



March 25, 2015

Massachusetts's Earned Income Tax Credit

In Massachusetts – one of only four states boasting the term “commonwealth” in the official state name – we seek to build a thriving state economy that delivers broadly shared prosperity to workers and their families. Unfortunately, since the 1970s, wages [have stagnated](#) for low and moderate income workers in Massachusetts and nationally, making it increasingly difficult for many hardworking parents to make ends meet and provide for their children. The state earned income tax credit (EITC) program helps push back against this troubling trend, providing a meaningful boost to the after-tax earnings of low-income working families. When we reward work with policies like the EITC, families benefit over the long-term: children grow up healthier and do better in school, and parents enjoy greater economic security throughout their working years and into retirement.

A strong state EITC, particularly when coupled with a strong minimum wage, moves us closer to being the “commonwealth” declared in our state name. (For more on the interactions between minimum wage and earned income tax credit policies, see MassBudget’s factsheet, [Rewarding Work](#).)

THE EITC DELIVERS LARGEST BENEFITS TO FAMILIES WITH CHILDREN

The state Earned Income Tax Credit (EITC) is a refundable tax break provided by the Commonwealth to lower-income workers in order to increase the after-tax rewards to work. It is available only to tax filers with earned income and provides benefits primarily to workers with children (to learn more about this and other programs affecting Massachusetts children, see MassBudget’s [Children’s Budget](#)).

The Massachusetts EITC operates under the same eligibility rules as the federal EITC, with the state credit value calculated as a straight 15 percent of the federal EITC amount claimed by the tax filer. 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.

The largest credits are provided to families earning between approximately \$14,000 and \$24,000 a year. The value of the credit declines slowly as income rises and disappears entirely for families earning more than about \$50,000. Far smaller credits are available to very low-income filers who do not have children. The value of the credit is applied toward the filer's tax liability and any amount that exceeds taxes owed is refunded through direct payment to the filer.

In 2015, the maximum value of the Massachusetts EITC will be \$936. Typically, between 415,000 and 430,000 filers claim the state EITC each year, for a total cost of roughly \$134 million in FY2015.

EITC BOOSTS WORK HOURS AND INCOMES, IMPROVES OUTCOMES FOR KIDS

The Earned Income Tax Credit leads to a variety of benefits for parents and children, according to a large body of research. By providing tax credits to people currently in the workforce, the EITC increases employment and encourages people, especially single mothers, to work more hours. Not surprisingly, the EITC therefore boosts recipients’ long-term earnings and future Social Security retirement benefits. The EITC is likewise widely recognized as an extremely important tool in the fight

against poverty. In combination with the federal Child Tax Credit, the federal EITC lifted 9.4 million people out of poverty in 2013, 5 million of them children, and helped another 22 million people who nevertheless remained below the federal poverty level. In Massachusetts, these two federal tax credits combine to help keep roughly 74,000 Massachusetts kids out of poverty.

Research compiled by the Center on Budget and Policy Priorities (CBPP) shows that because the earnings boost affects families in a variety of ways, the EITC has benefits throughout the life-cycle. Specifically, the EITC:

- **Improves the health of children and mothers.** Researchers have found a strong association between EITC participation and mothers receiving prenatal care. This improves both maternal health (e.g. lower smoking rates) and infant health (e.g. fewer children born at low weights).
- **Boosts academic performance.** Children in families receiving EITC support have shown higher test scores, especially for elementary and middle school students; higher high school graduation rates; and higher college attendance rates. Specifically, “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.** Long-term studies of kids raised in EITC-supported households find that since they tended to grow up healthier and do better in school, they also tend to earn more when they are 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 increasing direct earnings during one’s career, the EITC also leads to stronger retirement benefits, including Social Security benefits, since much retirement earning rises proportionally with income.

STRONGER STATE EITC WOULD HELP HARDWORKING FAMILIES

A stronger state EITC could provide real, near-term help to hundreds of thousands of struggling families, while also laying the groundwork for a more prosperous Commonwealth down the road. Recognizing the benefits of a strong state EITC, at least ten other states offer significantly larger credits than does Massachusetts. Some states offer credits equal to 30, 40, or even 50 percent of a filer’s federal credit. Several of our neighboring states - including Vermont, Connecticut and New York - all offer significantly larger credits than Massachusetts does.

If, for example, Massachusetts were to double its match rate to 30 percent, the maximum state credit would rise from \$936 in 2015 to \$1,873. For a family of two, the maximum state credit would rise from \$832 to \$1,664. Other filers likewise would see meaningful increases.

If instead, Massachusetts were to raise its match rate to 50 percent, the maximum state credit would rise from \$936 in 2015 to \$3,121. For a family with two children, the maximum state credit would rise from \$832 to \$2,774. Other filers likewise would see meaningful increases.