



March 8, 2018

The Massachusetts State Earned Income Tax Credit

Nancy Wagman, Kids Count Director

The Earned Income Tax Credit (EITC) improves the economic security of approximately 400,000 families in Massachusetts. Over the past few decades, incomes for many working people have [stagnated](#), in large part due to economic policies that have de-emphasized the importance of wage growth. This has made it hard for many working families to keep a roof overhead, put food on the table, or pay for basic necessities.

A strong state EITC coupled with a strong minimum wage work together to expand economic opportunity for many working families. The EITC gives a meaningful boost to the after-tax earnings of thousands of these low-income working families. This income boost leads to a number of long term outcomes: children grow up healthier and do better in school, and parents enjoy greater economic security throughout their working years and into retirement.

THE EITC DELIVERS LARGEST BENEFITS TO FAMILIES WITH CHILDREN

The EITC is a refundable tax break for lower-income workers. It is available only to tax filers with earned income, and provides benefits primarily to workers with children.

The Massachusetts EITC operates under the same eligibility rules as the federal EITC. A tax filer's federal EITC eligibility and credit value depend on marital status, the amount of income the filer earned during the tax year, and the number of dependent children. In tax year 2018, the maximum credit for the federal EITC is just over \$6,440 for a family with three or more qualifying children earning \$24,400 a year.¹ The value of the credit declines slowly as income rises, and disappears entirely for families earning just under \$55,000. Very low-income tax filers with no children are eligible for much smaller credits.²

The state EITC is simply 23 percent of the value of the federal credit (this percentage is also called the "match rate"). In tax year 2018, the maximum state EITC credit is about \$1,480.³ Massachusetts increased the match rate on January 1st, 2016 from 15 percent. In 2015, close to 440,000 tax filers in Massachusetts claimed the state EITC, for a total of approximately \$134.4 million in tax credits under the older 15 percent match rate. (For information on the number of state EITC claimants and the percent of total tax filers claiming the state EITC by city and town, see the [Kids Count Data Center](#).) With the increase in the match rate to 23 percent, the state Department of Revenue estimates that the total value of the EITC going into the pockets of low-income working families will be close to \$214.1 million in state Fiscal Year 2019. (To learn more about this and other state funding affecting Massachusetts children, see MassBudget's [Children's Budget](#).)

Both the federal and state EITC are *refundable*. This means that if the value of the tax credit exceeds the amount owed in income tax, the remaining credit value is refunded to the tax filer as a direct payment.

EITC BOOSTS WORK HOURS AND INCOMES, IMPROVES OUTCOMES FOR KIDS

The EITC is a useful tool in the fight against poverty. In combination with the federal Child Tax Credit (CTC), nationally the federal EITC kept approximately 8.1 million people out of poverty, including approximately 4.4 million children.⁴

There has been extensive research looking into effects of the EITC on parents and children.⁵ By providing tax credits to people currently in the workforce, the EITC increases employment and encourages people, especially single mothers, to work more hours. This, in turn, boosts recipients' long-term earnings and future Social Security retirement benefits. The earnings boost provided by this refundable tax credit also helps families in a variety of other ways. For example, the EITC:

- **Improves the health of children and mothers.** Researchers found that mothers who received EITC increases were more likely to receive prenatal care, less likely to smoke or drink during their pregnancy, and more likely to deliver babies with healthy birth weights. This finding was *not* related to changes in health insurance coverage.
- **Boosts academic performance.** Children in families receiving the EITC support have shown higher test scores, especially for elementary and middle school students; higher high school graduation rates; and higher college attendance rates. In fact, according to research cited by the Center on Budget and Policy Priorities, “a child in a family eligible for the largest EITC expansion in the early 1990’s would have a 4.8 percentage-point higher probability of completing one or more years of college by age 19 – an improvement comparable to the effect of major educational interventions such as reducing classroom size.”
- **Increases the earning potential for future generations.** Because children raised in EITC-supported households tend to grow up healthier and do better in school, they also tend to earn more as working adults. In one study “researchers projected that each dollar of income through tax credits may increase the real value of the child’s future earnings by more than a dollar.”
- **Increases Social Security benefits.** By encouraging work and therefore increasing direct earnings during one’s career, the EITC also leads to stronger retirement benefits, including Social Security benefits.

¹ <https://taxfoundation.org/2018-tax-brackets/>.

² IRS, 2018 EITC Income Limits, Max. Credit Amounts and Tax Law Updates: <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eitc-income-limits-maximum-credit-amounts-next-year>.

³ Maximum federal \$6,444 x .23 Massachusetts match rate = \$1,482 maximum state credit.

⁴ Liana Fox, “The Supplemental Poverty Measure: 2016”, Appendix Table A-7, p. 30, U.S. Census Bureau, September 2017. Calculations refer to the Census Bureau’s “Supplemental Poverty Measure,” not the official federal poverty measure. See

<https://www.census.gov/content/dam/Census/library/publications/2017/demo/p60-261.pdf>.

⁵ The following research is highlighted in Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon Debot, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget and Policy Priorities, October 1, 2015, <https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>.