



# EARNED INCOME TAX CREDIT

**A Boost for Working Virginia Families**



THE  
COMMONWEALTH  
INSTITUTE

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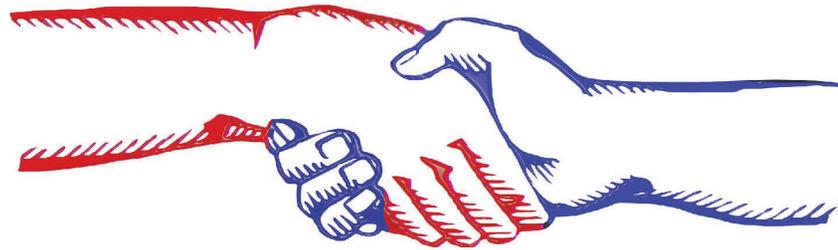
## The EITC has seen bipartisan support since its creation in 1975

*"We're also expanding the earned-income tax credit for low-income wage earners and indexing it to inflation. And the result will be that families will have an easier time making ends meet."*

*- Ronald Reagan*

*"Increasing the earned-income tax credit, which more than anything else we could do, will reward work and family and responsibility"*

*- Bill Clinton*



*"[The EITC] gives families flexibility – it helps them take ownership of their lives."*

*- Paul Ryan*

*"Few policies are more effective at reducing inequality and helping families pull themselves up through hard work than the Earned Income Tax Credit."*

*- Barack Obama*

## The EITC helps make work pay, and it could do more.

The Earned Income Tax Credit helps working families keep more of what they earn. The federal EITC was started in 1975 and has enjoyed bipartisan support ever since.

It lifts 5.8 million people, including 3 million children, out of poverty each year by providing a tax credit based on income and family size that gets applied to a family's tax bill. Anything left over after the credit gets refunded to them, just like any other tax refund.

# Virginia's EITC and How It Can Be Improved

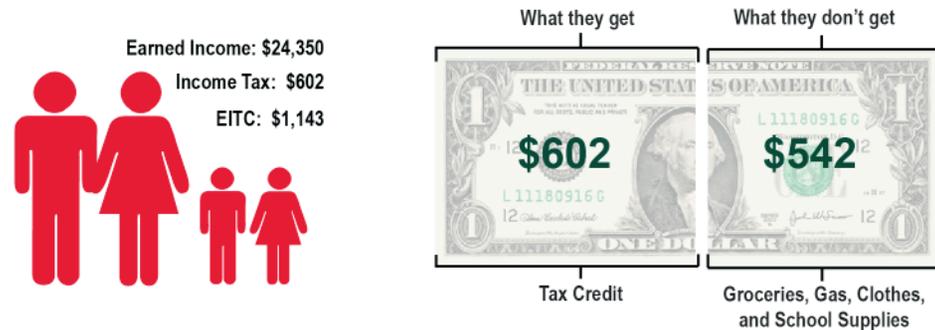
The good news: Virginia has a state version of the EITC for certain tax filers. It was created as part of the 2004 tax reform package, and is set at 20 percent of the federal EITC.

The bad news: it isn't refundable so the state does not give all families the full value of their credit.

Making the state EITC refundable, as it is in 23 other states and the District of Columbia, would return about \$250 million each year to the pockets of hard-working Virginians and spread that money throughout the local economy.

## Missing Out on the Full Value of the EITC

Earning an income of \$24,350 also earns these married parents of two kids an Earned Income Tax Credit (EITC). The full value of their Virginia EITC is \$1,143. Despite the taxes they pay through everyday purchases, Virginia's non-refundable EITC will only match the taxes they pay on income.



Source: TCI calculations based on EITC parameters for tax year 2018

Note: May not sum due to rounding. Does not account for Spouse Tax Adjustment, therefore may underestimate benefits of refundability.

**This book explains how the EITC works, who it works for, and how lawmakers can improve it.**

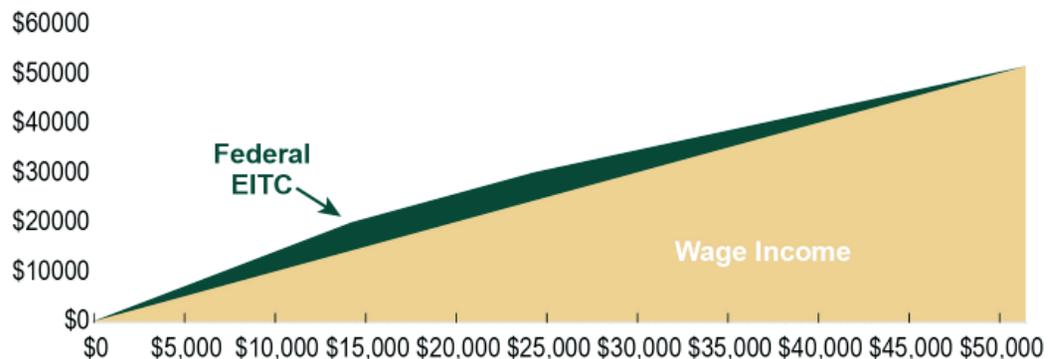


SECTION I  
ABOUT THE EITC

## The EITC is an Effective, Targeted Economic Boost

The refundable federal EITC boosts the wage income of families who are earning low and moderate wages.

*Wage income and credits for a married couple with two children at various income levels*



Source: TCI calculations based on EITC parameters for tax year 2018

The EITC supports Virginia's working families.

A family must be earning income to be eligible for the EITC. And for families earning low wages and struggling to make ends meet, the EITC is an economic boost.



## The EITC Lifts Many Families Above the Poverty Line



**200,000 Virginians,  
including 100,000  
children, were lifted out  
of poverty each year**

from 2011 to 2013 because of the  
federal EITC, together with the Child  
Tax Credit

The EITC is one of the most effective anti-poverty tools.

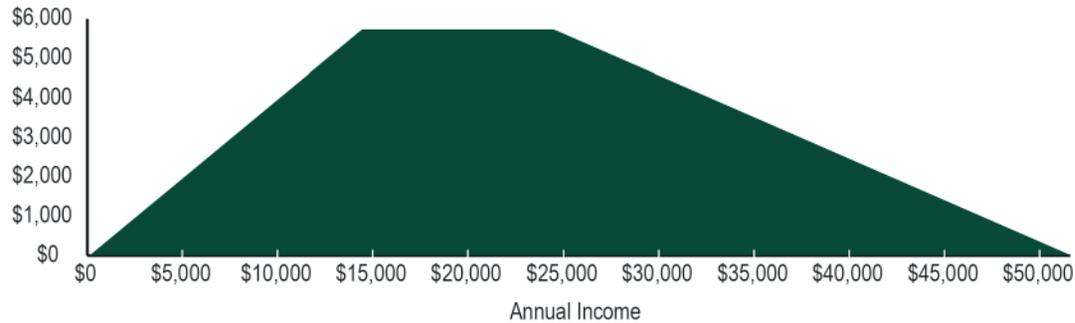
Part of what makes the federal EITC effective is that it's refundable – meaning that if the earned credit is larger than the income tax owed, the remainder of the credit is refunded.

This helps families to be able to better afford things like child care and reliable transportation to work.

## The EITC is a Well-Designed Tax Credit

As a family with low income works more, the amount of their tax credit goes up. Once a family's income reaches a more moderate level, the amount of the tax credit gradually declines.

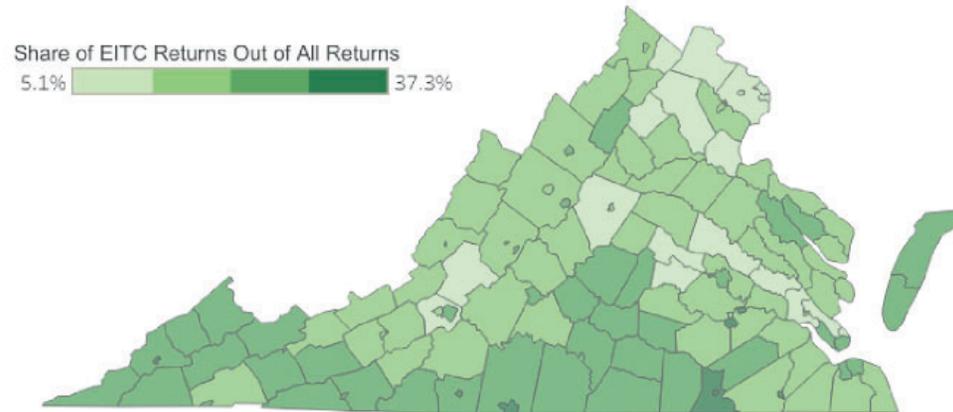
*Annual income and federal EITC amount for a married couple with two children at various income levels*



Source: TCI calculations based on EITC parameters for tax year 2018

The tapered design of the EITC ensures that a family is rewarded for work and does not suddenly lose the boost the credit provides just for earning a little bit more.

## The EITC is a Boost to Families Across the Commonwealth

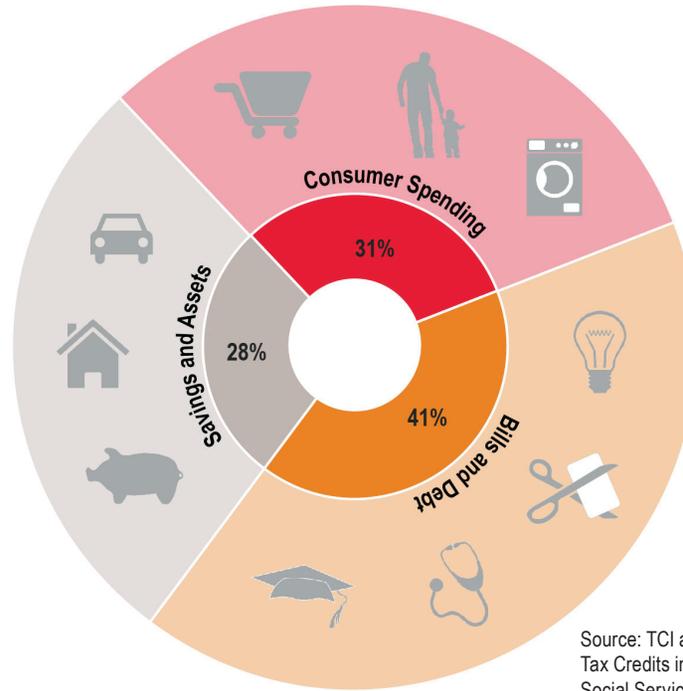


Source: TCI analysis of 2016 IRS-SOI data

The EITC benefits families in every city and county in Virginia, with the biggest boost going to struggling communities.

# Boosting Economic Security

Research shows that families receiving federal EITC refunds use those dollars to help make ends meet – often paying for basic necessities such as food, utility bills, and car and home repair.



Source: TCI analysis of "The Role of Earned Income Tax Credits in the Budgets of Low-Income Families," Social Services Review, September 2012.

EITC refunds put money in the pockets of many hard-working Virginians and into local economies.

One survey found that nearly one third of EITC refund dollars were spent on current consumption such as groceries, child expenses, household needs like refrigerators and washing machines, and other everyday needs. Just over one quarter was initially saved or spent on larger needs like car or home purchase or repair, or education expenses.

Just over forty percent of refund dollars were spent on bills or helping a family get out of medical, student loan, and other debt.

## The EITC Has Long-Term Benefits

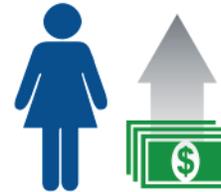
Compared to children in similar circumstances, children whose families receive the EITC see benefits from birth through adulthood.



**Improved prenatal care and infant health**



**Improved test scores and graduation rates**



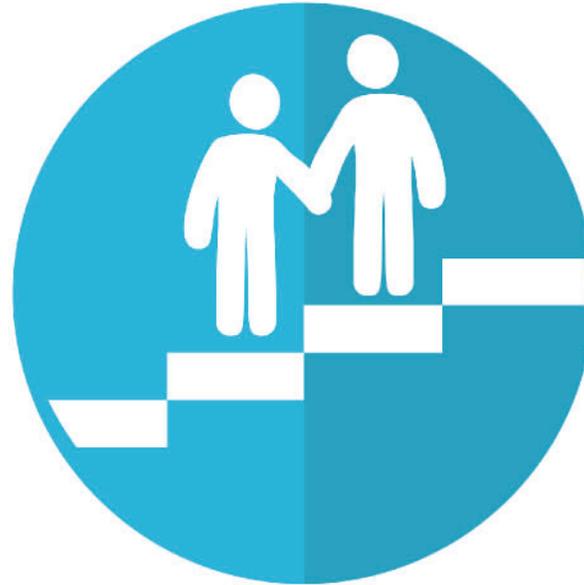
**Higher income as adults**

Sources: Markowitz, et al., *Social Science & Medicine*, 2017; Hoynes, et al., *American Economic Journal: Economic Policy*, 2015; Maxfield, MSU, 2013; Chetty, et al., "New Evidence on the Long-Term Impacts of Tax Credits", 2011.

The EITC is more than an economic boost. It is a long-term investment in health, education, and more.



## The EITC is a Hand Up for Many Families



Source: Horowitz, Economic Inquiry, 2002.

The EITC is a work support and can boost the ability of individuals to move up in their careers.

Research shows that when people have taken advantage of the federal EITC and state EITC supplements in the past, they often can't claim the credits within two years because their earnings increase too much!





## SECTION II

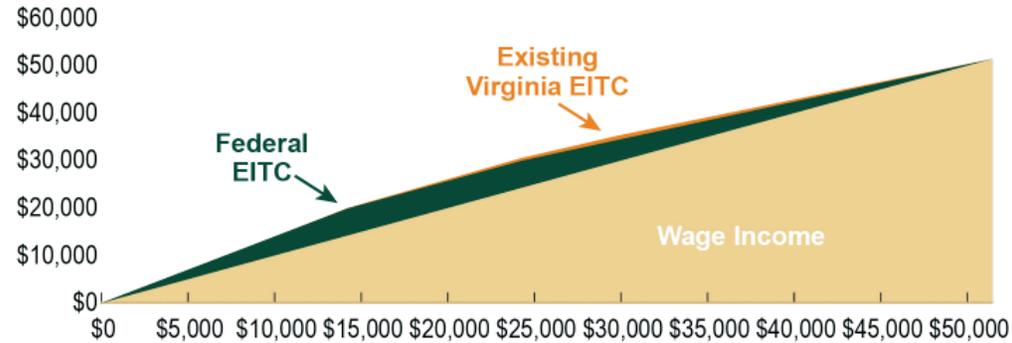
# IMPROVING VIRGINIA'S EITC



## Virginia EITC Helps the Federal Credit Go Further

Virginia's existing EITC piggy-backs on the federal credit and helps make work pay for working families with children, but currently does nothing for some lower-income working families.

*Wage income and credits for a married couple with two children at various income levels*



Source: TCI calculations based on EITC parameters for tax year 2018

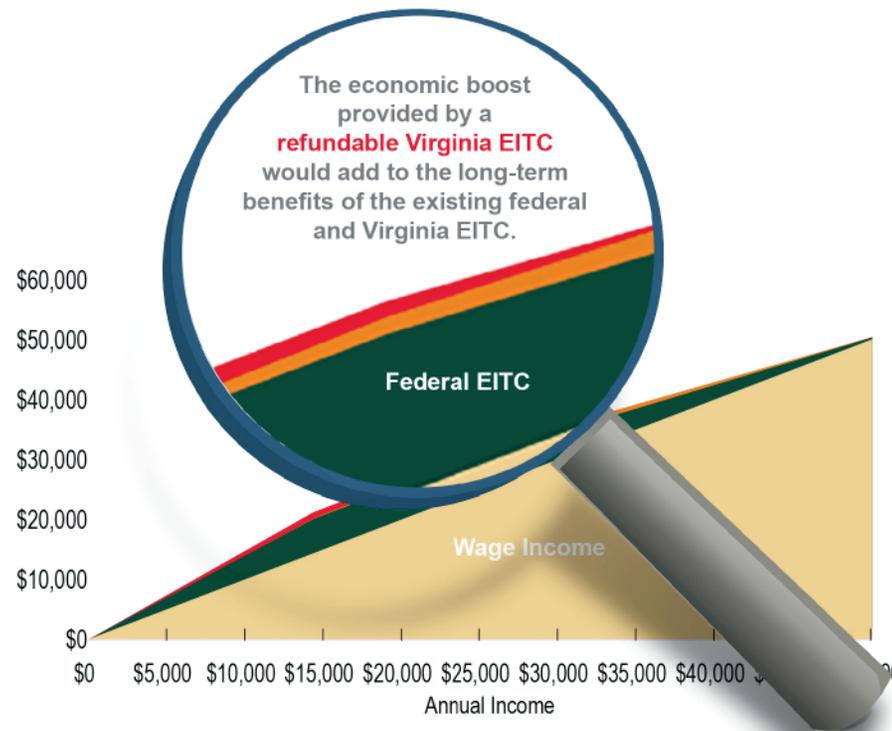
Virginia's state EITC – equal to 20 percent of the federal credit – piggy-backs on the federal EITC and helps offset state and local taxes such as sales and property taxes.

Right now, the federal refundable EITC helps a broad range of people. Virginia's corresponding credit, however, is more limited.



# The Virginia EITC Could Do More for Families

Wage income and credits for a married couple with two children at annual income of \$25,000



Source: TCI calculations based on EITC parameters for tax year 2018.  
Note: Does not account for Spouse Tax Adjustment therefore may underestimate benefits of refundability.

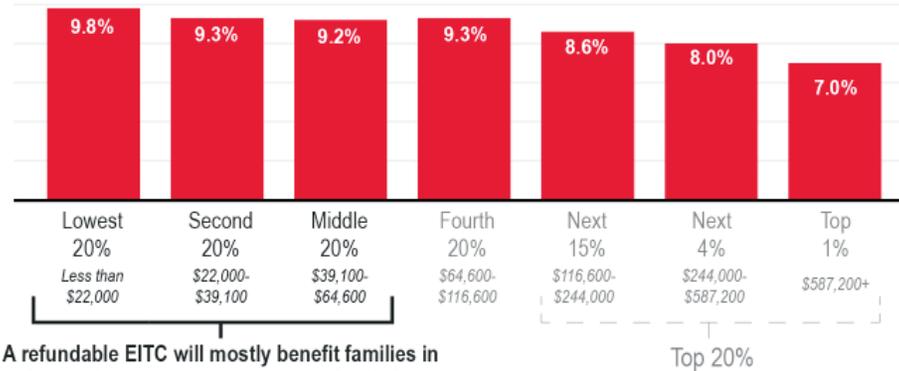
Working families who will benefit from a refundable credit will receive a few hundred dollars on average.

What may seem like a small amount can be the difference between having the funds to fix a car to get to work or losing a job.

## A Refundable State EITC Helps Offset State and Local Taxes

Families with low incomes pay a greater share of that income toward state and local taxes compared to those with higher incomes.

Share of income toward state and local taxes per household income group



**A refundable EITC will mostly benefit families in the two lowest income groups, and will also extend to some families in the middle group.**

Source: Institute on Taxation and Economic Policy (ITEP) analysis of impact of permanent tax laws on non-elderly taxpayers, including the impact of all tax changes enacted through October 10, 2018, at 2015 income levels.

If Virginia's EITC were refundable, it could boost the benefits of work for families with children and help offset other state and local taxes, like sales and gas taxes, that we know working families pay.



# A Refundable EITC Benefits a Range of Working Families

Working families who will benefit from a refundable credit will receive a few hundred dollars on average. This can make a large difference in putting food on the table or keeping the lights on.



<b>Earned Income</b>	\$15,000	\$20,000	\$25,000	\$22,000	\$30,000	\$27,000
<b>Marital Status</b>	Single	Single	Married	Married	Married	Married
<b>Children</b>	1	2	2	2	3	3
<b>EITC Amt Currently Received</b>	\$377	\$581	\$634	\$484	\$855	\$688
<b>Full Value of EITC</b>	\$692	\$1,087	\$1,116	\$1,143	\$1,048	\$1,175
<b>Boost from Refundability</b>	\$315	\$506	\$482	\$659	\$193	\$487

Source: TCI calculations based on EITC parameters for tax year 2018  
 Note: Does not account for Spouse Tax Adjustment, therefore may underestimate benefits of refundability.

## EITC Provides a Boost to Veterans and Military Families



**55,300 veteran and military families**  
in Virginia could benefit from a refundable EITC

Source: CBPP analysis of IRS data on the total number of EITC filers in tax year 2015, and CBPP analysis of American Community Survey 2014-2016 data to determine the share of such tax filers in each state that were military families. Numbers are rounded to the nearest 100.

## EITC is a Boost to Women and Their Families



410,000

hard-working women in Virginia  
earn the federal EITC.

64%

of households who receive the  
federal EITC include a woman  
who works.

**Many of these women would  
be boosted by a refundable  
state credit.**

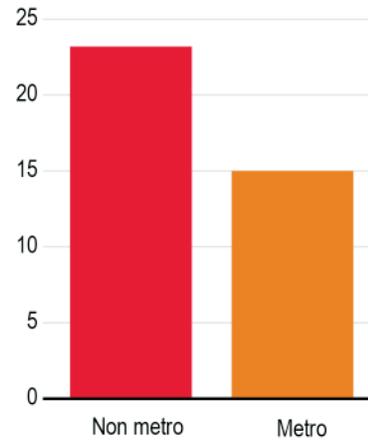
The EITC helps families afford the necessities like child care, and these credits are a critical tool to boost women's long-term economic prospects.



## The EITC is a Boost to Rural Areas, Small Towns

Nearly 1 out of 4 tax filers in non metro areas receive the earned income tax credit.

Share of returns receiving EITC



Source: TCI analysis of TY 2016 IRS SOI data and U.S. Census Bureau, CBSAs, Metropolitan Divisions, and Combined Statistical Areas 2017

Note: The U.S. Office of Management and Budget uses the economic and social activity around densely populated urban cores to draw a "Metropolitan Statistical Area." That includes most larger cities and their surrounding areas. All areas not included in a Metropolitan Statistical Area can be termed "non-metro," and can be thought of as rural or small-town communities.

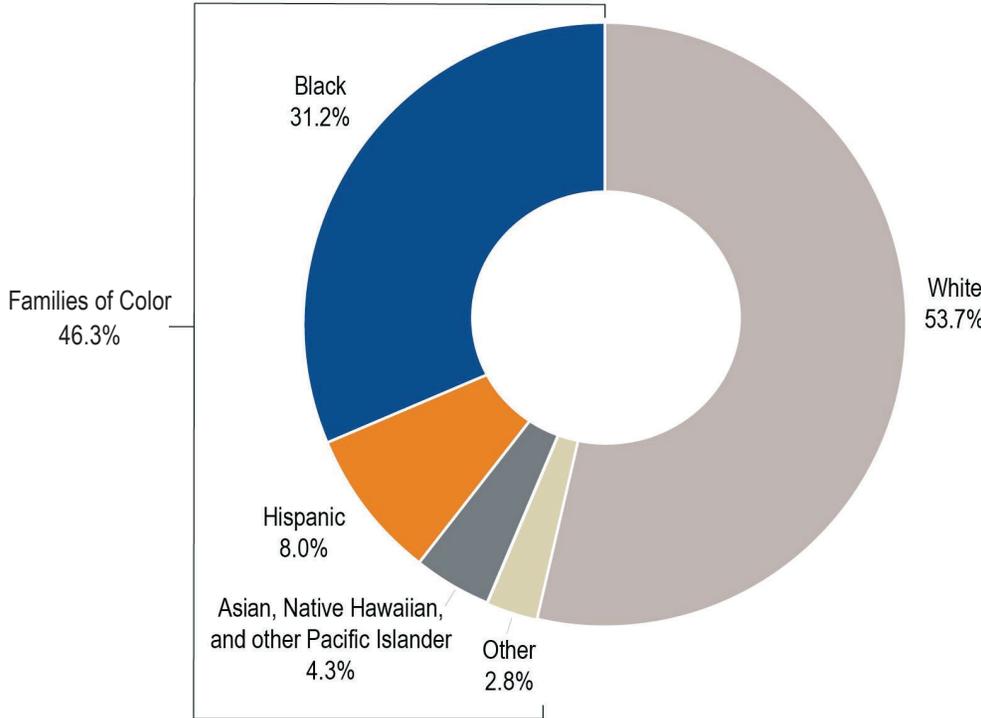
Families with low incomes spend more of what they earn on the basics, and they spend it locally.

If the EITC was refundable, even more EITC dollars would be going into businesses in small and rural communities.



# Almost Half of Virginia Families Who Receive the Federal EITC are Families of Color

Many of these families would benefit from making Virginia's EITC refundable – allowing these families to keep more of what they earned.



Source: Urban Institute's Analysis of Taxes, Transfer, and Income Security Model (ATTIS), using data from the 2015 American Community Survey



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The Commonwealth Institute for Fiscal Analysis provides credible, independent, and accessible information and analyses of state public policies with particular attention to the impacts on low- and moderate-income persons. Our products inform state economic, fiscal, and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole.

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