

# State Earned Income Tax Credit: Fiscal Benefits & Potential Growth of PA's Economy

January 2022

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.



## Benefit- Cost Analysis of a Pennsylvania Earned Income Tax Credit

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 at the cost of \$80.5 million per year**. For a 25% credit, the likely benefits amount to at least **\$1.2 billion per year at a cost of \$366 million 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
<b>Total Annual Benefit</b>	<b>\$562,216,611</b>	<b>\$1,179,441,315</b>

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



United Way  
of Pennsylvania  
www.uwp.org

# Fiscal Benefits Explained:

Fiscal benefits include greater tax revenue and reduced state public assistance spending. Studies overwhelmingly show that federal and state EITCs boost labor force participation and annual hours of work, particularly among women, and this leads to greater household earnings. The increased earnings result in greater tax revenue for state and local governments, as well as lower expenditures on public assistance programs, because households have greater earned income with which to access needed resources.

Fiscal Benefits Per Year with a 10% and 25% Refundable State EITC		
Benefit Category	Benefits with a 10% EITC	Benefits with a 25% EITC
Increased State Tax Revenue (Personal Income Tax)	\$80,011,740	\$200,067,523
Increased State Tax Revenue (Sales, Payroll, UI Taxes)	\$116,276,603	\$290,729,681
Reduced Public Assistance Spending	\$189,913,362	\$474,840,664
<b>Total Annual Fiscal Benefits</b>	<b>\$386,201,705</b>	<b>\$965,637,868</b>

- As a result of increased employment and earnings associated with the implementation of a 10% state EITC, Pennsylvania may see an annual benefit of over \$80 million in additional personal income tax revenue (or \$200 million with a 25% credit).
- Pennsylvania may reap an annual benefit of approximately \$116 million in state sales, payroll, and UI taxes as a result of a 10% state EITC program (or \$291 million with a 25% credit).
- Pennsylvania may see a reduction of approximately \$190 million in public assistance spending with the implementation of a 10% state EITC (or \$475 million with a 25% credit).

