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earned income tax credit

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Earned Income Tax Credit

The earned income tax credit (EITC) is offered at both the federal and state levels as a means of providing assistance to lower-income workers. The credit provides a supplement to the wages and self-employment income of such families and is intended to offset the impact of the social security tax and increase the incentive to work.

The federal EITC has been provided since 1975. In tax years 1991 through 1993, supplemental credits were also provided for health insurance and children under the age of one. The supplemental credits were eliminated beginning in 1994 and the credit was extended to lower-income families without children as part of the federal Revenue Reconciliation Act of 1993. The credit was simplified under the federal Economic Growth and Tax Relief Reconciliation Act of 2001, and the income phase-out ranges for married couples applying for the EITC were raised in comparison to the levels for other claimants. The American Recovery and Reinvestment Act of 2009 further increased the income phase-out ranges for married couples and also increased the maximum amount of the credit by adding an additional reimbursement level for taxpayers with three or more children. Initially, the married couple enhancement and the three-or-more-children reimbursement were authorized on a temporary basis, but the Consolidated Appropriations Act of 2016 made them permanent.

A nonrefundable Wisconsin credit was first enacted in 1983 Act 27. The credit was set at 30% of the federal credit and was available only in 1984 and 1985, due to its repeal by 1985 Act 29, effective with the 1986 tax year. Three years later, 1989 Act 31 reinstated a refundable state EITC, and for tax years 1989 through 1993, the state credit was calculated as a percentage of the federal credit. Effective for tax year 1994, a separate, stand-alone state credit was established by 1993 Act 16, but 1995 Act 27 modified the credit to again be calculated as a percentage of the federal credit.

Both the federal and Wisconsin credits are refundable, so individuals with little or no net income tax liability may still receive the credit. In 2019, in addition to Wisconsin, 25 other states and the District of Columbia offered an earned income credit that was calculated as a percentage of the federal credit. In Minnesota, the working family credit is based on the claimant's earned income or federal adjusted gross income (AGI), rather than a percentage of the federal credit. California also employs its own calculation procedures using either California earned income or federal AGI. In addition to Wisconsin, 21 states and the District of Columbia offered a refundable EITC, including Maryland where a nonrefundable credit is supplemented with an additional refundable credit for certain taxpayers. Six states (Delaware, Hawaii, Ohio, Oklahoma, South Carolina, and Virginia) provided a nonrefundable credit. Washington has enacted an EITC, but has not yet implemented its credit. Washington is the first state without a state individual income tax to authorize an EITC.

The remainder of this paper presents detailed descriptions and eligibility requirements of the federal and Wisconsin earned income credits, program expenditure data regarding the Wisconsin credit, and a discussion of policy considerations relating to the credit.

Federal Earned Income Tax Credit

Calculation of the Credit

The federal EITC is a refundable credit based on income and family size. The credit has been affected by filing status since 2002.

The EITC is generally based on earned income, although the credit can also be affected by AGI. For claimants whose only income is earned income, the EITC is calculated based on a percentage of earned income up to certain thresholds. The credit gradually increases until earned income reaches the first threshold amount, at which a claimant receives the maximum allowable credit. This income level is referred to as the maximum credit income.

Such claimants are eligible for the maximum credit over a range of income levels, starting at the maximum credit income and ending at a specified phase-out income. For such a claimant whose income exceeds the phase-out income, the credit is gradually reduced as follows: (a) a phase-out rate is applied to the amount by which income exceeds the phase-out income; and (b) the resulting figure is subtracted from the maximum credit to arrive at the allowable credit for a particular claimant. The level of income at which the credit is eliminated is referred to as the maximum income level.

If a claimant has unearned income in addition to earned income, the credit is initially calculated using only earned income, but the phase-out calculation is made using AGI or earned income, whichever is greater. For tax year 2020, the Consolidated Appropriations Act of 2021 (CAA) stipulates that a claimant may elect to use their earned income from the prior taxable year when calculating their EITC for 2020, provided their earned income for 2020 is lower. The components of earned income are described later in the subsection "Income Used in Determining the Credit."

The maximum credit income, phase-out income, and maximum income amounts are adjusted each year for changes in inflation, while the credit percentages and phase-out rates remain the same. Effective for tax year 2018, the Tax Cuts and Jobs Act changed the inflation measure to a calculation that is expected to produce smaller adjustments. The parameters for the federal EITC for tax year 2020 are shown in Table 1.

Table 1: 2020 Federal Credit Provisions*

	No Children	One Child	Two Children	3 or More Children
Credit Percentage	7.65%	34.00%	40.00%	45.00%
Maximum Credit Income	$7,030	$10,540	$14,800	$14,800
Maximum Credit	538	3,584	5,920	6,660
Phase-Out Income	8,790	19,330	19,330	19,330
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%
Maximum Income	15,820	41,756	47,440	50,954

*For married-joint filers, the phase-out incomes and maximum income levels exceed those shown above by $5,890.

As shown in the footnote to Table 1, the phase-out income and maximum income amounts are higher for married-joint filers than for other filers, but prior to tax year 2002, filing status was not a factor in the EITC computation. In 2002, the higher income levels for joint filers were set at an additional $1,000, but were increased to $3,000 in 2008 and $5,000 in 2009. These increases were enacted on a temporary basis and were subject to indexing provisions prior to their scheduled sunset. The Consolidated Appropriations Act of 2016 made the increase provisions permanent. As a result, phase-out income levels for joint filers will be higher by $5,000 plus an indexing adjustment, compared to other filers. For joint filers in 2020, the income levels in the phase-out calculation are higher by $5,890.

Table 2 shows the federal EITC amounts for 2020 at various levels of income for filers who are single or heads-of-households (the credit is not available to married individuals filing separate returns). Table 3 shows similar information for married couples filing joint returns.

The credit for families with one child is calculated as 34% of earned income until income equals $10,540. If income is between $10,540 and $19,330 ($25,220 for joint filers), the maximum

Table 2: 2020 Federal Credit Amounts; Single and Head-of-Household Filers

Earned Income*	No Children	One Child	Two Children	3 or More Children
$0	$0	$0	$0	$0
2,000	153	680	800	900
4,000	306	1,360	1,600	1,800
6,000	459	2,040	2,400	2,700
8,000	538	2,720	3,200	3,600
10,000	445	3,400	4,000	4,500
12,000	292	3,584	4,800	5,400
14,000	139	3,584	5,600	6,300
16,000	0	3,584	5,920	6,660
18,000	0	3,584	5,920	6,660
20,000	0	3,477	5,779	6,519
22,000	0	3,157	5,358	6,098
24,000	0	2,838	4,936	5,676
26,000	0	2,518	4,515	5,255
28,000	0	2,199	4,094	4,834
30,000	0	1,879	3,673	4,413
32,000	0	1,559	3,252	3,992
34,000	0	1,240	2,830	3,570
36,000	0	920	2,409	3,149
38,000	0	601	1,988	2,728
40,000	0	281	1,567	2,307
42,000	0	0	1,146	1,886
44,000	0	0	724	1,464
46,000	0	0	303	1,043
48,000	0	0	0	622
50,000	0	0	0	201
52,000	0	0	0	0

*For claimants other than married-joint filers, the credit is based on the greater of earned income or AGI beginning at $8,790 of income for claimants with no children and $19,330 of income for claimants with one or more children. The credit is eliminated at the following income levels: $15,820 for no children, $41,756 for one child, $47,440 for two children, and $50,954 for three or more children.

credit of $3,584 is provided. Once income exceeds $19,330 ($25,220 for joint filers), the credit is phased-out at a rate of 15.98% (the credit is reduced by 15.98¢ for every additional $1 in income) until it is eliminated when income exceeds $41,756 ($47,646 for joint filers). The same credit structure exists for the other family sizes. This pattern is illustrated in Figure 1, which shows the federal credit for 2020 for single and head-of-household claimants. The pattern for married-joint filers would be identical to that shown in Figure 1. However, the income levels at which the credit would begin to be phased out and at which the credit would be completely phased out would exceed those shown in Figure 1 by $5,890.

Table 3: 2020 Federal Credit Amounts; Married-Joint Filers

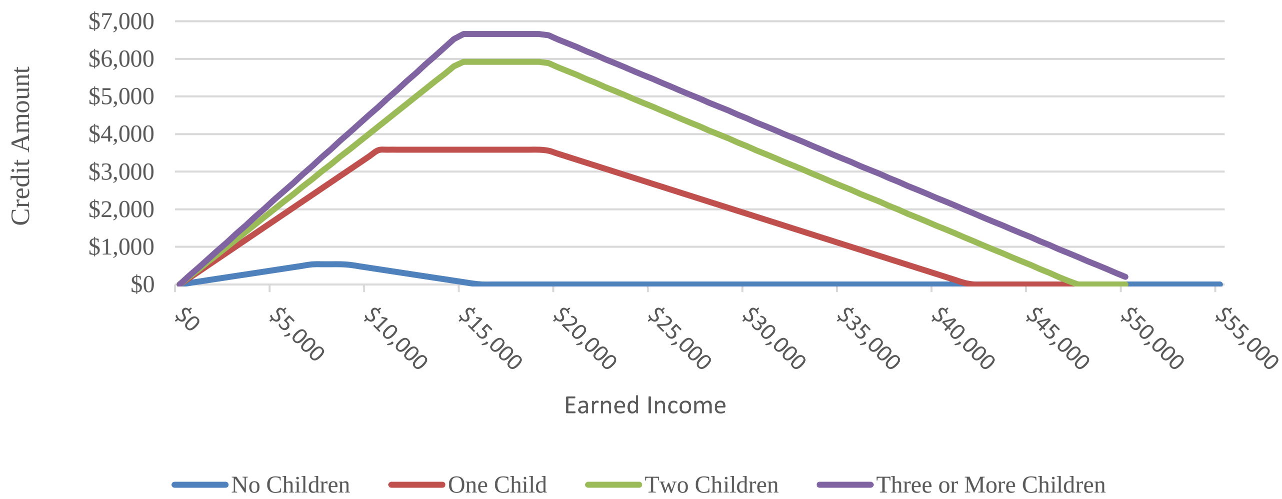
Earned Income*	No Children	One Child	Two Children	3 or More Children
$0	$0	$0	$0	$0
2,000	153	680	800	900
4,000	306	1,360	1,600	1,800
6,000	459	2,040	2,400	2,700
8,000	538	2,720	3,200	3,600
10,000	538	3,400	4,000	4,500
12,000	538	3,584	4,800	5,400
14,000	538	3,584	5,600	6,300
16,000	437	3,584	5,920	6,660
18,000	284	3,584	5,920	6,660
20,000	131	3,584	5,920	6,660
22,000	0	3,584	5,920	6,660
24,000	0	3,584	5,920	6,660
26,000	0	3,459	5,756	6,496
28,000	0	3,140	5,335	6,075
30,000	0	2,820	4,913	5,653
32,000	0	2,501	4,492	5,232
34,000	0	2,181	4,071	4,811
36,000	0	1,861	3,650	4,390
38,000	0	1,542	3,229	3,969
40,000	0	1,222	2,807	3,547
42,000	0	903	2,386	3,126
44,000	0	583	1,965	2,705
46,000	0	263	1,544	2,284
48,000	0	0	1,123	1,863
50,000	0	0	701	1,441
52,000	0	0	280	1,020
54,000	0	0	0	599
56,000	0	0	0	178
58,000	0	0	0	0

*For married-joint filers, the credit is based on the greater of earned income or AGI beginning at $14,680 of income for claimants with no children and $25,220 of income for claimants with one or more children. The credit is eliminated at the following income levels: $21,710 for no children, $47,646 for one child, $53,330 for two children, and $56,844 for three or more children.

Income Used in Determining the Credit

Components of Earned Income. The following types of income are included in earned income for purposes of the EITC: wages; salaries; tips;

Figure 1: 2020 Federal Earned Income Tax Credit (Single and Head-of-Household)



and other forms of taxable employee compensation (which include net earnings from self-employment, strike benefits, long-term disability benefits received before retirement from an employer-provided plan, and income received as a statutory employee). In addition, since tax year 2004, a taxpayer could choose to either include in, or exclude from, earned income combat pay that is excluded from gross income.

The definition of earned income excludes interest, dividends, social security and railroad retirement benefits (including disability benefits), pensions and annuities, welfare benefits, alimony, child support, nontaxable foster care payments, unemployment compensation, veterans' benefits (including VA rehabilitation benefits), workers' compensation, and certain scholarship or fellowship grants.

Earned income also excludes amounts received for services from prison inmates while in prison, Conservation Reserve Program payments if also receiving social security retirement or disability payments, and amounts received for service performed in work activities and from certain community service programs under the federal temporary assistance for needy families (TANF) program. If a claimant files as head-of-household, earned income of the individual's spouse is excluded if the spouse has not been living at the claimant's home at any time during the last six months of the year and the claimant lives in a state that has community property laws. Participants in the Wisconsin Works (W-2) program who are in unsubsidized employment and subsidized jobs are paid a wage, which is counted as earned income under the EITC. In contrast, the W-2 program also provides cash grants to community service job and transitional placement participants, which are not considered earned income under the credit.

AGI Measure. If a claimant's income exceeds the phase-out income amount, then the greater of AGI or earned income is used to calculate the credit.

Disqualified Income. Beginning with tax year 1996, the credit is denied to individuals having disqualified income in excess of a certain limit. The disqualified income limit is $3,650 for 2020 and is adjusted each year for inflation. Disqualified income is defined as taxable and nontaxable interest income, dividends, net income from nonbusiness rents and royalties, capital gain net income, and net passive income (if greater than zero) that is not self-employment income.

In a ruling issued on November 23, 1998, the Internal Revenue Service (IRS) announced that gains realized on the sale of property used in a trade or business are not counted as investment income. Prior to the ruling, a number of individuals were unable to claim the EITC due to the limitation on disqualified income, particularly farmers who had income from the sale of livestock.

Non-Financial Criteria

In order to claim the federal EITC, an individual must either have a qualifying child or meet the following requirements: (a) not be the dependent or a qualifying child of another taxpayer; (b) be at least 25 years old and not more than 65 before the end of the tax year; and (c) have resided in the U.S. for more than half of the year. A qualifying child must meet all of the following conditions:

1. Relationship. A qualifying "child" for purposes of the EITC may be a natural or adopted child, stepchild, sibling, or stepsibling of the claimant, or eligible foster child, or a descendant of any of these.

2. Age. At the end of the year, the child must be: (a) under 19 years old; (b) a full-time student under the age of 24; or (c) any age and totally and permanently disabled. Unless the child is totally and permanently disabled, the child must be younger than the claimant or the spouse of the claimant.

3. Residence. The child must have lived with the claimant in the United States for more than six months during the year. A child who is born or dies during the year qualifies if the child lived with the claimant in the claimant's home for at least half of the year the child was alive.

A child may not be used by more than one person to claim the EITC. If the claimant is a child of another taxpayer, the claimant is ineligible to claim the EITC.

Required Returns

In order to receive the federal credit, claimants must file an income tax return (whether or not they would otherwise be required to file) and a separate earned income credit schedule that provides information on qualifying children. Individuals must provide the name and age of each child and the child’s social security number.

Advance Payment

Between 1979 and 2010, eligible credit recipients were permitted to receive the federal credit in advance, in their paychecks, rather than receiving the credit as a refund when they filed their federal tax return in the following year. Beginning in 2010, Wisconsin permitted credit recipients to also receive their state credit in advance. However, the federal Education, Jobs, and Medicaid Assistance Act of 2010 eliminated advance receipt of the federal credit, as of January 1, 2011. Because state law sets advance payments of the state credit as a percentage of the advance payments of the federal credit, repeal of the federal advance payments effectively eliminated advance payments of state credits.

Historical data regarding the federal EITC are presented in Appendix 1.

State Earned Income Tax Credit

The state EITC is calculated as a percentage of the federal credit and is claimed on Wisconsin's individual income tax form. The credit is similar to the federal EITC in that it varies by income and family size. Appendix 2 outlines the history of the state EITC parameters.

Wisconsin generally follows federal provisions for the EITC. However, a provision in the federal Further Consolidated Appropriations Act of 2020 modified the federal EITC by allowing qualified individuals whose residence is in a disaster area to calculate their credit using their earned income from the prior year, instead of their earned income from the current year, provided their earned income from the prior year is higher. Wisconsin did not adopt this provision for state EITC purposes. In addition, Wisconsin has not adopted the CAA provision allowing a claimant to use earned income from the prior taxable year when calculating their 2020 EITC. As a result, the state EITC for qualified individuals is based on the federal EITC which would have applied had the disaster-related provision and the CAA provision not been in effect.

Table 4 shows the state credit percentages and maximum credit amounts for 2020. The percentages shown in the table have been in effect since tax year 2011, when 2011 Act 32 reduced the percentages for claimants with two children from 14% to 11% and for claimants with three or more children from 43% to 34%. The percentage for claimants with one child was not changed.

Table 4: 2020 State Credit Provisions

	One Child	Two Children	3 or More Children
Percentage of Federal Credit	4%	11%	34%
Maximum State Credit	$143	$651	$2,264

Prior to 2011, the percentages for all three types of claimants had not changed since 1996. Even when there is no change in the credit percentages, the maximum credit amounts change each year as the federal credit structure changes due to indexing for inflation and federal law changes. Families without children and part-year residents are not eligible for the state EITC.

Table 5: 2020 State Credit Amounts; Single and Head-of-Household Filers

Earned Income	One Child	Two Children	3 or More Children
$0	$0	$0	$0
2,000	27	88	306
4,000	54	176	612
6,000	82	264	918
8,000	109	352	1,224
10,000	136	440	1,530
12,000	143	528	1,836
14,000	143	616	2,142
16,000	143	651	2,264
18,000	143	651	2,264
20,000	139	636	2,216
22,000	126	589	2,073
24,000	114	543	1,930
26,000	101	497	1,787
28,000	88	450	1,644
30,000	75	404	1,500
32,000	62	358	1,357
34,000	50	311	1,214
36,000	37	265	1,071
38,000	24	219	928
40,000	11	172	784
42,000	0	126	641
44,000	0	80	498
46,000	0	33	355
48,000	0	0	212
50,000	0	0	68
52,000	0	0	0

The 2020 state credits for claimants at various income levels are outlined in Tables 5 and 6. Table 5 shows the state credits by income level for single and head-of-household claimants, while Table 6 shows the credits by income levels for married-joint filers.

The family size adjustment is significantly greater at the state level than under federal law. The maximum state credit for families with three or more children is nearly 16 times the maximum one-child credit, and the maximum credit for two children is more than four and a half times the one-child credit. At the federal level, the maximum credits for two children and for three or more children are both less than two times the maximum one-child credit.

Table 6: 2020 State Credit Amounts; Married-Joint Filers

Earned Income	One Child	Two Children	3 or More Children
$0	$0	$0	$0
2,000	27	88	306
4,000	54	176	612
6,000	82	264	918
8,000	109	352	1,224
10,000	136	440	1,530
12,000	143	528	1,836
14,000	143	616	2,142
16,000	143	651	2,264
18,000	143	651	2,264
20,000	143	651	2,264
22,000	143	651	2,264
24,000	143	651	2,264
26,000	138	633	2,209
28,000	126	587	2,065
30,000	113	540	1,922
32,000	100	494	1,779
34,000	87	448	1,636
36,000	74	401	1,493
38,000	62	355	1,349
40,000	49	309	1,206
42,000	36	262	1,063
44,000	23	216	920
46,000	11	170	776
48,000	0	123	633
50,000	0	77	490
52,000	0	31	347
54,000	0	0	204
56,000	0	0	60
58,000	0	0	0

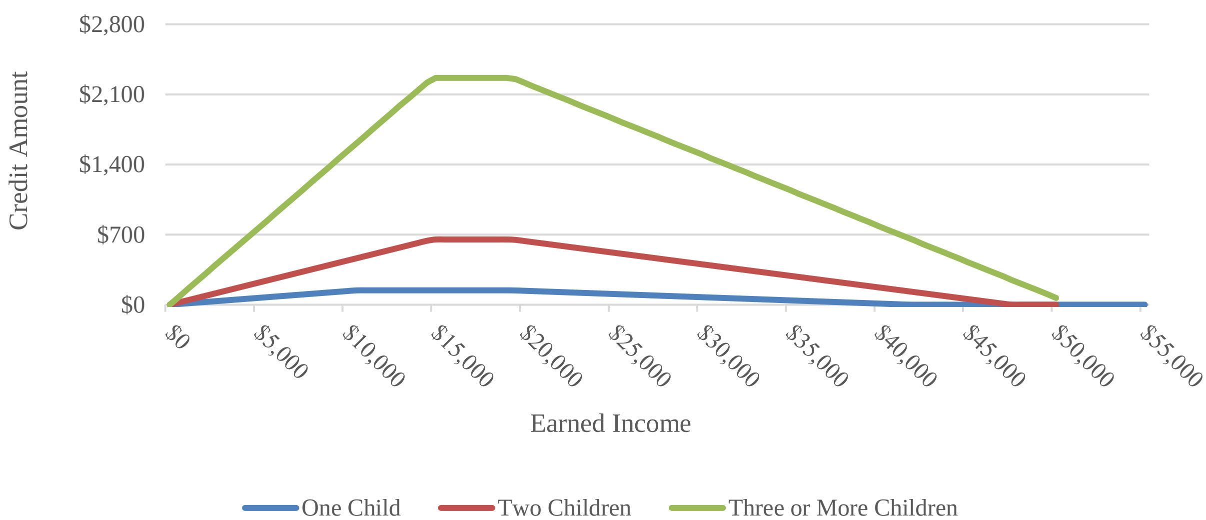
Because the state credit is calculated as a percentage of the federal credit, the state EITC exhibits the same pattern as observed for the federal credit. For families with one child, the credit increases until income reaches $10,540; the credit levels off at the maximum amount ($143) until income reaches $19,330 ($25,220 for joint filers) and then decreases until it reaches zero at income of $41,756 or more ($47,646 or more for joint filers).

These characteristics are depicted in Figure 2, which shows the state EITC for 2020 for claimants other than married-joint filers. The pattern for married-joint filers would be identical to that shown in Figure 2, except that the phase-out income and maximum income levels would exceed those shown in Figure 2 by $5,890.

Wisconsin Program Expenditures

The state EITC is currently paid from two sources: (a) a sum sufficient, general purpose revenue (GPR) appropriation; and (b) federal funding from the TANF program.

Figure 2: 2020 State Earned Income Tax Credit (Single and Head-of-Household)



TANF funding was first used to cover a portion of the cost of the EITC in the 1998-99 fiscal year, when it became clear that federal regulations permitted the use of TANF funds for this purpose. According to federal regulations for the TANF program, TANF funding may be used to cover the share of the EITC that is refunded to the claimant (rather than used to reduce the claimant's income tax liability). However, TANF funds may not be used to provide the credit to certain legal immigrants. Based on the federal requirements and on past experience with refundable credits, and allowing for amounts paid to legal immigrants, it was previously estimated that about 80% of EITC costs could be paid with TANF funds. As the EITC income thresholds have increased due to indexing and law changes, the percentage of EITC costs that can be paid with TANF funds has been reestimated at approximately 75%. Table 7 reports the EITC funding mix by state fiscal year. It reveals that the share of the credit funded by TANF, which comprised 20.0% of credit expenditures in 2009-10, increased in each of the following nine years until the TANF share comprised 74.1% of the credit in 2018-19 and 2019-20. This shift reflects changes in policies used to balance the state's general fund budget.

Table 7 also shows that between 2009-10 and 2019-20, total EITC payments declined by 27.2%. Total payments have declined in seven of the last 11 years. The 2.3% reduction in 2010-11 reflects the national economic downturn (reduced earnings leading to lower credit amounts in some instances), while the 18.1% decrease in 2011-12 is largely due to the Act 32 reductions in the state's credit percentages. Federal law changes contributed to the payment increase in 2009-10, when total payments increased by 31.8%. Those law changes, effective with tax year 2009, included increasing the phase-out thresholds for married-joint filers, thereby increasing the range of income over which claimants were eligible for the EITC, and creating a third tier at the federal level for families with three or more children. Even though Wisconsin already offered a credit for those families, any expansion of the federal credit automatically increases state tax credit payments because the state credit is set as a percentage of the federal credit.

The effect of these factors is also illustrated in Table 8, but by tax year. The table reports the number of EITC claimants, total credit amounts, and the average EITC since 2009. The total number of EITC claimants increased in 2009, but decreased in each of the following years. This reduction in claimants could be partially explained by continued national growth in wages and salaries from 2010 to 2019, which can cause more individuals to earn beyond the maximum income and become ineligible for the credit. The decline in the number of EITC claimants helps explain

Table 7: Historical Wisconsin EITC Expenditures ($ in Millions)

Fiscal Year	GPR	TANF	Total	% Change	% TANF
2009-10	$103.3	$25.9	$129.2	31.8%	20.0%
2010-11	82.5	43.7	126.2	-2.3	34.6
2011-12	59.6	43.7	103.3	-18.1	42.3
2012-13	57.5	43.7	101.2	-2.0	43.2
2013-14	41.3	62.5	103.8	2.6	60.2
2014-15	38.3	62.5	100.8	-2.5	62.0
2015-16	34.2	67.6	101.8	1.0	66.4
2016-17	29.6	69.7	99.3	-2.5	70.2
2017-18	27.4	69.7	97.1	-2.2	71.8
2018-19	24.4	69.7	94.1	-3.1	74.1
2019-20	24.4	69.7	94.1	0.0	74.1

Table 8: Historical Wisconsin EITC Claimants by Tax Year

Tax Year	Count	% Change	Amount (Millions)	% Change	Average	% Change
2009	273,939	12.7%	$127.9	33.5%	$467	18.5%
2010	268,612	-1.9	124.0	-3.0	462	-1.1
2011	268,171	-0.2	100.9	-18.6	376	-18.5
2012	264,830	-1.2	99.6	-1.3	376	-0.1
2013	264,660	-0.1	102.2	2.7	386	2.7
2014	252,918	-4.4	99.6	-2.5	394	2.1
2015	252,898	0.0	99.7	0.1	394	0.1
2016	245,880	-2.8	97.8	-1.9	398	0.9
2017	237,232	-3.5	95.6	-2.2	403	1.3
2018	229,718	-3.2	92.7	-3.0	404	0.1
2019	228,440	-0.6	93.0	0.3	407	0.7

Table 9: State Earned Income Tax Credit in Tax Year 2019 by Adjusted Gross Income

Adjusted Gross Income Amount	Count	Percent of Count	Credit Amount	Percent of Amount	Average Credit
Under $5,000	11,740	5.2%	$2,217,390	2.4%	$189
5,000-10,000	17,440	7.6	5,290,970	5.7	303
10,000-15,000	24,930	10.9	11,971,530	12.9	480
15,000-20,000	27,660	12.1	16,856,470	18.1	609
20,000-25,000	29,950	13.1	16,783,120	18.0	560
25,000 or more	116,720	51.1	39,881,760	42.9	342
Total	228,440	100.0%	$93,001,240	100.0%	$407

Source: 2019 Individual Income Tax Aggregate Data

Table 10: State Earned Income Tax Credit in Tax Year 2019 by Number of Children

Number of Children	Count	Percent of Count	Credit Amount	Percent of Amount	Average Credit
One	115,300	50.5%	$10,280,210	11.1%	$89
Two	70,060	30.6	26,463,460	28.4	378
Three or more	43,080	18.9	56,257,570	60.5	1,306
Total	228,440	100.0%	$93,001,240	100.0%	$407

Source: 2019 Individual Income Tax Aggregate Data

why total EITC payments have decreased in seven of the last 11 state fiscal years, as shown in Table 7.

Table 9 presents the distribution of the state EITC for tax year 2019 by Wisconsin AGI. The table shows 228,440 families claimed $93.0 million under the state EITC in 2019. Most of the credit for 2019 was received by households with income above $20,000; 60.9% of the total benefit went to the 64.2% of claimants in this range of income. Claimants with AGI under $10,000 received 8.1% of the benefit and made up 12.8% of the credit recipients, while the remaining 31.0% of the benefit was received by the 23.0% of claimants with AGI of $10,000 to $20,000.

Table 10 shows the distribution of the 2019 state credits by number of children. The table illustrates how the state credit is targeted to families with three or more children. These households made up 18.9% of the claimants, but received 60.5% of the program's benefits in 2019. In contrast, families with one qualifying child accounted for 50.5% of the claimants, but received 11.1% of the benefits. The average credit was $89 for claimants with one child, $378 for two children, and $1,306 for three or more children.

The total credit amounts shown in Tables 8, 9, and 10 reflect tax year data, and thus differ from the amounts in Table 7, which reflect fiscal year data.

Policy Considerations

Prior to 1975, assistance to the poor was directed primarily to those who did not have income from work--the elderly, the disabled, and children in families with an absent parent. The EITC provides assistance to the working poor through a refundable tax credit that acts as a wage supplement.

At the federal level, the EITC was originally established as a "work bonus" and was rationalized, in part, as a means of offsetting the impact of the social security tax on low-income families. An additional goal was to increase the incentive to work for such families and lessen the inequities between the working poor and recipients of other categorical aid programs such as aid to families with dependent children (now TANF). Further, by reducing the tax burden of low-income persons, the progressivity of the income tax structure was increased.

In the latter half of the 1990s, revisions were made to the federal credit in an attempt to ensure that the credit was directed to lower-income families. Starting with tax year 1996, the disqualified income test was instituted, as was the modification to AGI for purposes of calculating the credit in the phase-out range of income. Effective with the 1998 tax year, the definition of earned income was expanded to include tax-exempt interest and nontaxable distributions from pensions, annuities, and IRAs. However, the modifications to AGI for purposes of calculating the credit and the inclusion of nontaxable income as earned income have been eliminated in order to simplify the credit calculation.

At the state level, the EITC provides income tax relief to low-income families in a manner that is less costly than increasing the standard deduction or personal exemptions--provisions that could provide a benefit to taxpayers at higher income levels. Also, because it is refundable, the state credit can be viewed as an offset to state and local sales and property taxes. As noted, the state EITC is only available to families with children, and is considerably more generous for families with three or more children than for families with one child, as compared to the federal credit.

Other methods to assist the working poor include education and job training, increases in the minimum wage, subsidized child care for low-income workers, and direct grants. The EITC is believed to possess several advantages over these programs. First, funding is targeted directly to those in need of assistance. In addition, administrative efficiency is achieved through the use of the existing income tax system. Finally, the credit's association with the tax system may lessen any stigma associated with traditional welfare-type grant programs.

However, there are a number of criticisms of the EITC. First, it is argued that appropriate job training and greater employment opportunities are more important factors in promoting the employment of low-income individuals. In addition, the federal and state credits do not directly account for other wealth of the claimant or non-taxed income. Further, higher benefit amounts require a greater phase-out rate in order to exclude higher-income families from eligibility. This results in a higher effective marginal tax rate on recipients within the phase-out income range and may provide a disincentive to earn additional income from wages or self-employment.

It is also argued that the credit may discourage marriage in certain situations. For example, two unmarried individuals might each qualify for the credit if their incomes were considered separately yet not qualify if their incomes were combined on a joint tax return. The phase-out ranges for joint filers have been increased over those for single individuals, which reduces, but does not eliminate, this aspect of the marriage penalty.

Another aspect of the marriage penalty is the way in which the size of the EITC varies with the number of dependent children. The federal EITC does not increase when a filer has more than three dependent children, so a marriage that creates a family with more than three children may result in a lower EITC than if the individuals had remained unmarried. (The same would be true with the state EITC if a combined family resulted in more than three dependent children).

Inappropriately claimed credits have also posed a problem for the federal credit. In order to address noncompliance, federal law now requires claimants to provide social security numbers for themselves and their children when filing for the credit. This is intended to reduce fraudulent claims by individuals who do not have qualifying children and individuals who are not authorized to work in the U.S. Also, the IRS imposes "due diligence" requirements on paid preparers who fill out EITC claims, and preparers failing to meet those requirements are subject to penalties.

Measures to address inappropriately claimed credits have also been implemented at the state level. A provision enacted in 2013 Act 20 prohibits an individual who files a fraudulent claim for an earned income tax credit from filing for an EITC claim for ten successive tax years and a person who files a reckless EITC claim from applying for the credit for two successive tax years. The provision defines "fraudulent claim" as a claim that is false or excessive and filed with fraudulent intent and "reckless claim" as a claim that is improper due to reckless or intentional disregard of the provisions related to the credit in state statutes, rules, and regulations. The statutes grant the Department of Revenue (DOR) the authority to determine what is fraudulent or reckless. The prohibition from filing an EITC claim begins with the tax year beginning immediately after the year for which DOR determines that an individual has filed the fraudulent or reckless claim. After the period for which a person has been prohibited from filing for an EITC claim expires, an individual filing an EITC claim is subject to any requirements that DOR may impose to demonstrate eligibility for the credit. In addition to the EITC, this provision applies to all other refundable tax credits offered by the state.

In 2019-20, DOR determined that 40 EITC claims with credits totaling $5,026 were reckless and two claims for $768 were fraudulent. However, it should be noted that because the deadline to file 2019 income tax returns was extended from April 15, 2020, to July 15, 2020, DOR states that it delayed initiating denials of several 2019-20 credit claims until 2020-21.

Provisions enacted as 2017 Act 270 authorize DOR to conduct a two-year pilot program that studies federal EITC recipients, with assistance from the IRS. The study would select two groups of likely EITC recipients, and would make estimated payments of the federal credit to one of the groups on an advance basis. DOR would then compare the financial stability of the two groups of credit recipients. The program is contingent on DOR and the IRS entering into an agreement to conduct the pilot program, and, to date, no agreement has been reached.

APPENDIX 1

Federal Earned Income Tax Credit History

A. Tax Years 1975 Through 1990	1975-1978	1979-1984	1985-1986	1987	1988	1989	1990
Credit Percentage	10.00%	10.00%	11.00%	14.00%	14.00%	14.00%	14.00%
Maximum Credit Income	$4,000	$5,000	$5,000	$6,075	$6,225	$6,500	$6,810
Maximum Credit	400	500	550	851	874	910	953
Phase-Out Income Threshold	4,000	6,000	6,500	6,925	9,850	10,250	10,730
Maximum Income	8,000	10,000	11,000	15,432	18,576	19,340	20,264
Phase-Out Rate	10.00%	12.50%	12.22%	10.00%	10.00%	10.00%	10.00%

	1991				1992				1993			
	Basic Credit		Supplemental Credits		Basic Credit		Supplemental Credits		Basic Credit		Supplemental Credits	
B. Tax Years 1991 Through 1993	One Child	2 or More Children	Young Child	Health Insurance	One Child	2 or More Children	Young Child	Health Insurance	One Child	2 or More Children	Young Child	Health Insurance
Credit Percentage	16.70%	17.30%	5.00%	6.00%	17.60%	18.40%	5.00%	6.00%	18.50%	19.50%	5.00%	6.00%
Maximum Credit Income	$7,140	$7,140	$7,140	$7,140	$7,520	$7,520	$7,520	$7,520	$7,750	$7,750	$7,750	$7,750
Maximum Credit	1,192	1,235	357	428	1,324	1,384	376	451	1,434	1,511	388	465
Phase-Out Income Threshold	11,250	11,250	11,250	11,250	11,840	11,840	11,840	11,840	12,200	12,200	12,200	12,200
Maximum Income	21,250	21,250	21,250	21,250	22,370	22,370	22,370	22,370	23,050	23,050	23,050	23,050
Phase-Out Rate	11.93%	12.36%	3.57%	4.29%	12.57%	13.14%	3.57%	4.29%	13.22%	13.93%	3.58%	4.29%

APPENDIX 1 (continued)

Federal Earned Income Tax Credit History

C. Tax Years 1994 Through 2008	No Children	One Child	2 or More Children	No Children	One Child	2 or More Children	No Children	One Child	2 or More Children
		1994			1995			1996	
Credit Percentage	7.65%	26.30%	30.00%	7.65%	34.00%	36.00%	7.65%	34.00%	40.00%
Maximum Credit Income	$4,000	$7,750	$8,425	$4,100	$6,160	$8,640	$4,220	$6,330	$8,890
Maximum Credit	306	2,038	2,528	314	2,094	3,110	323	2,152	3,556
Phase-Out Income Threshold	5,000	11,000	11,000	5,135	11,290	11,290	5,280	11,610	11,610
Maximum Income	9,000	23,760	25,300	9,230	24,396	26,673	9,500	25,078	28,495
Phase-Out Rate	7.65%	15.98%	17.68%	7.65%	15.98%	20.22%	7.65%	15.98%	21.06%
		1997			1998			1999	
Credit Percentage	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%
Maximum Credit Income	$4,340	$6,510	$9,140	$4,460	$6,680	$9,390	$4,530	$6,800	$9,540
Maximum Credit	332	2,210	3,656	341	2,271	3,756	347	2,312	3,816
Phase-Out Income Threshold	5,430	11,930	11,930	5,570	12,260	12,260	5,670	12,460	12,460
Maximum Income	9,770	25,760	29,290	10,030	26,473	30,095	10,200	26,928	30,580
Phase-Out Rate	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%
		2000			2001			2002*	
Credit Percentage	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%
Maximum Credit Income	$4,610	$6,920	$9,720	$4,760	$7,140	$10,020	$4,910	$7,370	$10,350
Maximum Credit	353	2,353	3,888	364	2,428	4,008	376	2,506	4,140
Phase-Out Income Threshold	5,770	12,690	12,690	5,950	13,090	13,090	6,150	13,520	13,520
Maximum Income	10,380	27,413	31,152	10,710	28,281	32,121	11,060	29,201	33,178
Phase-Out Rate	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%
		2003*			2004*			2005*	
Credit Percentage	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%
Maximum Credit Income	$4,990	$7,490	$10,510	$5,100	$7,660	$10,750	$5,220	$7,830	$11,000
Maximum Credit	382	2,547	4,204	390	2,604	4,300	399	2,662	4,400
Phase-Out Income Threshold	6,240	13,730	13,730	6,390	14,040	14,040	6,530	14,370	14,370
Maximum Income	11,230	29,666	33,692	11,490	30,338	34,458	11,750	31,030	35,263
Phase-Out Rate	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%
		2006*			2007*			2008*	
Credit Percentage	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%
Maximum Credit Income	$5,380	$8,080	$11,340	$5,590	$8,390	$11,790	$5,720	$8,580	$12,060
Maximum Credit	412	2,747	4,536	428	2,853	4,716	438	2,917	4,824
Phase-Out Income Threshold	6,740	14,810	14,810	7,000	15,390	15,390	7,160	15,740	15,740
Maximum Income	12,120	32,001	36,348	12,590	33,241	37,783	12,880	33,995	38,646
Phase-Out Rate	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%

APPENDIX 1 (continued)

Federal Earned Income Tax Credit History

D. Tax Years 2009 Through 2018	No Children	One Child	Two Children	3 or More Children	No Children	One Child	Two Children	3 or More Children
	2009*				2010*			
Credit Percentage	7.65%	34.00%	40.00%	45.00%	7.65%	34.00%	40.00%	45.00%
Maximum Credit Income	$5,970	$8,950	$12,570	$12,570	$5,980	$8,970	$12,590	$12,590
Maximum Credit	457	3,043	5,028	5,657	457	3,050	5,036	5,666
Phase-Out Income Threshold	7,470	16,420	16,420	16,420	7,480	16,450	16,450	16,450
Maximum Income	13,440	35,463	40,295	43,279	13,460	35,535	40,363	43,352
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%	7.65%	15.98%	21.06%	21.06%
	2011*				2012*			
Credit Percentage	7.65%	34.00%	40.00%	45.00%	7.65%	34.00%	40.00%	45.00%
Maximum Credit Income	$6,070	$9,100	$12,780	$12,780	$6,210	$9,320	$13,090	$13,090
Maximum Credit	464	3,094	5,112	5,751	475	3,169	5,236	5,891
Phase-Out Income Threshold	7,590	16,690	16,690	16,690	7,770	17,090	17,090	17,090
Maximum Income	13,660	36,052	40,964	43,998	13,980	36,920	41,952	45,060
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%	7.65%	15.98%	21.06%	21.06%
	2013*				2014*			
Credit Percentage	7.65%	34.00%	40.00%	45.00%	7.65%	34.00%	40.00%	45.00%
Maximum Credit Income	$6,370	$9,560	$13,430	$13,430	$6,480	$9,720	$13,650	$13,650
Maximum Credit	487	3,250	5,372	6,044	496	3,305	5,460	6,143
Phase-Out Income Threshold	7,970	17,530	17,530	17,530	8,110	17,830	17,830	17,830
Maximum Income	14,340	37,870	43,038	46,227	14,590	38,511	43,756	46,997
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%	7.65%	15.98%	21.06%	21.06%
	2015*				2016*			
Credit Percentage	7.65%	34.00%	40.00%	45.00%	7.65%	34.00%	40.00%	45.00%
Maximum Credit Income	$6,580	$9,880	$13,870	$13,870	$6,610	$9,920	$13,930	$13,930
Maximum Credit	503	3,359	5,548	6,242	506	3,373	5,572	6,269
Phase-Out Income Threshold	8,240	18,110	18,110	18,110	8,270	18,190	18,190	18,190
Maximum Income	14,820	39,131	44,454	47,747	14,880	39,296	44,648	47,955
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%	7.65%	15.98%	21.06%	21.06%
	2017*				2018*			
Credit Percentage	7.65%	34.00%	40.00%	45.00%	7.65%	34.00%	40.00%	45.00%
Maximum Credit Income	$6,670	$10,000	$14,040	$14,040	$6,780	$10,180	$14,290	$14,290
Maximum Credit	510	3,400	5,616	6,318	519	3,461	5,716	6,431
Phase-Out Income Threshold	8,340	18,340	18,340	18,340	8,490	18,660	18,660	18,660
Maximum Income	15,010	39,617	45,007	48,340	15,270	40,320	45,802	49,194
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%	7.65%	15.98%	21.06%	21.06%

APPENDIX 1 (continued)

Federal Earned Income Tax Credit History

D. Tax Years 2019 Through 2020	No Children	One Child	Two Children	3 or More Children	No Children	One Child	Two Children	3 or More Children
	2019*				2020*			
Credit Percentage	7.65%	34.00%	40.00%	45.00%	7.65%	34.00%	40.00%	45.00%
Maximum Credit Income	$6,920	$10,370	$14,570	$14,570	$7,030	$10,540	$14,800	$14,800
Maximum Credit	529	3,526	5,828	6,557	538	3,584	5,920	6,660
Phase-Out Income Threshold	8,650	19,030	19,030	19,030	8,790	19,330	19,330	19,330
Maximum Income	15,570	41,094	46,703	50,162	15,820	41,756	47,440	50,954
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%	7.65%	15.98%	21.06%	21.06%

*For married-joint filers, the phase-out income thresholds and maximum income levels exceed those shown above by $1,000 from 2002 through 2005, $2,000 for 2006 and 2007, $3,000 for 2008, $5,000 for 2009, $5,010 for 2010, $5,080 for 2011, $5,210 for 2012, $5,340 for 2013, $5,430 for 2014, $5,520 ($5,510 for no children) for 2015, $5,550 for 2016, $5,590 for 2017, $5,690 ($5,680 for no children) for 2018, $5,790 ($5,800 for no children) for 2019, and $5,890 for 2020.

APPENDIX 2

State Earned Income Tax Credit History

	1984	1985	1986-88	1989	1990	1991	1992	1993	1995	1996	1997	1998
Percentage of Federal Credit												
One Child	30%	30%	None	5%	5%	5%	5%	5%	4%	4%	4%	4%
Two Children	30%	30%	None	25%	25%	25%	25%	25%	16%	14%	14%	14%
Three or More Children	30%	30%	None	75%	75%	75%	75%	75%	50%	43%	43%	43%
Maximum State Credit												
One Child	$150	$165	None	$46	$48	$60	$66	$72	$84	$86	$88	$91
Two Children	150	165	None	228	238	309	346	378	498	498	512	526
Three or More Children	150	165	None	683	715	926	1,038	1,133	1,555	1,529	1,572	1,615
Refundable	No	No	None	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Percentage of Federal Credit												
One Child	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Two Children	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Three or More Children	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%
Maximum State Credit												
One Child	$92	$94	$97	$100	$102	$104	$106	$110	$114	$117	$122	$122
Two Children	534	544	561	580	589	602	616	635	660	675	704	705
Three or More Children	1,641	1,672	1,723	1,780	1,808	1,849	1,892	1,950	2,028	2,074	2,432	2,436
Refundable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

APPENDIX 2 (continued)

State Earned Income Tax Credit History

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Percentage of Federal Credit										
One Child	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Two Children	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Three or More Children	34%	34%	34%	34%	34%	34%	34%	34%	34%	34%
Maximum State Credit										
One Child	$124	$127	$130	$132	$134	$135	$136	$138	$141	$143
Two Children	562	576	591	601	610	613	618	629	641	651
Three or More Children	1,955	2,003	2,055	2,088	2,122	2,131	2,148	2,187	2,229	2,264
Refundable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Tax Year 1994*

	One Child	Two Children	3 or More Children
Credit Percentage	1.15%	6.25%	18.75%
Maximum Credit Income	$7,980	$7,980	$7,980
Maximum Credit	92	499	1,496
Phase-Out Income Threshold	12,570	12,570	12,570
Maximum Income	23,740	23,740	23,740
Phase-Out Rate	0.82%	4.47%	13.40%
Refundable	Yes	Yes	Yes

*The credit for tax years 1984 through 1993 and tax years 1995 and after is calculated as a percentage of the federal credit. In 1994, a stand-alone state credit was provided.