



Promoting Health and Cost Control in States:

How States Can Improve Community Health & Well-being Through Policy Change

Earned Income Tax Credit

KEY TAKEAWAYS

What is the Earned Income Tax Credit?

- A state earned income tax credit (EITC) can supplement the earnings of low-income workers by reducing the qualifying taxpayers' amount of tax owed based on income level, marital status, and number of dependent children.
- A state EITC can supplement the federal EITC, a federal tax credit provided to qualifying low- and moderate-income workers.¹

How does the EITC Improve Health?

- Expanding a state EITC is associated with improved maternal and child health, decreased low-birthweight births, and increased breastfeeding rates.^{2,3,4,5} Increasing EITC by 10 percent has been shown to reduce infant mortality by 23.2 per 100,000 lives.⁶

What is the Economic Impact of the EITC?

- In 2017, the federal EITC helped lift 9.4 million working families out of poverty, including 5 million children.⁷

Background

The relationship between income and health is well documented and is often associated with differences in access to resources that affect health. A person's economic security can shape their health, just like their health can impact their economic security. For example, a person's economic standing can influence the types of foods and quality of housing they can afford, which affect their health. Similarly, a person's health status can impact their ability to work or find a job that provides them economic security. Generally, people with higher incomes are healthier than those with lower incomes. The effects of this trend can span multiple generations.

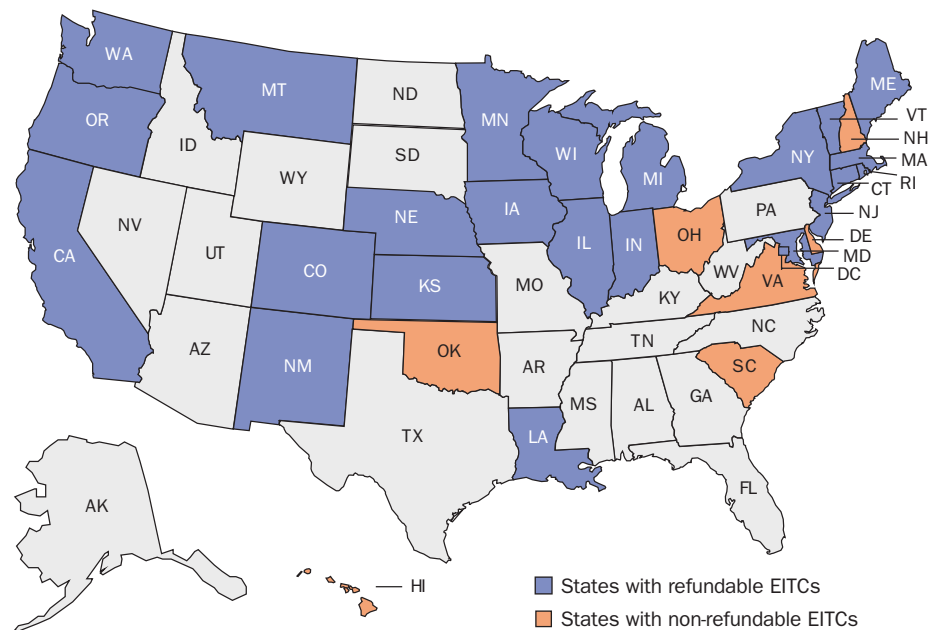
Creating opportunities for people to achieve economic security can help individuals and their families lead healthier lives. One such opportunity is for states to provide an earned income tax credit (EITC) to supplement the

earnings of low-income workers. The EITC assists families and, in some states, adults without dependent children, by reducing qualifying taxpayers' tax liability based on income level, marital status, and the number of dependent children.⁸ A state EITC can supplement the federal EITC, a federal tax credit for low- and moderate-income workers and their families. A state EITC applies the same principles as the federal program but provides a state-level tax credit.

EITC legislation has lifted millions of families out of poverty, improving the health of recipients and their children. A growing body of evidence suggests EITC legislation leads to improved maternal and child health shortly after implementation, and children of families who receive an EITC have better economic opportunities throughout their lifetime.

What States Can Do

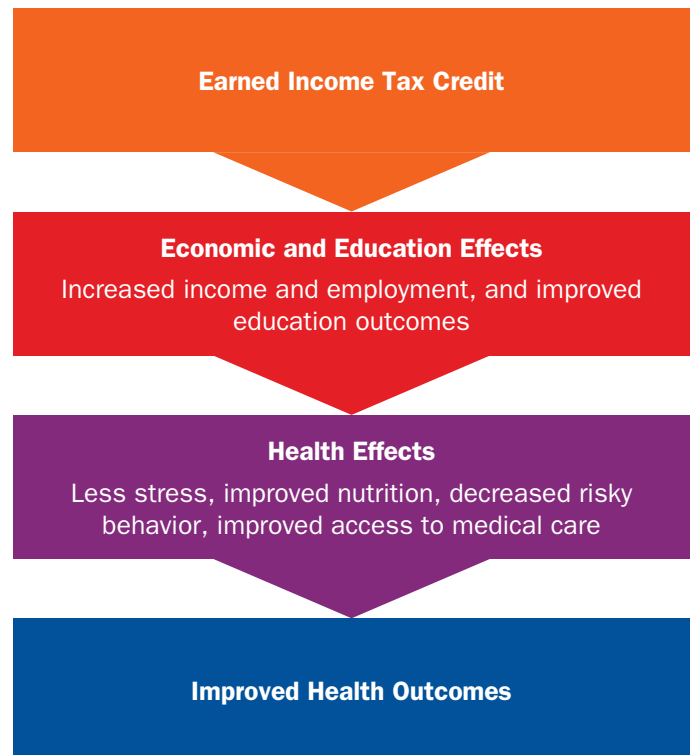
States can offer an EITC to support the financial stability of low-income workers, particularly families with children. Currently, eligibility for such programs and other factors vary across states.⁹ As of April 2018, 29 states and the District of Columbia, have an EITC law.¹⁰ All states except for Minnesota set their credits based on the federal credit; however, the percentages used vary greatly from state to state.¹¹ There is also variation as to whether the EITC operates as a refund or as a reduction. In 23 states and the District of Columbia, the credit is fully refundable if the amount is greater than taxes owed, whereas in six other states it is a non-refundable tax credit that can only reduce a person's tax liability.¹²



The EITC Improves Maternal and Child Health

Supplementing the income of low wage workers through a state EITC has been shown to positively impact maternal and child health. Research has shown that expanding the EITC is associated with fewer low-birthweight births, higher breastfeeding rates, and improved maternal and child health.^{13,14,15,16} Infants whose mothers were eligible for the largest federal tax credit increases, or who lived in a state with a state EITC, tended to experience the greatest improvements in birthweight, educational attainment, and economic success.^{17,18,19} Additionally, mothers living in a state that recently enacted or increased a state EITC reported having less mental stress and lower smoking rates during pregnancy, both of which also contribute to improvements in birthweight.^{20,21,22,23}

There is evidence that expanding EITC can reduce population disparities, with the benefits of larger EITCs extending to children of all racial and ethnic groups, especially children of color, boys, and younger children.²⁴ Evidence shows that children in families who receive EITC experience better home environments, achieve higher educational attainment, and higher lifetime earnings in adulthood.^{25,26,27,28}



The EITC Lifts Workers Out of Poverty

Evidence suggests that offering an EITC to supplement the earnings of low-wage workers helps lift millions of families out of poverty each year. In 2017, 27 million working families and individuals across the country received the EITC.²⁹ The IRS estimates that the EITC helped lift 9.4 million of them out of poverty, including more than five million children.³⁰ Additionally, the credit reduced the severity of poverty for an additional 18.7 million families, including 6.9 million children.³¹

The EITC also positively impacts eligible women and their children by contributing to their current and future economic security. Studies found that offering an EITC encourages single mothers to enter the labor force and contributes to the financial stability of less-educated women by increasing their lifetime average earnings by 17 percent and likelihood of qualifying for



Social Security retirement benefits.^{32,33} Children of EITC eligible families are more likely to attend college and have higher lifetime earnings. For these children, it is projected that for every dollar of income their family received through the tax credit, the real value of the child's future earnings will increase by more than one dollar.³⁴

There is some evidence that a state EITC is more cost-effective and less expensive compared with other tax

credits.³⁵ State EITCs have almost no cost when it comes to determining eligibility, because in many cases the same tax filers who qualify for the federal EITC also qualify for the state credit. Currently, refundable EITCs in states with income taxes cost less than one percent of state tax revenue annually. Since the state EITC is directed toward low- and moderate-income working families, the cost is lower compared with other tax credits states might consider.

COMMUNICATING THE IMPORTANCE AND IMPACT OF THE EITC

Policymakers

- The EITC increases earnings and encourages families and individuals to work more hours when possible.
- The EITC helps lift families out of poverty each year by supplementing the earning of low-wage workers.
- Implementing a state EITC is cost-effective and less expensive to implement compared to other tax credits.³⁶
- A refundable EITC allows working households to keep the full value of

their credit to offset their taxes and have the rest refunded to them.

Public Health Practitioners

- Mothers living in a state with a state EITC experienced improved maternal and child health and reported reduced mental stress and smoking rates during pregnancy, less low-birthweight births, and increased breastfeeding.
- Children in families who receive EITC experience better home environments, higher educational attainment, and higher lifetime earnings in adulthood.

Taxpayers

- Refundable EITCs in states with income taxes cost less than one percent of state tax revenue annually and are directed towards low- and moderate-income working families.
- Recipients of EITC refunds tend to use them to meet basic needs, repay debts, or obtain additional education or training.^{37,38}

Interested in learning more about Earned Income Tax Credit and other evidence-based policies? Visit the PHACCS website to read the full report and other policy briefs for our 13 recommended policies.

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