State Action on the EITC

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Legislative Summary

JUNE 2001

The EITC – A Tax Program for Working Families

The federal Earned Income Tax Credit (EITC), created in 1975 to provide tax relief to low-income workers, has become the single, most successful, tax cut program for the poor. The federal EITC is a "refundable" credit, which means if a credit exceeds a family's total income tax liability the difference is paid to a family as a refund. If the family owes no income tax at all, they receive a check for the entire EITC. The program, expanded in 1986, 1990 and 1993, has become the central part of federal efforts to fight poverty and move Americans from welfare to work.

Seeing the federal EITCs success in providing income support to working families, particularly low-wage workers, 14 states and **DC** have created comparable state EITCs. State EITCs reduce the tax burden on low-income working families. These taxpayers are hit hardest by regressive state sales, excise and property taxes. In 1995, the poorest fifth of married, non-elderly families paid 12.5 percent of their income out to state and local taxes.

As of 2000, nine states and the **DC** adopted refundable tax credits modeled on the federal EITC, while five states adopted a less effective "non-refundable" EITC.

State EITCs

Refundable	Non Refundable
Colorado	Illinois
Kansas	Iowa
Maryland	Maine
Massachusetts	Oregon
Minnesota	Rhode Island
New Jersey	
New York	
Vermont	
Wisconsin	
District of Columbia	

2001 State Legislative Activity

There has been significant movement in the 2001 state sessions on EITC legislation, with a total of 38 proposals being introduced in 16 states and the District of Columbia. In May, **OK** became the fifteenth state to enact a state EITC. As of January 1, 2002, qualified low-income workers in the state will receive a refundable credit equal to five percent of the federal EITC.

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States Proposing New EITCs

Besides **OK**, eight states (**CA, CT, FL, HI, MI, MO, MT, VA**) introduced 24 separate bills to offer a refundable state EITC. **VA** also introduced legislation to create a non-refundable EITC.

FL's proposal is notable in that it is the first state without a state income tax to propose a state EITC. Legislators recognized that a state EITC could play a key role in helping boost income for its working poor. The Florida legislation would have refunded part of the federal EITC to qualified low-income workers by using federal Internal Revenue Service information, provided to all states to identify workers in Florida who had received refunds under the federal EITC. Those working poor would automatically receive a rebate up to 20 percent of that federal credit. The state EITC would have been paid using TANF funds; if additional funds were needed to cover the cost of the EITC, the bill proposed that such funds "be considered a rebate against sales taxes and other state taxes paid by recipients of the state EITC."

States Proposing to Make Existing EITCs Refundable

Two states (**IL** and **OR**) have proposed to change their current EITCs to them refundable. If enacted, only three states with unrefundable EITCs would remain.

States Expanding Current EITCs

Seven states with EITCs (**CO, IL, KS, MD, ME, NJ, OR**) and **DC** proposed expanding their credit's coverage or benefits. **MD** enacted two companion bills to accelerate the increases in the amount of its refundable EITC that will top off at 20 percent starting 1/1/04. The bills also authorize refundable county EITCs starting at 3.2 percent after 12/31/00 and up to 4.4 percent after 12/31/02. Other state activity includes:

- **CO** proposed to expand the amount of the existing refundable EITC credit to equal 10 percent of the federal credit claimed by an individual (now 8.5 percent).
- **IL** introduced three bills to make its existing EITC refundable, while increasing the amount of the credit, and one bill to increase its existing non-refundable EITC from five percent to 25 percent of the federal EITC.
- **KS** proposed to increase its existing refundable state EITC from 10 percent to 20 percent.
- **ME** proposed to expand its existing non-refundable EITC by increasing the credit from five percent to 10 percent.
- **NJ** proposed to expand its existing refundable EITC. The individual gross income for a qualifying household is $20,000 or less for the taxable year. The credit percentage would phase in over three years. Starting at 10 percent after 1/1/00, up to 17.5 percent before 1/1/03, and 20 percent after 1/1/03.
- **OR** proposed to make its existing non-refundable EITC refundable.
- **DC** proposed to raise its refundable EITC from 10 percent to 25 percent of the federal EITC in 2002.

Local Laws/Proposals

Cities and counties have also considered local EITC proposals. **Montgomery County, MD** already established a local EITC that has been in effect for one year. Funding for this plan comes from general fund revenues. **Denver, CO** will announce a plan to offer a local EITC in September 2001 to commence at the end of the year and be funded through TANF ($5 million) and general funds ($5 million).