seeks to advance family-oriented solutions and the strategic use of public resources at the state and national levels to ensure positive outcomes for the next generation. Founded in 1989 as a division of the Mailman School of Public Health at Columbia University, NCCP is a nonpartisan, public interest research organization.

TAXING THE POOR

State Income Tax Policies Make a Big Difference to Working Families

ACKNOWLEDGMENTS

This publication was made possible by the generous support of the Annie E. Casey Foundation. The authors additionally thank Renée Wilson-Simmons for reading and commenting on the draft and Telly Valdellon for production support.

SUGGESTED CITATION

Hartig, S., Skinner, C. & Ekono, M. (2014). *Taxing the Poor: State Income Tax Policies Make a Big Difference to Working Families*. Report. New York: National Center for Children in Poverty, Mailman School of Public Health, Columbia University.

Copyright © 2014 by the National Center for Children in Poverty

Taxing the Poor

State Income Tax Policies Make a Big Difference to Working Families

Seth Hartig | Curtis Skinner | Mercedes Ekono

November 2014

In his 2013 State of the Union address, President Obama called for policy change to ensure that "no one who works full-time should have to live in poverty."[1] However, a new NCCP analysis of state tax policy finds that a significant number of states continue to push the working poor deeper into poverty by imposing income tax liabilities on poverty-level earnings – liabilities that in some states reach hundreds of dollars. With Census-determined poverty thresholds set well below what families realistically need to make ends meet, any tax liability is very burdensome for poor families. Recognizing this, a growing number of states are following the federal government's lead by: (1) adopting tax codes that set the threshold for incurring any income tax liability at a level well above the federal poverty threshold, and (2) using refundable income tax credits – primarily state Earned Income Tax Credits (EITCs) – to provide a financial boost to low-income families. In contrast to states that tax the poor, these states provide income supplements to poor families that can reach almost two thousand dollars. Given the broad bipartisan support for the EITC and the credit's proven effectiveness in strengthening the economic security of working families, state governments should adopt or expand EITCs and other tax credits for low-income families and revise tax codes to eliminate the possibility that low-income families incur any state income tax liability.

Methodology

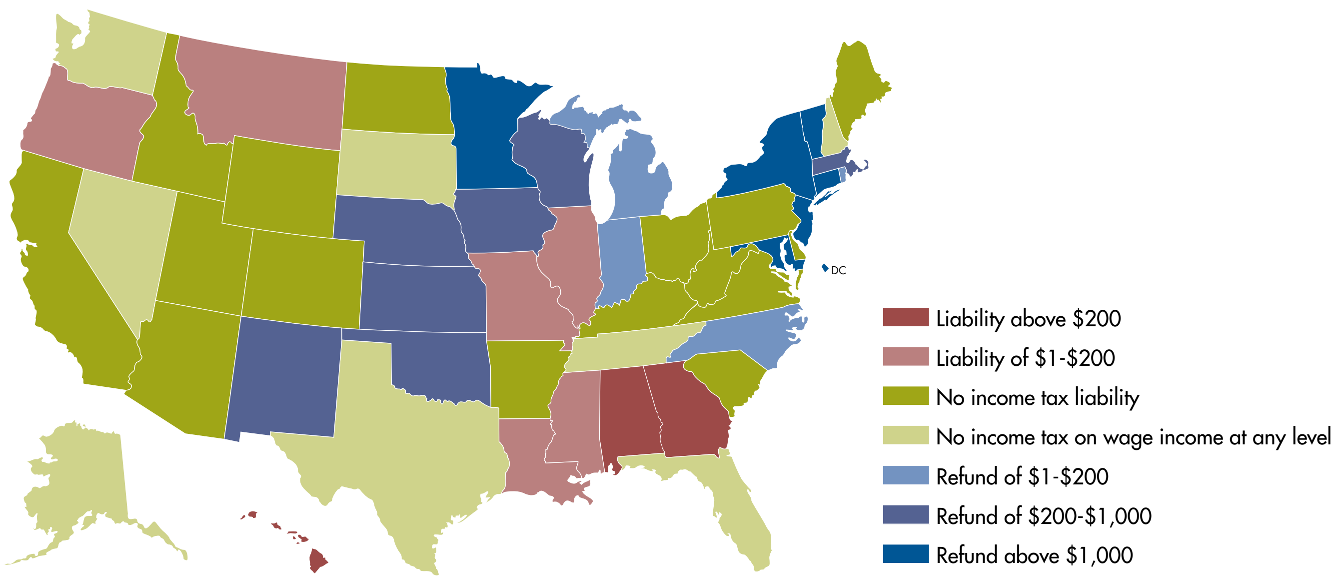
NCCP calculates state income tax liabilities using a methodology developed by the Center on Budget and Policy Priorities in a series of reports, the last of which was published in 2012.[2] Consistent with those reports, we calculate income tax liability for two representative families – the first a single-parent family with two children and the second a two-parent family, also with two children. We assume that the couple in the two-parent family is married and filing jointly, and that each family is making an income equivalent to the federally determined poverty threshold, calculated by the U.S. Census Bureau.[3] For a family of four with two children, this threshold was $23,624 in 2013; for a family of three with two children, the threshold was $18,769.[4]

Additionally, we assume that the two children in these families are 4 years old and 11 years old (with only the older child enrolled in school full time) and that the couple filing the joint return includes only one income earner. We include the value of state Earned Income Tax Credits (EITCs) and other statewide tax credits for which all working families with children at poverty-level income are eligible. We do not consider taxes or credits that only apply to specific filers, such as credits to offset investment losses, rent, or property taxes, or credits that disqualify filers who received certain income supports, because such costs are not universal across all working families. For the same reason, we do not consider the Child and Dependent Care Tax Credit (CDCTC), as doing so would assume child and/or dependent care expenses that are not universal.

State Income Tax Policies for the Poor Vary Widely

Table 1 and the accompanying maps compare the income tax burdens or refunds across states that are incurred by families of three and families of four living at the federally defined poverty threshold, and demonstrate enormous variation across states in the tax burden imposed on poor families. Notably, some states provide refundable tax credits modeled on federal income supplements to help lift these families out of poverty, including the Earned Income Tax Credit (EITC) and the Child Tax Credit. Other states impose significant income taxes on families in poverty, countering federal efforts to make work pay through progressive tax policy.

Map 1: **State income tax on a family of three with two children, for an income at the poverty threshold (2013)**



Map 2: **State income tax on a family of four with two children, for an income at the poverty threshold (2013)**

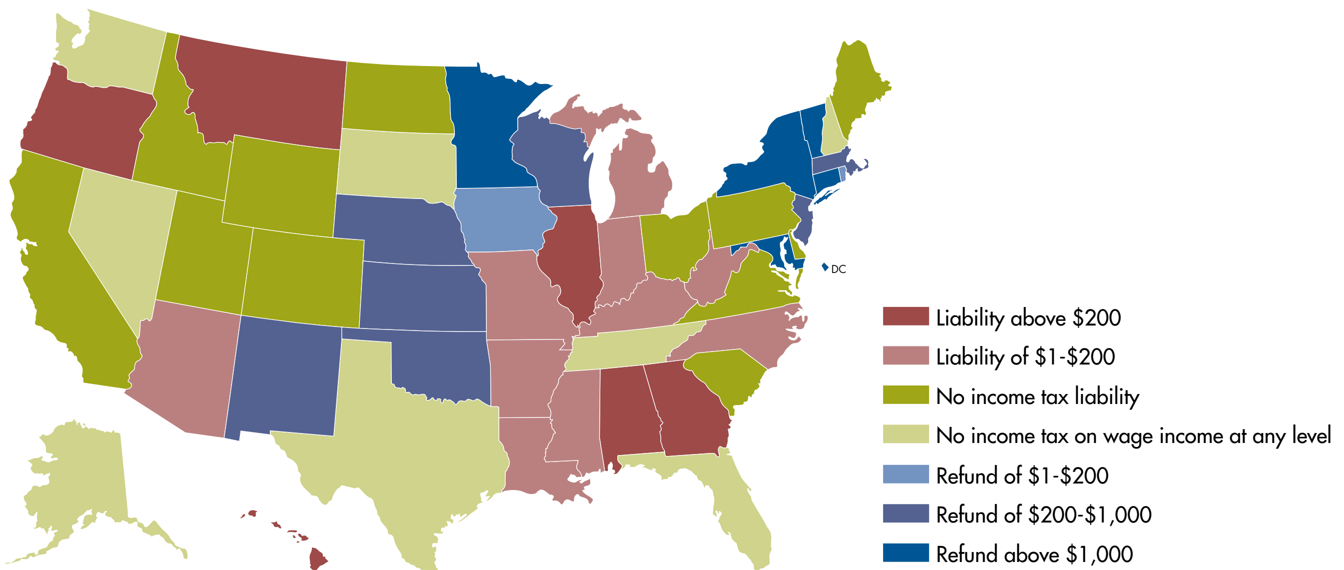


Table 1: **State and District of Columbia income tax liabilities at the poverty level (2013)[5]**

State income tax burden on family of 3 with 2 children		State income tax burden on family of 4 with 2 children	
State	**Tax burden ($)**	**State**	**Tax burden ($)**
ALABAMA	413	ALABAMA	588
HAWAII	272	HAWAII	317
GEORGIA	212	MONTANA	240
MONTANA	174	ILLINOIS	240
MISSISSIPPI	131	OREGON	230
ILLINOIS	112	GEORGIA	202
MISSOURI	89	INDIANA	196
LOUISIANA	81	MISSISSIPPI	121
OREGON	81	MISSOURI	120
ARIZONA	0	KENTUCKY	97
ARKANSAS	0	ARIZONA	73
CALIFORNIA	0	ARKANSAS	72
COLORADO	0	WEST VIRGINIA	53
DELAWARE	0	LOUISIANA	46
IDAHO	0	NORTH CAROLINA	23
KENTUCKY	0	MICHIGAN	20
MAINE	0	CALIFORNIA	0
NORTH DAKOTA	0	COLORADO	0
OHIO	0	DELAWARE	0
PENNSYLVANIA	0	IDAHO	0
SOUTH CAROLINA	0	MAINE	0
UTAH	0	NORTH DAKOTA	0
VIRGINIA	0	OHIO	0
WEST VIRGINIA	0	PENNSYLVANIA	0
MICHIGAN	-13	SOUTH CAROLINA	0
NORTH CAROLINA	-17	UTAH	0
INDIANA	-26	VIRGINIA	0
RHODE ISLAND	-192	IOWA	-126
OKLAHOMA	-256	RHODE ISLAND	-195
WISCONSIN	-349	OKLAHOMA	-261
IOWA	-412	WISCONSIN	-412
NEBRASKA	-511	MASSACHUSETTS	-487
NEW MEXICO	-561	NEBRASKA	-521
MASSACHUSETTS	-621	NEW MEXICO	-521
KANSAS	-741	KANSAS	-672
NEW JERSEY	-1,022	NEW JERSEY	-782
MARYLAND	-1,037	MARYLAND	-1,010
CONNECTICUT	-1,278	CONNECTICUT	-1,303
MINNESOTA	-1,343	DISTRICT OF COLUMBIA	-1,515
VERMONT	-1,635	VERMONT	-1,668
DISTRICT OF COLUMBIA	-1,725	MINNESOTA	-1,879
NEW YORK	-1,954	NEW YORK	-1,975
U.S. (federal return)	**-7,213**	**U.S. (federal return)**	**-7,110**

Note: Negative values indicate income tax refunds.

Source: NCCP analysis of state and federal income tax regulations. Please access NCCP's *Fifty State Policy Tracker* web-based tool at http://www.nccp.org/tools/policy/ for annually updated information on state tax policy and income/work supports.

In all, sixteen states imposed tax burdens on families of four living at the poverty threshold. In six of the states – Alabama, Georgia, Hawaii, Illinois, Montana, and Oregon – the tax burdens for these families exceeded $200. In contrast, fifteen states gave families of four with earnings at the poverty threshold income supplements, primarily by means of state Earned Income Tax Credits (see below). Thirteen of the states provided supplements exceeding $200 to these families and six – Maryland, Connecticut, the District of Columbia, Vermont, Minnesota, and New York – provided supplements exceeding $1,000.

A smaller number of states collected income tax from single-parent families (who have a lower poverty threshold). Nine states imposed tax burdens on these families, with three of those states – Alabama, Georgia, and Hawaii – taxing at a level exceeding $200. Conversely, eighteen states gave these poor, single-parent families income supplements instead: fourteen of these states provided supplements exceeding $200 and seven gave their families more than $1,000. At opposite poles, New York State gave families living at the poverty threshold nearly $2,000 in supplementary income, while living at poverty cost families upwards of $400 in income tax in Alabama.

Impact of the Federal Earned Income Tax Credit

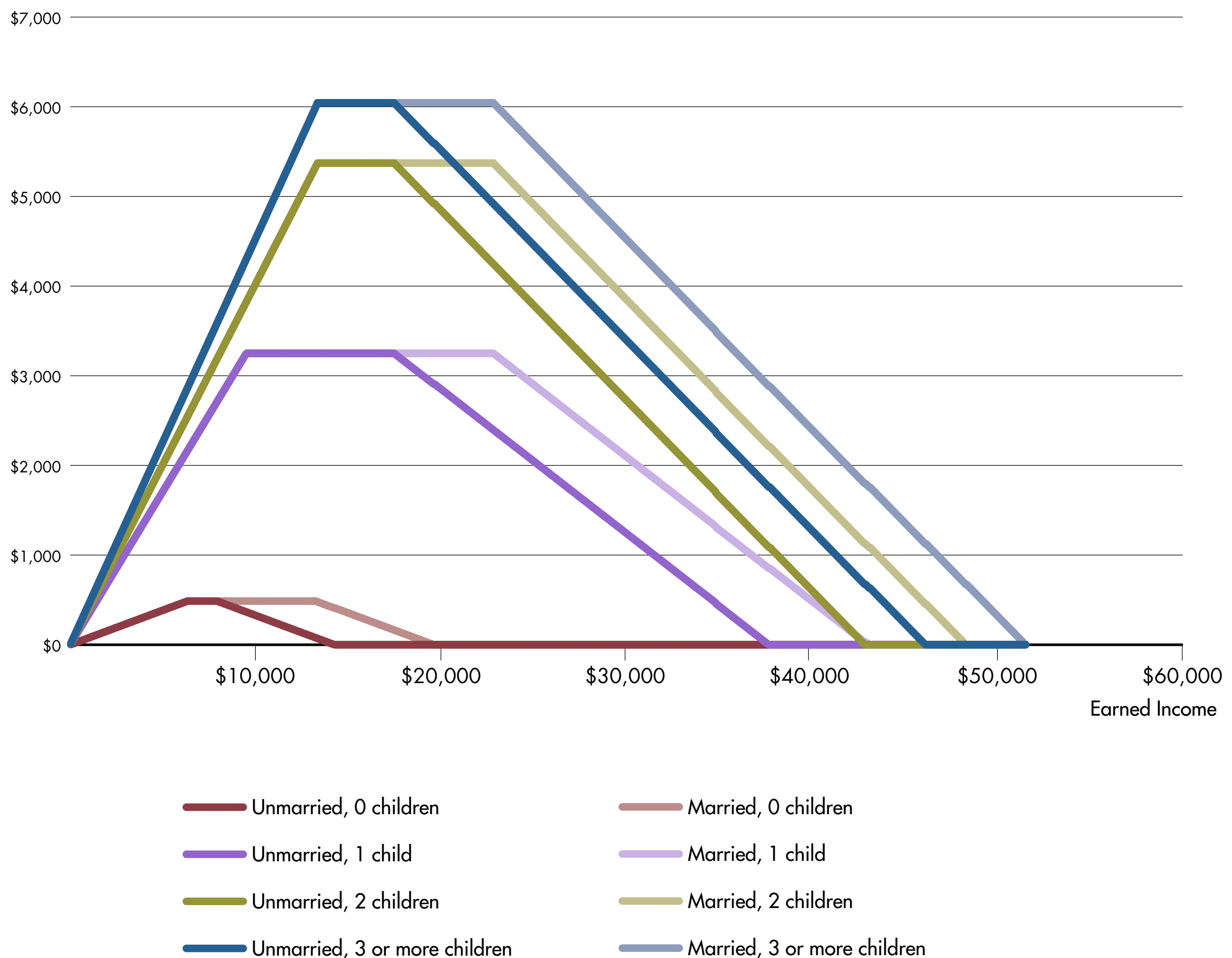
Along with the income tax liabilities or refunds for each state, the last row of Table 1 shows the income supplements that these families of three and four living at the poverty threshold would have received from the refundable federal EITC and the Child Tax Credit in 2013. The contrast between the federal refund and the liabilities imposed by states that tax the poor is striking. While all income tax credits available to low-income families reduce the tax burden faced by these families, refundable tax credits, which allow families to keep the difference between the value of the credit and any tax liability, play a critical role in anti-poverty policy in the United States by providing an income supplement to help families meet urgent needs.

The most important federal tax-based supplements for families living at the poverty line were the Child Tax Credit, which provided a refund of up to $1,000 for each child living low- to middle-income families in 2013,[6] and the EITC, which provided refunds of up to $6,044 to low-income taxpayers that year (see accompanying box). Numerous studies have demonstrated that the federal EITC substantially reduces poverty (especially among children),[7] improves child outcomes,[8] and encourages work.[9]

The Federal Earned Income Tax Credit (EITC)

The federal Earned Income Tax Credit (EITC), introduced under the Ford Administration in 1975 and significantly expanded since, augments the incomes of low- and moderate-income families with work earnings. By design, the EITC seeks to reduce the possible work disincentive of the "cliff effect" – a small increase in work earnings that triggers a sharp cut in a public benefit – observed in some other anti-poverty programs.[10] Instead, as the accompanying chart shows, the EITC is designed to ensure that it always "pays" to work more. The credit phases in slowly to a maximum that is sustained over a broad range of earnings ($13,400 to $22,900 for married taxpayers filing jointly with two or three children in 2013), and then phases out gradually (falling by 21 cents for each additional dollar earned for families with two or three children). These sophisticated design features intended to encourage work have led to broad bipartisan support for the EITC.[11]

Federal EITC by earned income level and family structure (2013)



Source: NCCP analysis of federal income tax regulations.

States with Earned Income Tax Credits

Recognizing the federal EITC program's success in helping low-income, working families, a growing number of states have revised their tax codes to offer state EITCs, calculated as percentages of the federal EITC benefit due to eligible families. State EITCs based on the federal credit in this way are easy for states to administer.[12] For the 2013 tax year, 24 states and the District of Columbia offered wage earners a tax credit fashioned after the federal EITC. Table 2 lists the percentage of the federal EITC that each state includes in its own tax code. The table shows great variation in the generosity of state EITCs. State credits range from 3.5 percent of the federal credit in Louisiana to 50 percent in Maryland.

Eighteen states and the District of Columbia offered fully refundable EITCs in 2013, allowing a family to receive the dollar value of the credit that exceeds its tax liability. Four states (Delaware, Maine, Ohio, and Virginia) offer only nonrefundable EITCs, meaning

Table 2: **State Earned Income Tax Credits**

State	2013 percentage of federal credit*	Is credit refundable?
CONNECTICUT	25%*	Yes
DELAWARE	20%	No
DISTRICT OF COLUMBIA	40%	Yes
ILLINOIS	10%	Yes
INDIANA	Up to 9%	Yes
IOWA	14%*	Yes
KANSAS	17%	Yes
LOUISIANA	3.5%	Yes
MAINE	5%	No
MARYLAND	50%	Partially
MASSACHUSETTS	15%	Yes
MICHIGAN	6%	Yes
MINNESOTA	Up to 48.7%*	Yes
NEBRASKA	10%	Yes
NEW JERSEY	20%	Yes
NEW MEXICO	10%	Yes
NEW YORK	30%	Yes
NORTH CAROLINA	4.5%*	Yes
OHIO	Up to 5%*	No
OKLAHOMA	5%	Yes
OREGON	6%*	Yes
RHODE ISLAND	25%*	Partially*
VERMONT	32%	Yes
VIRGINIA	20%	No
WISCONSIN	4% — one child 11% — two children 34% — three children	Yes

* The rates above represent state EITC rates for tax year 2013. Several states have changed their rates for the 2014 and 2015 tax years, including Connecticut (whose EITC is scheduled to rise to 27.5% of the federal level in the 2014 tax year and 30% of the federal level in the 2015 tax year), Iowa (to 15% beginning in 2014), Ohio (to 10% beginning in 2014), and Oregon (to 8% beginning in 2014). North Carolina's EITC expired after 2013 and was not renewed for 2014. Minnesota has significantly altered its EITC structure and beginning in 2014 the credit will be closer to 40% of the federal EITC. Beginning in 2015, Rhode Island's EITC will be fully refundable at 10% of the federal level. Additionally, Colorado has enacted a refundable 10% state EITC that will be implemented in the year that state revenues exceed a certain threshold.[13] The state of Washington passed legislation in 2008 to offer a credit fashioned after the federal EITC at 10% of the federal level, but it has yet to be enacted.

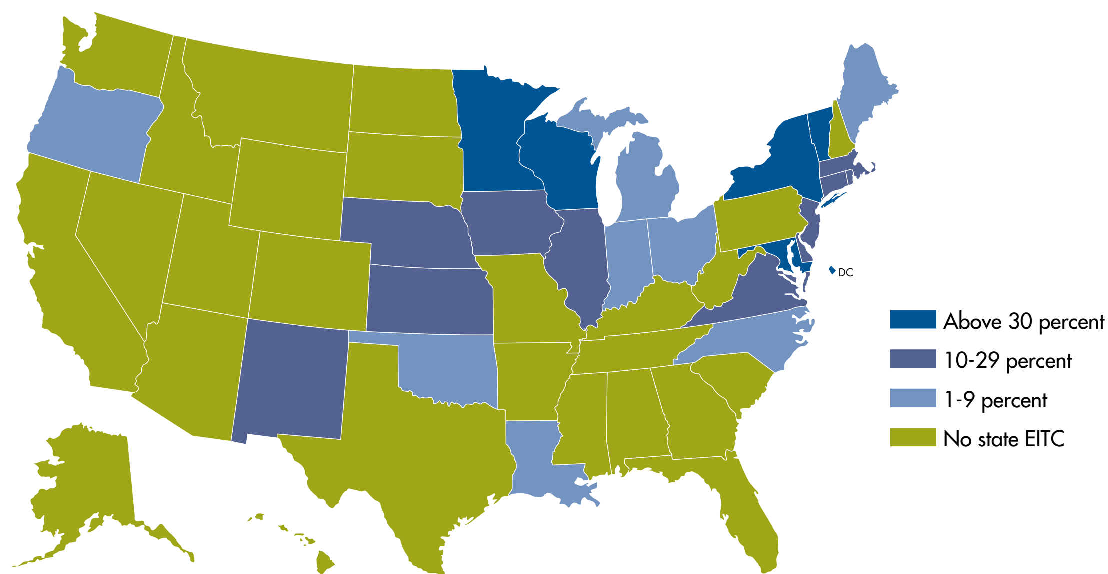
Source: NCCP analysis of state income tax regulations. Please access NCCP's *Fifty State Policy Tracker* web-based tool at http://www.nccp.org/tools/policy/ for annually updated information on state EITCs and other income/work supports.

the credit only eliminates or reduces tax liability but does not provide an income supplement. In addition, Maryland and Rhode Island offered EITCs in 2013 that were partially refundable, meaning that the family receives some, but not all, of the value of any EITC benefit that exceeds its tax liability.[14] (In 2014, however, Rhode Island lawmakers revised the tax code to make the state's EITC fully refundable beginning in the 2015 tax year.) Finally, several localities, such as New York City and all Maryland counties, have introduced local EITCs to supplement the state and federal versions of the credit.

While all state EITCs help reduce income tax liability for eligible working families, they do not necessarily ensure that low-income families pay no state income tax, let alone receive an income supplement. Several states with EITCs still tax families at the poverty level. For example, Illinois offers a state EITC pegged at 10 percent of the federal credit, or $511 for a poverty-level family of three and $521 for a family of four. But because the state also levies a hefty pre-credit tax on low incomes, those families still owed $112 and $240, respectively, in income tax for 2013.
Five other states also impose income tax liabilities on families in poverty even though they offer a state EITC. Like Illinois, Oregon and Louisiana provide credits that are too small to fully offset state income tax liabilities for families of three and four at the poverty threshold. The credits offered in Indiana, Michigan, and North Carolina are also not large enough to avoid income tax liability for a family of four at the poverty threshold, but do provide an income supplement to a family of three at the poverty threshold.

Because the EITC in some states is non-refundable, and because of other restrictions on the maximum refundable EITC credit available to tax filers,[15] a map of maximum EITC levels across states (Map 3) looks significantly different than the maps displayed above showing the net income tax liabilities for families of three and four making poverty-level incomes.

Map 3: **Maximum state EITC as a percentage of the federal credit (2013)**



Other State Income Tax Credits for Low-Income Families

The Earned Income Tax Credit is by far the most important state tax program providing income supplements to low-income, working families. In addition, however, some states offer a variety of other refundable and nonrefundable tax credits to families living at the poverty threshold:

- Three states offer Child Tax Credits tied to the federal Child Tax Credit. The federal Child Tax Credit provides a partially refundable income tax credit of $1,000 per child in 2013. New York offers a refundable credit at 33 percent of the federal credit ($330 per child), Oklahoma offers a nonrefundable credit at 5 percent of the federal credit ($50 per child), and North Carolina allows a nonrefundable credit of $100 per qualifying child. Colorado has also passed legislation providing for a refundable child tax credit of up to 30 percent of the federal credit ($300 per child), to be enacted only if federal authorities permit states to tax Internet sales.[16]
- Kentucky, Pennsylvania, and West Virginia provide credits that reduce income tax liability, with the percentage reduction gradually decreasing for families with higher incomes and fewer dependents. Somewhat similar in effect to a nonrefundable EITC, this method allows for reductions in tax liability, but precludes the possibility of income supplements via a refundable credit.[17]
- Several states provide smaller credits that are highest for filers making extremely low wages and progressively decrease in value for families with higher incomes and/or fewer dependent children. Arizona's nonrefundable family income tax credit, Georgia's nonrefundable low income credit, Hawaii's refundable food credit, New Mexico's refundable low income comprehensive tax rebate, and New York's nonrefundable household credit[18] operate in this manner and provided credits in 2013 ranging from $15 to $180 to families of three or four living at the poverty threshold.
- Idaho and Oklahoma offer credits to families at all income levels primarily based on the number of children or dependents in the family. In both of these states, however, individuals who have participated in a specific federal benefits program – Supplemental Nutrition Assistance Program (SNAP) benefits in Idaho and Temporary Assistance for Needy Families (TANF) benefits in Oklahoma – are ineligible for claiming these credits. (Because of such requirements, neither credit was included in the state-by-state calculations presented above.)

Recommendations for States

Our analysis shows there is great variation in how states treat the working poor as income tax payers. While recognizing differences among states in policy priorities, fiscal structure and capacity, and the structure of social safety nets, we offer the following tax policy recommendations to address the needs of poor state residents and strengthen state and national economies. These policies enjoy broad bipartisan support and have been adopted in states of diverse political colorations.

Revise tax codes to eliminate income tax liabilities for families living in poverty.

Poor families face pressing subsistence needs such as food and shelter, making it unreasonable to require that they use any of their extremely limited income to pay income taxes. Nevertheless, sixteen states impose income taxes on a family of four with income at the poverty threshold, and some states begin taxing families with incomes far below the poverty threshold. In Alabama, for example, a single-parent family with two children is liable for the state income tax once its annual income exceeds $9,750, or about half of the poverty threshold. A married family with two children living in Alabama begins paying state income tax once its income exceeds $12,550, or 54 percent of the threshold. In contrast, families of three and four living in California pay state income taxes only when their incomes exceed $48,563 and $51,163, respectively. Although the average cost of living is lower in Alabama than in California, the cost of meeting basic needs for an Alabama family has been estimated as more than four times the income at which the family begins paying income tax. [19]

Indeed, the official poverty measure is widely acknowledged to grossly underestimate the amount of income a family requires to meet basic needs, especially in cities with high housing costs.[20] States should follow California's lead and refrain from taxing families with incomes less than twice the poverty threshold, the measure generally used to define low-income households.[21] Notably, the income threshold at which the federal government begins to levy income tax – $41,050 for a family of three, and $47,850 for a family of four[22] – is more than twice the federal poverty threshold, reflecting a policy determination that working families with earnings below this threshold should not be burdened with income taxes.

Offer fully refundable state EITCs.

Since Wisconsin first introduced a state EITC into its 1984 tax code, [23] 25 states and the District of Columbia have followed its lead. The federal EITC has garnered broad bipartisan support since its inception, and state credits are currently offered in both traditionally conservative and traditionally liberal states. States currently without EITCs should revise their tax code to include one, and, like the federal credit, state EITCs should be made fully refundable. As noted above, the refundable federal EITC has been shown to reduce poverty, improve child outcomes, and encourage work. Refundable state credits can further contribute to the bipartisan goals of lower statewide poverty rates, higher labor force participation, and better outcomes for children. In addition, a refundable EITC increases consumer disposable income and spending, contributing to state economic growth. In contrast to a refundable EITC, a non-refundable credit reduces tax liability but does not provide an income supplement, and hence is likely to be less effective in alleviating poverty and encouraging work.

Among states now offering the EITC, there is a clear trend toward making the credit refundable. When Ohio introduced a non-refundable EITC in 2013, it joined Delaware, Maine, and Virginia as one of the few remaining states offering the credit as completely non-refundable. However, a substantial number of states (Illinois, Iowa, Maryland, Oregon, Rhode Island, and Wisconsin) initially introduced non-refundable EITCs into their tax codes and later replaced them with fully or partially refundable credits. While Illinois, Iowa, Oregon, and Wisconsin transitioned to a completely refundable credit, Maryland and Rhode Island first offered only non-refundable EITCs but increased the refundability of their credits gradually. Maryland now has one of the

more generous refundable EITC rates, at 25 percent of the federal rate in 2014 (set to gradually increase to 28 percent by 2018[24]), and in 2014 Rhode Island lawmakers made the state's formerly partially refundable EITC fully refundable at 10 percent of the federal rate beginning in the 2015 tax year.[25] This pattern suggests policymakers may find it fiscally prudent or politically expedient to initially introduce a nonrefundable credit that can later be made refundable.

Even as numerous states have made their credits more generous, budgetary pressures following the Great Recession have prompted other state policymakers to seek to reduce or eliminate their state EITCs. Such efforts succeeded last year in North Carolina, which will eliminate its refundable credit beginning in the 2014 tax year.[26] While ending the credit may help the state save a greater portion of its tax revenue in the short term, imposing greater tax burdens on the poor not only hurts families presently struggling to work their way out of poverty, but may make it harder for children to succeed in later life. Children who grow up poor are more likely to remain poor as adults. A compelling body of research has linked the federal EITC and other relatively small income supplements provided to poor families (on the order of $1,000 to $4,000) to significant gains in children's achievement and academic outcomes.[27] By investing in children today, states build a productive future workforce less likely to depend on the public safety net.

Offer child tax credits and refundable credits for child care costs.

Besides offering generous and refundable EITCs, states can deploy other income tax credits to help low-income families with their child-related expenses. Such credits include child tax credits based on the federal Child Tax Credit (following the lead of New York, Oklahoma, and North Carolina) and credits to help offset the costs of child care, often the largest single expense after rent for low-income families. Twenty-two states now offer a child and dependent care tax credit (CDCTC) as a percentage of the federal nonrefundable CDCTC.[28] Research shows, however, that because the federal credit is nonrefundable and diminishes gradually as income rises, most of the tax filers who benefit from the credit have incomes well above the poverty threshold. A study by the Tax Policy Center revealed that more than half of the total credits that the federal CDCTC provided in 2010 went to families with incomes above $75,000, and only 8.3 percent of the total CDCTC credits went to families making incomes under $30,000.[29] Yet these lower-income families are most in need of financial help with child care expenses, especially as child care costs continue to rise. Studies have demonstrated the enormous impact that early childhood experiences have on child development, and getting lower-income families better access to this credit to help pay for high-quality child care could help improve financial, educational, and health outcomes among these families.[30] States have recently taken the lead in offering refundable credits calculated as percentages of the federal nonrefundable CDCTC to provide more benefits to low-income families. Twelve states – Arkansas, Colorado, Hawaii, Iowa, Louisiana, Maine, Minnesota, Nebraska, New Mexico, New York, Oregon, and Vermont – now allow for the credit to be at least partially refundable.[31] Following the example of these states and expanding the CDCTC to cover a greater amount of child care costs would provide much-needed support to working families with these expenses.

Endnotes

1. Obama, B. (2013). Remarks by the President in the State of the Union Address. Washington, DC: The White House, Office of the Press Secretary. Retrieved Aug. 2014 from http://www.whitehouse.gov/the-press-office/2013/02/12/remarks-president-state-union-address.

2. Oliff, P., Mai, C., & Johnson, N. (2012). The Impact of State Income Taxes on Low-Income Families in 2011. Washington, DC: Center on Budget and Policy Priorities. Retrieved Aug. 2014 from http://www.cbpp.org/files/4-4-12sfp.pdf.

3. United States Census Bureau. (2013). Poverty Thresholds for 2013 by Size of Family and Number of Related Children Under 18 Years. Washington, DC: United States Census Bureau. Retrieved Aug. 2014 from https://www.census.gov/hhes/www/poverty/data/threshld/.

4. It is worth noting that the Center for Budget and Policy Priorities (CBPP) (Oliff et al, 2012) used weighted average poverty thresholds as in their 2013 analysis; these weighted thresholds are based on family size but not family composition, i.e., the number of children in the family. The use of different thresholds makes our analysis not strictly comparable with CBPP's earlier analyses, but the dollar differences in thresholds are small.

5. This list only includes states that charge an income tax on wage income. The nine states that do not levy income taxes on wage income are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

6. Through this brief, we use "child tax credit" to refer to the combination of the nonrefundable "child tax credit" and the "additional child tax credit" on the federal income tax return. The refundable portion of this combination begins to phase out at $75,000 for single filers and $110,000 for couples.

7. Hungerford, T. L., & Thiess, R. (2013). The Earned Income Tax Credit and the Child Tax Credit: History, Purpose, Goals, and Effectiveness. Issue Brief No. 370. Washington, DC: Economic Policy Institute.

8. Marr, C., Huang, C., & Sherman, A. (2014). Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds. Washington, DC: Center on Budget Policies. Retrieved Aug. 2014 from http://www.cbpp.org/cms/?fa=view&id=3793.

9. Hungerford, T. L. & Thiess, R. (2013).

10. For state and local analyses of the cliff effects of various federal, state, and local benefits programs, please visit NCCP's *Family Resource Simulator* tool, available at http://www.nccp.org/tools/frs/. If you would like to work with NCCP in updating the Family Resource Simulator for your locality, please contact Curtis Skinner, Director of Family Economic Security, at skinner@nccp.org.

11. Executive Office of the President & U.S. Treasury Department (2014). The President's Proposal to Expand the Earned Income Tax Credit. Washington, DC: Authors. Retrieved Aug. 2014 from http://www.whitehouse.gov/sites/default/files/docs/eitc_report_final.pdf.

12. Williams, E. & Leachman, M. (2014). States Can Adopt or Expand Earned Income Tax Credits to Build a Stronger Future Economy. Washington, DC: Center for Budget and Policy Priorities. Williams and Leachman point out that adding a state EITC tied to the federal credit requires the addition of only one line on a state income tax form. Hungerford and Thiess (2013) note, however, that on the federal level the paperwork burden of filing EITC and Child Tax Credit claims have led to an estimated 20-25% of EITC claims being improper, and that an estimated 20% of tax filers eligible for the EITC fail to claim it.

13. Formerly funded only in budget surplus years, legislation passed in 2014 that will set the Colorado EITC rate at a refundable rate of 10% once state revenues exceed the revenue limit set by Colorado's Taxpayers Bill of Rights (TABOR). See General Assembly of the State of Colorado. (2013). Senate Bill 13-001, Concerning Income Tax Credits to Support Working Families, and, in Connection Therewith, Enacting the "Colorado Working Families Economic Opportunity Act of 2013" and Making an Appropriation. Denver, CO: Author. Retrieved Aug. 2014 from http://www.leg.state.co.us/clics/clics2013a/csl.nsf/fsbillcont3/D505A068C325614587257AEE0057BCB5/$FILE/001_enr.pdf.

14. Maryland's maximum EITC is 50% of the federal rate, but allows for only half of its EITC to be refundable; similarly but on a smaller scale, Rhode Island's maximum EITC in 2013 was 25% of the federal rate, but allowed for only 15% of its EITC to be refundable, resulting in an effective 3.75% maximum refundable EITC rate.

15. While most states follow the federal EITC's overall credit structure, Indiana, Minnesota, Wisconsin, and Ohio have added additional adjustments. The most notable departure from the federal model until recently was Minnesota's EITC, which from 1998 through 2013 included a two-tiered structure to provide additional work incentives – matching the federal EITC at 25 percent for extremely low incomes, but raising the percentage matched as earnings increased. In 2013, the state's EITC reached as high as 48.7 percent of the federal credit. However, state lawmakers adjusted the tax code in 2014 to conform to the single-tiered EITC model used by the federal government and most other states. The changes in 2014 appear to raise the total dollar value of credits distributed to Minnesota's workers, but decrease the maximum credit to less than 40% of the federal maximum. Additionally, neither Minnesota nor Indiana follow the federal government's lead in providing higher supplements to families with three children compared to those received by families with two children, and Indiana also does not differentiate between married and non-married households. Conversely, Wisconsin incrementally increases state EITC benefits for families with one, two, or three children, but does not allow singles or families without children to take the state credit. Ohio places an additional ceiling on its EITC to cover only half of the tax liability for any taxable income (total income minus deductions and exemptions) above $20,000. For a quick summary of the reasoning behind Minnesota's revisions in 1998, see Johnson, N. and Williams, E. (2011). A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2011. Washington, DC: Center on Budget and Policy Priorities. Retrieved Aug. 2014 from http://www.cbpp.org/cms/?fa=view&id=3474. For revisions to Minnesota's state tax code beginning in 2014, see

State of Minnesota House of Representatives. (2014). H.F. 1777. Minneapolis: Minnesota State Legislature. Retrieved Sept. 2014 at https://www.revisor.mn.gov/bills/bill.php?b=house&f=HF1777&ssn=0&y=2013.

16. General Assembly of the State of Colorado (2013). Technically, California's "dependent exemptions" could also be considered a tax credit, as it provides a dollar-by-dollar reduction in tax liability, but it is nonetheless available to a broad range of income earners well above median level incomes.

17. As an example of how these credits work, the value of West Virginia's "Family Tax Credit" equals 100% of income tax liability if a family of three had an income less than $19,530 in 2013, but falls to 90% of income tax liability if it made between $19,531 and $19,830 and to 80% for an income between $19,831 and $20,130. The credit continues to gradually phase out to cover only 10% of income tax liability for family income between $21,931 and $22,230, and it ends with income above $22,231. In accordance with these guidelines, a three-member family making a poverty level income of $18,769 would receive a credit valued at $410, equal to (or 100% of) its income tax liability calculated using West Virginia's tax tables. But because a family of four making a poverty-level income of $23,624 in 2013 falls within the 90% range for a four-member family (slightly exceeding the $23,550 cap for a 100% credit), it would be eligible to receive a credit worth only 90% of its initial income tax liability. As the family's income tax liability according to West Virginia's tax tables is $526, the resulting credit is 90% of $526, or $473. The difference between the initial liability and this credit, $53, is the amount this family would owe in West Virginia income tax, as indicated in Table 1.

18. For a broad range of incomes, the combination of New York's household credit (allowable for single filers with incomes below $28,000 and household or family filers with incomes below $32,000) and the state EITC is indistinguishable from a completely refundable state EITC. The household credit becomes relevant on its own only in the case of relatively large families or families whose earning structures complicate EITC claims.

19. Economic Policy Institute Family Budget Calculator. Retrieved Sept. 2014 from http://www.epi.org/resources/budget/. Also see Council for Community and Economic Research. (2014). Cost of Living Index. Retrieved Sept. 2014 from http://www.coli.org.

20. Engelhardt, W. & Skinner, C. (2013). Knowing What Works: States and Cities Build Smarter Social Policy with New and Improved Poverty Measurement. New York: National Center for Children in Poverty, Mailman School of Public Health, Columbia University.

21. Engelhardt, W. & Skinner, C. (2013).

22. NCCP analysis of federal income tax regulations.

23. Olin, R. (2013). Earned Income Tax Credit. Madison, WI: Wisconsin Legislative Fiscal Bureau. Retrieved Sept. 2014 from http://legis.wisconsin.gov/lfb/publications/Informational-Papers/Documents/2013/3_eitc.pdf.

24. General Assembly of Maryland (2014). Income Tax – Earned Income Credit – Refundable Amount. Annapolis: Department of Legislative Services. Retrieved Aug. 2014 from http://mgaleg.maryland.gov/webmga/frmMain.aspx?id=hb0198&stab=01&pid=billpage&tab=subject3&ys=2014rs.

25. Rhode Island Department of Revenue (2014). Summary of Legislative Changes. Providence, RI: State of Rhode Island Division of Taxation. Retrieved Sept. 2014 from http://www.tax.ri.gov/Tax%20Website/TAX/notice/Summary%20of%20Legislative%20Changes%202014.pdf.

26. North Carolina General Assembly (2013). House Bill 82 / S.L. 2013-10 (= S64). Raleigh, NC: Author. Retrieved Aug. 2014 from http://www.ncga.state.nc.us/gascripts/BillLookUp/BillLookUp.pl?Session=2013&BillID=h82&submitButton=Go. Also see Frank, J. (2013). Legislation would repeal N.C. tax credit for low- and moderate-income taxpayers. Raleigh, NC: *The News & Observer*, February 14, 2013. Retrieved Aug. 2014 from http://www.newsobserver.com/2013/02/14/2681428/legislation-would-repeal-nc-tax.html.

27. Dahl, G. B. & Lochner, L. (2012). The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit. *American Economic Review* 102(5): 1927-1956.

Duncan, G. J., Morris, P. A. & Rodrigues, C. (2011). Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random-Assignment Experiments. *Development Psychology* 47(5): 1263-1279.

28. In addition to the states that offer a credit based on the federal CDCTC, four states – Idaho, Massachusetts, Montana, and Virginia – offer a deduction based on expenses eligible for the federal CDCTC, which reduces tax liability. Maryland also offers a similar deduction along with a state credit. For a complete listing of state CDCTC policies, see Campbell, N. D., et al. (2011). Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions (with supplements for years 2011-2013). Washington, DC: National Women's Law Center. Retrieved Sept. 2014 from http://www.nwlc.org/resource/2014-supplement-making-care-less-taxing-improving-state-child-and-dependent-care-tax-provis.

29. Tax Policy Center (2010). Quick Facts: Child and Dependent Care Tax Credit (CDCTC). Washington, DC: Urban Institute and Brookings Institution. Retrieved Aug. 2014 from http://www.taxpolicycenter.org/press/quickfacts_cdctc.cfm.

30. Cooper, J., Masi, R., & Vick, J. (2009). Social-emotional Development in Early Childhood: What Every Policymaker Should Know. New York: National Center for Children in Poverty, Mailman School of Public Health, Columbia University. Retrieved Sept. 2014 from http://www.nccp.org/publications/pdf/text_882.pdf.

Tierney, A. & Nelson, C. (2009). Brain Development and the Role of Experience in the Early Years. *Zero to Three* 30(2): 9-13. Retrieved Sept. 2014 from http://main.zerotothree.org/site/DocServer/30-2_Tierney.pdf?docID.

31. Tax Credits for Working Families (2014). States with CDCTCs. Bethesda, MD: Author. Retrieved Aug. 2014 from http://www.taxcreditsforworking-families.org/child-and-dependent-care-tax-credit/states-child-dependent-care-tax-credits/.

National Center for Children in Poverty
Mailman School of Public Health
Columbia University

215 West 125th Street, New York, NY 10027
TEL 646-284-9600 ▪ FAX 646-284-9623
www.nccp.org