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March 9, 2017

State Earned Income Tax Credits (EITCs) Build on the Well-Documented Success of the Federal EITC

State EITCs, like California's [CalEITC](#), are [important tools](#) for boosting economic security among working families. By [piggybacking](#) on the federal EITC, these state credits not only help families better make ends meet, but they also may enhance the federal EITC's [well-documented](#) benefits to children, families, and communities. Decades of research shows that the federal EITC:

- **Reduces poverty.** The federal EITC is "the [cornerstone](#) of U.S. anti-poverty policy." Together with the Child Tax Credit (CTC), it lifts more of the nation's [children out of poverty](#) than any other federal program. Annually, around [1.27 million Californians](#), including over 650,000 children, escaped poverty between 2013 and 2015 thanks to these two tax credits. Yet as striking as these figures are, they may *undercount* the number of people lifted out of poverty. Recent [research](#) finds that the federal EITC reduces poverty among single mothers *nearly twice as much* as previously thought when the credit's proven success in boosting employment is taken into account. Also, by building on the federal EITC, state EITCs further [reduce hardship](#) by lifting additional families above the poverty line or by bringing their incomes closer to the poverty line, reducing the depth of their poverty. Between 2010 and 2014, state EITCs *on their own* cut [child poverty rates](#) by between 0.1 and 1.8 percentage points, with greater reductions in states with larger credits. California's state credit, which was created in 2015, is expected to reduce the depth of poverty for [nearly 1 million](#) Californians, including more than 350,000 children. However, the CalEITC *on its own* is not expected to lift many people out of poverty since the credit largely targets families with incomes well below the poverty line.
- **Encourages work.** By [rewarding](#) increased work effort, the federal EITC significantly boosts employment, particularly among single mothers, according to a substantial [body of research](#). "Essentially all authors agree that the [federal] EITC expansion [in the 1990s] led to sizeable increases in single mothers' employment rates, concentrated among less-skilled women and among those with more than one qualifying child,"

according to one [review](#). For example, one [study](#) found that the expansion of the federal EITC raised employment among single mothers more than any other factor, including the 1996 welfare law, which imposed strict [work requirements](#) on families receiving cash assistance.

- **May improve families' health.** Several [studies](#) find that the federal EITC may improve health for mothers and babies. For example, one [study](#) found that following federal EITC expansions in the 1990s, infants born to mothers who likely received the largest increases in the credit had the greatest improvements in certain health measures, such as birth weight, which is a key [predictor](#) of health and economic well-being in adulthood. [Research](#) has also found that following federal EITC expansions mothers experienced improved health, including reduced stress – an important outcome given the [negative effects](#) that maternal stress may have on children's development. Other research has specifically linked state EITCs to better health for children, including increased [birth weights](#) and improved [health status](#). These findings are important because considerable evidence links poor health during childhood to lower [educational attainment](#) and lower future [earnings](#) as well as to [poor health](#) during adulthood.
- **May boost children's school achievement.** Several [studies](#) find that the federal EITC may improve school achievement and higher educational attainment for children. For example, one [study](#) found that children in families who received larger EITCs tended to score better on reading and math tests and were more likely to complete high school and attend college. "There is robust evidence of quite large effects of the [federal] EITC on children's academic achievement and attainment, with potentially important consequences for later-life outcomes," according to one review of the [research](#).
- **May increase children's future earnings.** Because the federal EITC is linked to greater school success, children whose families benefit from this tax credit may [earn more](#) as adults, suggesting that the federal EITC could reduce economic hardship in the next generation. Indeed, research links modest increases in low-earning families' incomes – regardless of the source – to a stronger future for young children. For instance, one [study](#) found that children whose families received an additional \$3,000 annually (in 2005 dollars) when the children were very young earned 17 percent more, on average, each year between ages 25 and 37 compared to similar children whose families did not receive an income boost.
- **Boosts California-based businesses and the state's economy.** Around [3.3 million](#) Californians benefited from the federal EITC in 2014, and federal EITC claims brought

[\\$7.7 billion](#) in federal funds into the state. This significant influx of federal dollars helped support California [jobs and businesses](#) since families who benefit from the federal EITC tend to use their tax refunds to pay for [basic expenses](#). Research suggests that the federal EITC provides a significant boost to local communities in California. Two studies ([here](#) and [here](#)) estimate that business sales generated from spending federal EITC dollars in California exceed the amount of federal EITC dollars Californians receive. These sales also facilitate job creation, which raises workers' incomes, and increases in sales and incomes in turn boost local and state revenues.

State and federal EITCs are commonsense tools for expanding economic security and opportunity. Decades of research finds that these credits not only help working families better make ends meet, but also may provide benefits that extend into the next generation, helping to create a brighter future for children.