The Earned Income Tax Credit helps working families keep more of what they earn. The federal EITC was started in 1975 and has enjoyed bipartisan support ever since. It lifts 5.8 million people, including 3 million children, out of poverty each year by providing a tax credit based on income and family size that gets applied to a family’s tax bill. Anything left over after the credit gets refunded to them, just like any other tax refund.

The EITC has seen bipartisan support since its creation in 1975

“[The EITC] gives families flexibility – it helps them take ownership of their lives.”
- Paul Ryan

“Increasing the earned-income tax credit, which more than anything else we could do, will reward work and family and responsibility”
- Bill Clinton

“Few policies are more effective at reducing inequality and helping families pull themselves up through hard work than the Earned Income Tax Credit.”
- Barack Obama
Virginia’s EITC and How It Can Be Improved

The good news: Virginia has a state version of the EITC for certain tax filers. It was created as part of the 2004 tax reform package, and is set at 20 percent of the federal EITC.

The bad news: it isn’t refundable so the state does not give all families the full value of their credit.

Making the state EITC refundable, as it is in 23 other states and the District of Columbia, would return about $250 million each year to the pockets of hard-working Virginians and spread that money throughout the local economy.

Missing Out on the Full Value of the EITC

Earning an income of $24,350 also earns these married parents of two kids an Earned Income Tax Credit (EITC). The full value of their Virginia EITC is $1,143. Despite the taxes they pay through everyday purchases, Virginia’s non-refundable EITC will only match the taxes they pay on income.

This book explains how the EITC works, who it works for, and how lawmakers can improve it.
The EITC is an Effective, Targeted Economic Boost

The refundable federal EITC boosts the wage income of families who are earning low and moderate wages.

Wage income and credits for a married couple with two children at various income levels

The EITC supports Virginia's working families.

A family must be earning income to be eligible for the EITC. And for families earning low wages and struggling to make ends meet, the EITC is an economic boost.
The EITC is one of the most effective anti-poverty tools.

Part of what makes the federal EITC effective is that it’s refundable – meaning that if the earned credit is larger than the income tax owed, the remainder of the credit is refunded.

This helps families to be able to better afford things like child care and reliable transportation to work.
The EITC is a Well-Designed Tax Credit

As a family with low income works more, the amount of their tax credit goes up. Once a family’s income reaches a more moderate level, the amount of the tax credit gradually declines.

Annual income and federal EITC amount for a married couple with two children at various income levels

The tapered design of the EITC ensures that a family is rewarded for work and does not suddenly lose the boost the credit provides just for earning a little bit more.

Source: TCI calculations based on EITC parameters for tax year 2018
The EITC is a Boost to Families Across the Commonwealth

The EITC benefits families in every city and county in Virginia, with the biggest boost going to struggling communities.

Source: TCI analysis of 2016 IRS-SOI data
EITC refunds put money in the pockets of many hard-working Virginians and into local economies.

One survey found that nearly one third of EITC refund dollars were spent on current consumption such as groceries, child expenses, household needs like refrigerators and washing machines, and other everyday needs. Just over one quarter was initially saved or spent on larger needs like car or home purchase or repair, or education expenses.

Just over forty percent of refund dollars were spent on bills or helping a family get out of medical, student loan, and other debt.
The EITC is more than an economic boost. It is a long-term investment in health, education, and more.

Compared to children in similar circumstances, children whose families receive the EITC see benefits from birth through adulthood.

- Improved prenatal care and infant health
- Improved test scores and graduation rates
- Higher income as adults

The EITC is a work support and can boost the ability of individuals to move up in their careers.

Research shows that when people have taken advantage of the federal EITC and state EITC supplements in the past, they often can’t claim the credits within two years because their earnings increase too much!
SECTION II

IMPROVING VIRGINIA’S EITC
Of states that have enacted an EITC, Virginia is just one of a few that do not give the full value of the credit to all families who have earned it.
Virginia’s state EITC – equal to 20 percent of the federal credit – piggy-backs on the federal EITC and helps offset state and local taxes such as sales and property taxes.

Right now, the federal refundable EITC helps a broad range of people. Virginia’s corresponding credit, however, is more limited.
The Virginia EITC Could Do More for Families

Working families who will benefit from a refundable credit will receive a few hundred dollars on average.

What may seem like a small amount can be the difference between having the funds to fix a car to get to work or losing a job.
A Refundable State EITC Helps Offset State and Local Taxes

Families with low incomes pay a greater share of that income toward state and local taxes compared to those with higher incomes.

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Share of Income Toward Taxes (in%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>9.8%</td>
</tr>
<tr>
<td>Second</td>
<td>9.3%</td>
</tr>
<tr>
<td>Middle</td>
<td>9.2%</td>
</tr>
<tr>
<td>Fourth</td>
<td>8.0%</td>
</tr>
<tr>
<td>Fifth</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

A refundable EITC will mostly benefit families in the two lowest income groups, and will also extend to some families in the middle group.

Source: Institute on Taxation and Economic Policy (ITEP) analysis of impact of permanent tax laws on non-elderly taxpayers, including the impact of all tax changes enacted through October 10, 2018, at 2015 income levels.

If Virginia’s EITC were refundable, it could boost the benefits of work for families with children and help offset other state and local taxes, like sales and gas taxes, that we know working families pay.
A Refundable EITC Benefits a Range of Working Families

Working families who will benefit from a refundable credit will receive a few hundred dollars on average. This can make a large difference in putting food on the table or keeping the lights on.

<table>
<thead>
<tr>
<th>Earned Income</th>
<th>$15,000</th>
<th>$20,000</th>
<th>$25,000</th>
<th>$22,000</th>
<th>$30,000</th>
<th>$27,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marital Status</td>
<td>Single</td>
<td>Single</td>
<td>Married</td>
<td>Married</td>
<td>Married</td>
<td>Married</td>
</tr>
<tr>
<td>Children</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>EITC Amt Currently Received</td>
<td>$377</td>
<td>$581</td>
<td>$634</td>
<td>$484</td>
<td>$855</td>
<td>$688</td>
</tr>
<tr>
<td>Full Value of EITC</td>
<td>$692</td>
<td>$1,087</td>
<td>$1,116</td>
<td>$1,143</td>
<td>$1,048</td>
<td>$1,175</td>
</tr>
<tr>
<td>Boost from Refundability</td>
<td>$315</td>
<td>$506</td>
<td>$482</td>
<td>$659</td>
<td>$193</td>
<td>$487</td>
</tr>
</tbody>
</table>

Source: TCI calculations based on EITC parameters for tax year 2018

Note: Does not account for Spouse Tax Adjustment, therefore may underestimate benefits of refundability.
EITC Provides a Boost to Veterans and Military Families

55,300 veteran and military families in Virginia could benefit from a refundable EITC.

Source: CBPP analysis of IRS data on the total number of EITC filers in tax year 2015, and CBPP analysis of American Community Survey 2014-2016 data to determine the share of such tax filers in each state that were military families. Numbers are rounded to the nearest 100.
The EITC helps families afford the necessities like child care, and these credits are a critical tool to boost women’s long-term economic prospects.
The EITC is a Boost to Rural Areas, Small Towns

Nearly 1 out of 4 tax filers in non metro areas receive the earned income tax credit.

Share of returns receiving EITC

![Bar chart showing share of returns receiving EITC in non-metro and metro areas]

Source: TCI analysis of TY 2016 IRS SOI data and U.S. Census Bureau, CBSAs, Metropolitan Divisions, and Combined Statistical Areas 2017

Note: The U.S. Office of Management and Budget uses the economic and social activity around densely populated urban cores to draw a “Metropolitan Statistical Area.” That includes most larger cities and their surrounding areas. All areas not included in a Metropolitan Statistical Area can be termed “non-metro,” and can be thought of as rural or small-town communities.

Families with low incomes spend more of what they earn on the basics, and they spend it locally.

If the EITC was refundable, even more EITC dollars would be going into businesses in small and rural communities.
Almost Half of Virginia Families Who Receive the Federal EITC are Families of Color

Many of these families would benefit from making Virginia's EITC refundable – allowing these families to keep more of what they earned.

Source: Urban Institute's Analysis of Taxes, Transfer, and Income Security Model (ATTIS), using data from the 2015 American Community Survey
The Commonwealth Institute for Fiscal Analysis provides credible, independent, and accessible information and analyses of state public policies with particular attention to the impacts on low- and moderate-income persons. Our products inform state economic, fiscal, and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole.

For more information, contact:

**Kenneth Gilliam, Jr.**
Policy Associate
The Commonwealth Institute for Fiscal Analysis
kenneth@thecommonwealthinstitute.org
804-396-2051 x108

**Chris Wodicka**
Policy Analyst
The Commonwealth Institute for Fiscal Analysis
wodicka@thecommonwealthinstitute.org
804-396-2051 x104