

The Earned Income Tax Credit in Massachusetts: Alleviating poverty today, increasing opportunity tomorrow

An Opportunity for Massachusetts to Lead in Reducing Inequality

The Earned Income Tax Credit (EITC) is widely considered one of the most effective anti-poverty programs for working families. The Massachusetts EITC was first enacted in 1997. In 2015, both Democratic and Republican legislators in the Commonwealth, along with Governor Baker, successfully increased the Massachusetts EITC to 23 percent of the federal credit. More than 400,000 households in Massachusetts will benefit from the recent increase in the EITC when they file their 2016 taxes. From 1989 to 2011, Massachusetts led the nation in a troubling trend with the second highest increase in inequality. Now we have a chance to lead in reducing that inequality by increasing our EITC to 50 percent of the federal level.

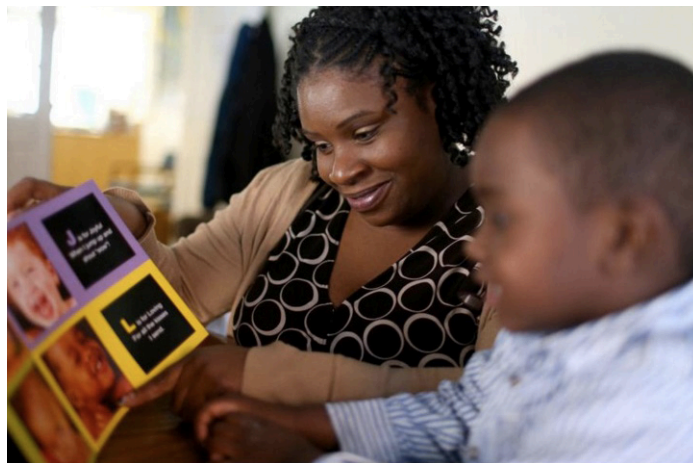


Photo Credit: Boston Globe

"If the EITC were increased to 50 percent of the federal credit amount, it would make a huge difference to me, and it would be a game changer for my kids"

Quanda Burrell, a 29 year-old single mother of two who works full time as a day-care teacher in Boston

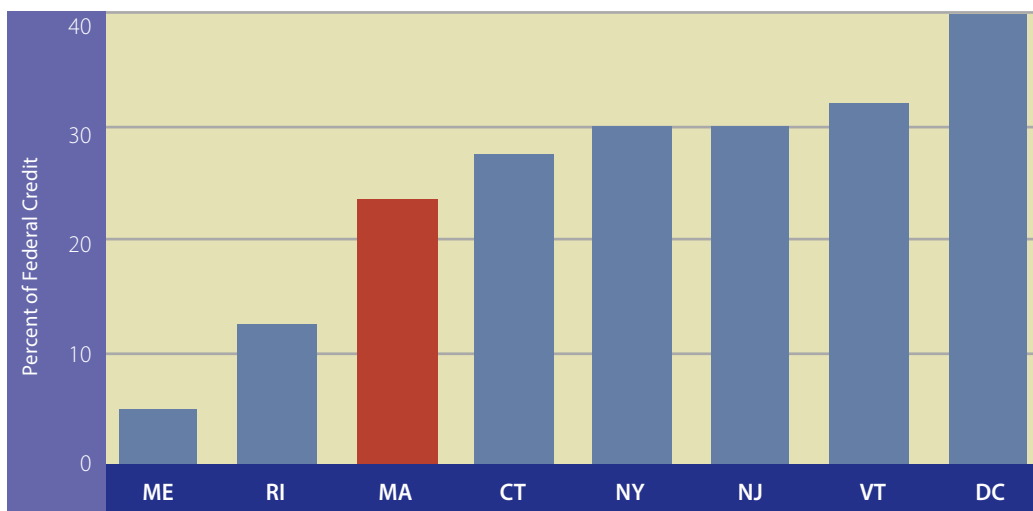
State EITCs

Over the last two decades, state and local governments have enacted a series of EITC reforms. In 1990, only five states had state-specific EITC policies. Currently, twenty-six states and Washington, DC have enacted EITC programs. Most of these states "piggyback" on the federal EITC by using the same eligibility requirements and set state-level credits at some percentage of the federal EITC ranging from a low of 3.5 percent in Louisiana to a high of 40 percent in Washington, DC. EITC recipients in these states receive both the federal and state credit.

The EITC significantly reduces poverty

- The federal EITC lifted 50,000 children and their families out of poverty in Massachusetts annually from 2011 to 2013.
- The Massachusetts EITC lifted approximately 6,000 additional children and their families out of poverty annually in the Commonwealth from 2011 to 2013.
- **If Massachusetts increased the state EITC to 50 percent, 20,000 additional children and their families would be lifted out of poverty annually.**

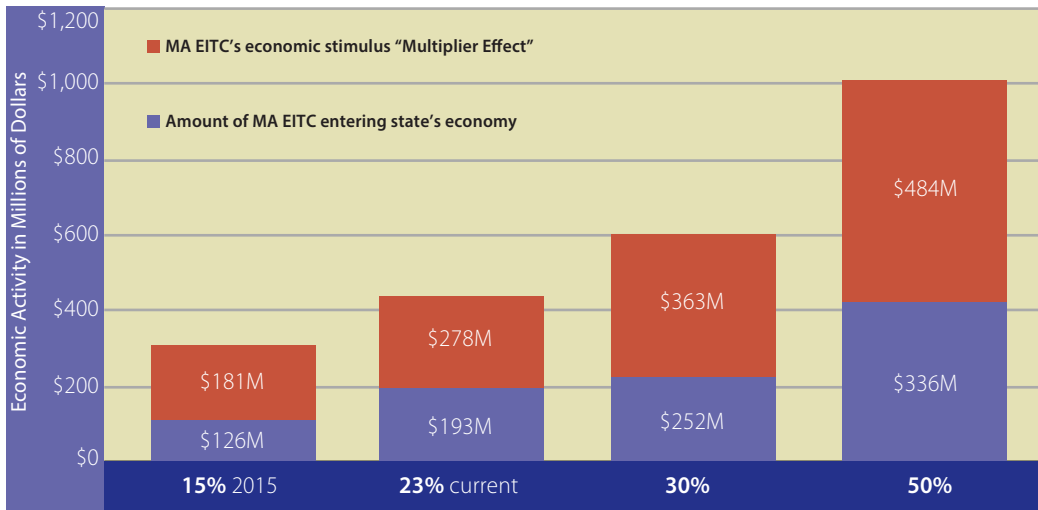
Figure 1.
The Massachusetts EITC compared to other states



The EITC stimulates local economies

- The federal EITC brought \$840 million to Massachusetts workers and their families in 2015.
- The Massachusetts EITC brought an additional \$126 million to Massachusetts workers and their families in 2015.
- Researchers have shown every \$1 increase in consumption directly supported by the EITC generated \$1.44 worth of economic activity in Baltimore, Maryland.
- The federal EITC generated over \$1.2 billion worth of economic activity in Massachusetts in 2015.
- **The Massachusetts EITC generated an additional \$181 million worth of economic activity in 2015.**

Figure 2. Increasing the Massachusetts EITC could generate substantial economic activity



How would a Massachusetts EITC at 50 percent of the federal credit help working families?

Based on an estimated average EITC return in Massachusetts of approximately \$3,000 (\$2,000 federal, \$1,000 state), more families in the Commonwealth would be able to afford:



First and last month's market rent towards a two-bedroom apartment in Worcester, Massachusetts



Four to five months-worth of groceries for a family of four



Household heating costs for an entire winter



Four months-worth of transportation costs for a family of three (two adults, one child)



Three months of full-time child care in a center-based daycare for a four-year-old

Conclusion

Massachusetts has an opportunity to lead the nation in reducing inequality. An increase in the state EITC to 50 percent of the federal credit would place Massachusetts as an evidence-based leader having the most robust refundable state EITC in the nation. Working in tandem with one of the nation's highest minimum wages (after CA and NY), Massachusetts could aggressively lead the way in addressing inequality, alleviating child poverty, and increasing the opportunity for healthy, successful families in the Commonwealth.

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This brief and other Children's HealthWatch work related to the Massachusetts state EITC have been made possible through the generous support of the Boston Foundation, The Paul & Phyllis Fireman Charitable Foundation, The Eos Foundation, JCRC of Greater Boston through the support of the United Way of Massachusetts Bay and Merrimack Valley, and individual supporters.

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