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Earned Income Tax Credit

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Earned Income Tax Credit

Introduction

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 2021, a total of 28 states (including Wisconsin) and the District of Columbia offered a state EITC or equivalent credit. A state EITC calculated as a percentage of the federal credit was offered by Wisconsin, 25 other states, and the District of Columbia. 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, 22 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. Five states (Hawaii, Ohio, Oklahoma, South Carolina, and Virginia) provided a nonrefundable credit in 2021. 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 tax year 2022 federal and Wisconsin earned income credits, historical 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. 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 the chained consumer price index, while the credit percentages and phase-out rates remain the same. The parameters for the federal EITC for tax year 2022 are shown in Table 1.

Table 1: 2022 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	$7,320	$10,980	$15,410	$15,410
Maximum Credit	560	3,733	6,164	6,935
Phase-Out Income	9,160	20,130	20,130	20,130
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%
Maximum Income	16,480	43,492	49,399	53,057

*For married-joint filers, the phase-out incomes and maximum income levels exceed those shown above by $6,130.

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 are higher by $5,000 plus an indexing adjustment, compared to other filers. For joint filers in 2022, the income levels in the phase-out calculation are higher by $6,130.

Table 2 shows the federal EITC amounts for 2022 at various levels of income for filers who are single or heads-of-households. Table 3 shows similar information for married couples filing joint returns. The credit is not available to married individuals filing separate returns, except in certain limited circumstances for federal tax purposes (generally, an eligible married-separate filer cannot be a member of the same household as their spouse).

Table 2: 2022 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	560	2,720	3,200	3,600
10,000	496	3,400	4,000	4,500
12,000	343	3,733	4,800	5,400
14,000	190	3,733	5,600	6,300
16,000	37	3,733	6,164	6,935
18,000	0	3,733	6,164	6,935
20,000	0	3,733	6,164	6,935
22,000	0	3,434	5,770	6,541
24,000	0	3,115	5,349	6,119
26,000	0	2,795	4,928	5,698
28,000	0	2,476	4,507	5,277
30,000	0	2,156	4,085	4,856
32,000	0	1,836	3,664	4,435
34,000	0	1,517	3,243	4,013
36,000	0	1,197	2,822	3,592
38,000	0	878	2,401	3,171
40,000	0	558	1,979	2,750
42,000	0	238	1,558	2,329
44,000	0	0	1,137	1,907
46,000	0	0	716	1,486
48,000	0	0	295	1,065
50,000	0	0	0	644
52,000	0	0	0	223
54,000	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 $9,160 of income for claimants with no children and $20,130 of income for claimants with one or more children. The credit is eliminated at the following income levels: $16,480 for no children, $43,492 for one child, $49,399 for two children, and $53,057 for three or more children.

The credit for families with one child is calculated as 34% of earned income until income equals $10,980. If income is between $10,980 and $20,130 ($26,260 for joint filers), the maximum credit of $3,733 is provided. Once income exceeds $20,130 ($26,260 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 $43,492 ($49,622 for joint filers). The same credit structure exists for the other family sizes.

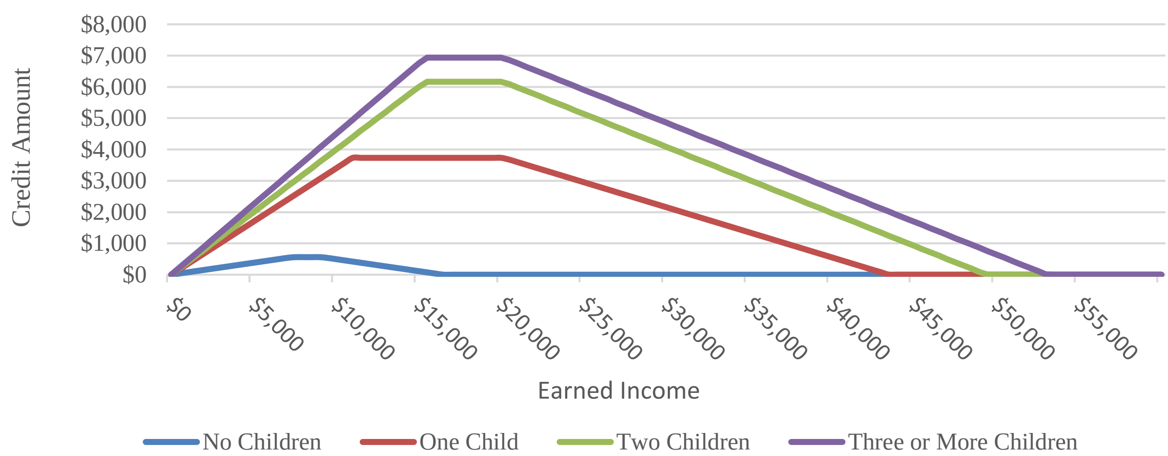
Table 3: 2022 Federal Credit Amounts; Married-Joint Filers

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	560	2,720	3,200	3,600
10,000	560	3,400	4,000	4,500
12,000	560	3,733	4,800	5,400
14,000	560	3,733	5,600	6,300
16,000	506	3,733	6,164	6,935
18,000	353	3,733	6,164	6,935
20,000	200	3,733	6,164	6,935
22,000	47	3,733	6,164	6,935
24,000	0	3,733	6,164	6,935
26,000	0	3,733	6,164	6,935
28,000	0	3,455	5,798	6,568
30,000	0	3,136	5,376	6,147
32,000	0	2,816	4,955	5,726
34,000	0	2,496	4,534	5,304
36,000	0	2,177	4,113	4,883
38,000	0	1,857	3,692	4,462
40,000	0	1,538	3,270	4,041
42,000	0	1,218	2,849	3,620
44,000	0	898	2,428	3,198
46,000	0	579	2,007	2,777
48,000	0	259	1,586	2,356
50,000	0	0	1,164	1,935
52,000	0	0	743	1,514
54,000	0	0	322	1,092
56,000	0	0	0	671
58,000	0	0	0	250
60,000	0	0	0	0

*For married-joint filers, the credit is based on the greater of earned income or AGI beginning at $15,290 of income for claimants with no children and $26,260 of income for claimants with one or more children. The credit is eliminated at the following income levels: $22,610 for no children, $49,622 for one child, $55,529 for two children, and $59,187 for three or more children.

This pattern is illustrated in Figure 1, which shows the federal credit for 2022 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 $6,130.

Figure 1: 2022 Federal Earned Income Tax Credit (Single and Head-of-Household)



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; 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 was increased under the American Rescue Plan Act of 2021 (ARPA) for federal tax purposes beginning in tax year

2021. The limit is adjusted each year for inflation and is $10,300 for 2022. However, state law did not adopt this ARPA provision, so the disqualified income limit for state tax purposes is $3,800 for 2022. 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 in tax year 2022, 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 qualifying 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 set 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. This provision was repealed from the state statutes under 2021 Act 127.

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, as discussed at the end of this section, Wisconsin has not conformed to certain recently enacted federal provisions that modified the EITC, including any of the provisions established under ARPA.

Table 4 shows the state credit percentages and maximum credit amounts for 2022. 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: 2022 State Credit Provisions

	One Child	Two Children	3 or More Children
Percentage of Federal Credit	4%	11%	34%
Maximum State Credit	$149	$678	$2,358

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. Families without children and part-year residents are not eligible for the state EITC.

The 2022 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 level for married-joint filers.

Table 5: 2022 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	149	528	1,836
14,000	149	616	2,142
16,000	149	678	2,358
18,000	149	678	2,358
20,000	149	678	2,358
22,000	137	635	2,224
24,000	125	588	2,081
26,000	112	542	1,937
28,000	99	496	1,794
30,000	86	449	1,651
32,000	73	403	1,508
34,000	61	357	1,365
36,000	48	310	1,221
38,000	35	264	1,078
40,000	22	218	935
42,000	10	171	792
44,000	0	125	649
46,000	0	79	505
48,000	0	32	362
50,000	0	0	219
52,000	0	0	76
54,000	0	0	0

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.

Because the state credit is calculated as a percentage of the federal credit, the state EITC exhibits the same pattern as observed for the

Table 6: 2022 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	149	528	1,836
14,000	149	616	2,142
16,000	149	678	2,358
18,000	149	678	2,358
20,000	149	678	2,358
22,000	149	678	2,358
24,000	149	678	2,358
26,000	149	678	2,358
28,000	138	638	2,233
30,000	125	591	2,090
32,000	113	545	1,947
34,000	100	499	1,804
36,000	87	452	1,660
38,000	74	406	1,517
40,000	62	360	1,374
42,000	49	313	1,231
44,000	36	267	1,087
46,000	23	221	944
48,000	10	174	801
50,000	0	128	658
52,000	0	82	515
54,000	0	35	371
56,000	0	0	228
58,000	0	0	85
60,000	0	0	0

federal credit. For families with one child, the credit increases until income reaches $10,980; the credit levels off at the maximum amount ($149) until income reaches $20,130 ($26,260 for joint filers) and then decreases until it reaches zero at income of $43,492 or more ($49,622 or more for joint filers).

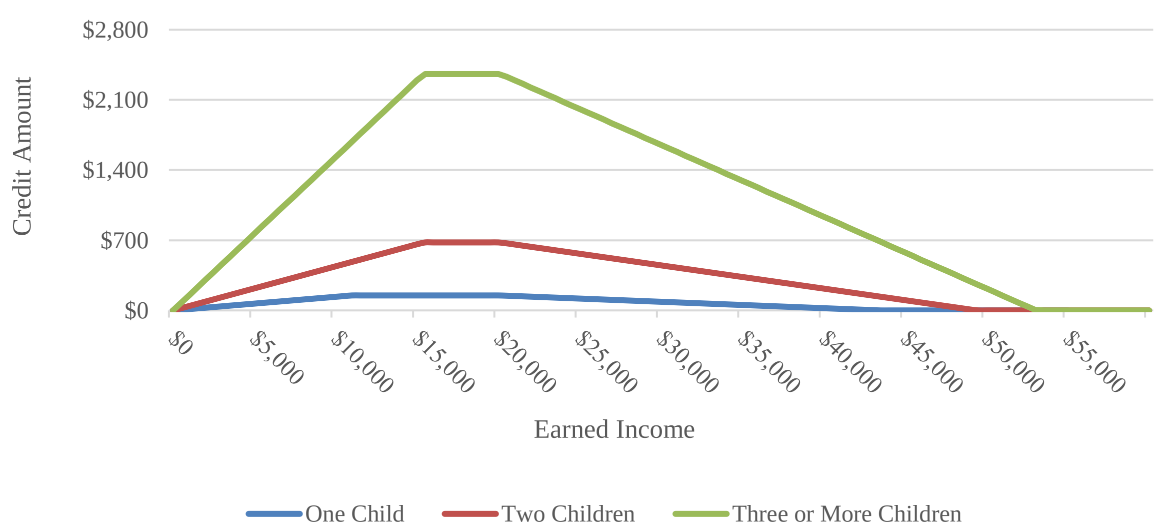
The characteristics of the credit are depicted in Figure 2, which shows the state EITC for 2022 for claimants other than married-joint filers. The pattern for married-joint filers would be identical to that shown in Figure 2, except that the phase-out income and maximum income levels would exceed those shown in Figure 2 by $6,130.

Recent Federal EITC Provisions not Adopted by Wisconsin

Several EITC law changes instituted at the federal level in recent years have not been adopted by Wisconsin. A brief description of these provisions follows.

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 (for certain qualified disasters declared in 2019 and 2020) to calculate their credit using their earned income from the

Figure 2: 2022 State Earned Income Tax Credit (Single and Head-of-Household)



prior year, instead of their earned income from the current year, provided their earned income from the prior year is higher. This provision was not adopted for tax years 2019 and 2020 under 2021 Act 1.

For tax year 2020, the Consolidated Appropriations Act of 2021 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. This provision was adopted in state law under 2021 Act 1. However, a similar provision for tax year 2021 was included in ARPA, but was not adopted for state tax purposes.

ARPA temporarily enhanced the EITC for eligible individuals with no qualifying children for tax year 2021, such that the maximum credit amount increased from $543 to $1,502 that year. This expansion of the federal credit for individuals without qualifying dependents was not reauthorized for tax year 2022. Because Wisconsin does not offer the EITC to individuals without qualifying children, this provision was not adopted for state tax purposes.

A separate provision of ARPA temporarily allowed otherwise eligible individuals aged 19-24 (18 for qualified homeless or former foster youth), and aged 65 or older, to claim the credit for tax year 2021, but this was not extended to subsequent tax years. This provision was not adopted for state tax purposes.

Beginning in tax year 2021, ARPA allows certain married-separate filers to claim the EITC if the claimant: (a) lives with their qualifying child (for purposes of the EITC) for more than half the year; and (b) during the last six months of the relevant tax year, did not live in the same principal dwelling as their spouse (or possesses a divorce or separation instrument relating to their spouse and is not a member of the same household as their spouse at the end of the relevant tax year).

Finally, as previously mentioned, the disqualified investment income limit was increased under ARPA for federal tax purposes beginning in tax year 2021, and is $10,300 for 2022. Wisconsin did not adopt any of the EITC provisions of ARPA.

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.

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, TANF expenditures were budgeted to fund 75% of total EITC expenditures under 2021 Act 58 (the 2021-23 biennial budget act). Table 7 reports the EITC funding mix by state fiscal year. It reveals that the

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

Fiscal Year	GPR	TANF	Total	% Change	% TANF
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
2020-21	18.4	69.7	88.1	-6.4	79.1
2021-22	23.6	53.9	77.5	-12.0	69.5

share of the credit funded by TANF, which comprised 42.3% of credit expenditures in 2011-12, increased in each of the following years until 2021-22. This shift reflects changes in policies used to balance the state's general fund budget. In response to continually lower credit expenditures estimated for the 2021-23 biennium, the amount of TANF monies appropriated for the EITC under Act 58 was reduced from $69.7 million in 2020-21 to $63.6 million in 2021-22 and $66.6 million in 2022-23. Actual TANF expenditures for 2021-22 were even lower ($53.9 million) in response to lower than anticipated overall EITC claims.

Table 7 also shows that between 2011-12 and 2021-22, total EITC payments declined by 25.0%. Total payments have declined in eight of the last 11 state fiscal years. The 18.1% decrease in 2011-12 is largely due to the aforementioned Act 32 reductions in the state's credit percentages. Also, in response to the COVID-19 pandemic, the federal government provided significant enhancements to unemployment compensation during 2020 and 2021. This likely caused many unemployment recipients to receive lower EITC amounts, or be disqualified from the credit altogether, in 2020-21 and 2021-22. Unemployment compensation is included in federal AGI, but is not considered earned income. As a result, receipt of unemployment benefits can only serve to reduce the EITC for which a claimant would otherwise be eligible.

Table 8 reports the number of EITC claimants, total credit amounts, and the average EITC by tax year since 2010. The total number of EITC claimants has decreased in each of the years shown. This reduction in claimants could be partially explained by continued national growth in wages and salaries from 2010 to 2020, which can cause more individuals to earn beyond the maximum income and become ineligible for the credit. In addition, the significant increase in federal unemployment benefits likely contributed to the steeper claimant reduction in 2020. The decline in the number of EITC claimants helps explain why total EITC payments have decreased in eight of the last 11 years. The previously mentioned Act 32 reimbursement percentage reductions contributed to the significant decline in total expenditures shown in Table 8 for tax year 2011.

Table 8: Historical Wisconsin EITC Claimants by Tax Year

Tax Year	Count	% Change	Amount (Millions)	% Change	Average	% Change
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	228,457	-0.5	93.0	0.3	407	0.7
2020	216,800	-5.1	86.0	-7.5	397	-2.5

Table 9 presents the distribution of the state EITC for tax year 2020 by Wisconsin AGI. The table shows 216,800 families claimed $86.0 million under the state EITC in 2020. Most of the credit for 2020 was received by households with income above $20,000; 59.6% of the total benefit went to the 63.8% of claimants in this range of income. Claimants with AGI under $10,000 received 12.8% of the benefit and made up 15.5% of the credit recipients, while the remaining 27.6% of the benefit was received by the 20.7% of claimants with AGI of $10,000 to $20,000.

Table 10 shows the distribution of the 2020 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 18.6% of the claimants, but received 60.4% of the program's benefits in 2020. In contrast, families with one qualifying child accounted for 51.0% of the claimants, but received 11.2% of the benefits. The average credit was $87 for claimants with one child, $370 for two children, and $1,287 for three or more children.

The total credit amounts shown in Tables 8, 9,

Table 9: State Earned Income Tax Credit in Tax Year 2020 by Adjusted Gross Income

Adjusted Gross Income Amount	Count	Percent of Count	Credit Amount	Percent of Amount	Average Credit
Under $5,000	15,950	7.3%	$4,469,900	5.2%	$280
5,000-10,000	17,780	8.2	6,512,860	7.6	366
10,000-15,000	21,770	10.0	10,298,450	12.0	473
15,000-20,000	23,100	10.7	13,449,670	15.6	582
20,000-25,000	24,870	11.5	13,313,400	15.5	535
25,000 or more	113,330	52.3	37,949,770	44.1	335
Total	216,800	100.0%	$85,994,050	100.0%	$397

Source: 2020 Individual Income Tax Aggregate Data

Table 10: State Earned Income Tax Credit in Tax Year 2020 by Number of Children

Number of Children	Count	Percent of Count	Credit Amount	Percent of Amount	Average Credit
One	110,500	51.0%	$9,619,250	11.2%	$87
Two	65,920	30.4	24,387,040	28.4	370
Three or more	40,380	18.6	51,987,760	60.4	1,287
Total	216,800	100.0%	$85,994,050	100.0%	$397

Source: 2020 Individual Income Tax Aggregate Data

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 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.

Provisions enacted as 2017 Act 270 authorized DOR to conduct a two-year pilot program that would have studied federal EITC recipients, with assistance from the IRS. The study would have selected two groups of likely EITC recipients, and would have made estimated payments of the federal credit to one of the groups on an advance basis. DOR would then have compared the financial stability of the two groups of credit recipients. The program was contingent on DOR and the IRS entering into an agreement to conduct the pilot program for tax years 2019 and 2020, but no agreement was 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

	1994 No Children	1994 One Child	1994 2 or More Children	1995 No Children	1995 One Child	1995 2 or More Children	1996 No Children	1996 One Child	1996 2 or More Children
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 No Children	1997 One Child	1997 2 or More Children	1998 No Children	1998 One Child	1998 2 or More Children	1999 No Children	1999 One Child	1999 2 or More Children
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 No Children	2000 One Child	2000 2 or More Children	2001 No Children	2001 One Child	2001 2 or More Children	2002* No Children	2002* One Child	2002* 2 or More Children
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* No Children	2003* One Child	2003* 2 or More Children	2004* No Children	2004* One Child	2004* 2 or More Children	2005* No Children	2005* One Child	2005* 2 or More Children
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* No Children	2006* One Child	2006* 2 or More Children	2007* No Children	2007* One Child	2007* 2 or More Children	2008* No Children	2008* One Child	2008* 2 or More Children
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

E. Tax Years 2019 Through 2022	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%
	2021*				2022*			
Credit Percentage	15.30%	34.00%	40.00%	45.00%	7.65%	34.00%	40.00%	45.00%
Maximum Credit Income	$9,820	$10,640	$14,950	$14,950	$7,320	$10,980	$15,410	$15,410
Maximum Credit	1,502	3,618	5,980	6,728	560	3,733	6,164	6,935
Phase-Out Income Threshold	11,610	19,520	19,520	19,520	9,160	20,130	20,130	20,130
Maximum Income	21,430	42,158	47,915	51,464	16,480	43,492	49,399	53,057
Phase-Out Rate	15.30%	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, $5,890 for 2020, $5,950 ($5,940 for no children) for 2021, and $6,130 for 2022.

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	2021	2022
Percentage of Federal Credit												
One Child	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Two Children	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Three or More Children	34%	34%	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	$145	$149
Two Children	562	576	591	601	610	613	618	629	641	651	658	678
Three or More Children	1,955	2,003	2,055	2,088	2,122	2,131	2,148	2,187	2,229	2,264	2,287	2,358
Refundable	Yes	Yes	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.