

State Earned Income Tax Credit: Economic Growth and the Path to Financial Stability

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One of the most cost-effective antipoverty policies currently implemented in the United States is the Earned Income Tax Credit (EITC). The federal earned income tax credit, or EITC, lifts 6 million people (including 3 million children) over the poverty threshold each year. Earned Income Tax Credits reduce the tax burden of low- to moderate working individuals and households, boosts the resources of near-poor households who struggle to make ends meet such as the ALICE (Asset Limited, Income Constrained, Employed) population, and reduces the depth of poverty for many more.



What is an Earned Income Tax Credit?

Earned Income Tax Credits offer an annual lump-sum tax credit to families with low income to reduce or eliminate tax liability, depending on the total sum of taxes owed. The federal credit, and some state credits, can also be disbursed in the form of a refund to families with no income tax liability. State Earned Income Tax Credits, often modeled from the federal EITC, provide an additional benefit to the federal credit for low-income taxpayers by reducing their state income tax liability.

Benefits of a State Earned Income Tax Credit

- Promotes work and fuels the economy. The EITC increases workforce participation and encourages low-wage workers to get additional education or training to boost their employability and earning power.
- It expands economic security. Workers mainly use their tax credit to pay for necessities like groceries, transportation, medical expenses, rent, and utilities. The tax refund can also help workers build savings and establish financial stability.
- It increases children's educational performance and attainment. Children in families receiving the EITC score higher on tests and are likelier to graduate from high school, enroll in college, and earn more when they enter the workforce.
- It improves health outcomes. Expectant mothers with increased EITCs were likelier to receive prenatal care and less likely to give birth to premature or low- birth- weight infants.
- It provides a short-term safety net. Almost half of taxpayers with children claimed the EITC at least once during an 18-year period, providing a source of temporary insurance and preventing entry into poverty.



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Fiscal Impact of a State Earned Income Tax Credit in Pennsylvania

United Way of Pennsylvania is currently leading a broad-based and growing EITC coalition to advocate for an elective, refundable state EITC program that may offer benefits of at least 10% and up to 25% of the federal credit. The annual economic benefits of a refundable state EITC of 10% of the federal EITC amount to at least \$562 million per year. For a 25% credit, the likely benefits amount to at least \$1.2 billion per year. United Way of Pennsylvania in partnership with University of Texas' Child and Family Partnership found that **for every \$1 spent on a state Earned Income Tax Credit by the Commonwealth, Pennsylvania receives \$4 back in economic growth and saves \$3 dollars in social spending.**

Summary of Benefits		
Benefits	10% State EITC	25% State EITC
Fiscal Benefits	\$386,201,705	\$965,637,868
Human Services Cost Avoidance	\$176,014,906	\$213,803,447
Total Annual Benefit	\$562,216,611	\$1,179,441,315

EITC Benefits Across Pennsylvania

Financial hardship is not uniform throughout the state of Pennsylvania; some regions of the state have higher costs of living and higher concentrations of poverty than others, and families may benefit more from a state EITC in particular areas. Despite the unique challenges each region faces, qualifying households will receive immediate financial relief. The higher the benefit that is allotted, the more households are likely to participate.

Regional EITC Take Up & Benefits					
10% State EITC			25% State EITC		
Region	% Eligible for State EITC	% Claiming State EITC	Mean Benefit	% Claiming State EITC	Mean Benefit
Central	14%	9%	\$189	11%	\$581
Lehigh Valley	16%	11%	\$209	14%	\$636
Northeast	16%	11%	\$196	13%	\$606
Northern Tier	17%	11%	\$177	15%	\$581
Northwest	16%	11%	\$192	13%	\$574
South Central	15%	10%	\$195	13%	\$592
Southeast	16%	11%	\$202	14%	\$598
Southern Alleghenies	14%	9%	\$192	11%	\$576
Southwest	12%	8%	\$192	9%	\$578
State of Pennsylvania	15%	10%	\$197	12%	\$594

Read the full Benefit-Cost Analysis
<https://bit.ly/UWP-EITC-Report>