Why All States Should Adopt a State-Level Earned Income Tax Credit: A Policy Argument

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This article argues that states that do not currently have a state-level Earned Income Tax Credit (EITC) would benefit by adopting such a program. Relying on extensive literature, the article concludes that a state-level ETIC can effectively reduce poverty, especially among children; enhance employment by attracting new entrants into the labor market; reduce the regressive nature of the tax system; and bolster the economies of areas with high concentrations of poverty. This article estimates the costs for each state without a current program for fiscal year 2013. Overall, it argues that this program, which is widely supported by many interests, can benefit states greatly in simultaneously achieving several social policies with relative administrative ease.

Introduction

Currently, 46.2 million people in the United States live at or below the federal poverty level (DeNavas-Walt, Proctor, and Smith 2012). A key tool in providing financial relief for these individuals and families is the Earned Income Tax Credit (EITC). The EITC is a fully refundable income tax credit offered to low-income working parents and individuals (Scott 2011). Its effectiveness at the federal level sparked the creation of similar programs in 24 states, the District of Columbia, and three local governments.

The EITC program has enjoyed a good deal of success, yet 26 states have not adopted a state-level EITC. This article argues that adopting state-level EITC programs can be defended on grounds that it will lift "4 million people out of poverty each year" (Kneebone 2009, 1), especially among children (Center on Budget and Policy Priorities 2011); enhance employment (Eissa and Liebman 1996; Ellwood 2000; Berube 2006; Neumark and Wascher 2000; Schmeiser 2007; Neumark 2011); help reduce the regressive nature of the tax burden among citizens (CBPP 2011); and bolster many urban environments with high concentrations of poverty (Berube 2006; Kneebone 2009; Kneebone and Garr 2011). Furthermore, states would achieve each of these goals in an administratively-easy and cost-efficient manner (Williams, Johnson, and Shure 2010; Neumark 2011). While adopting a state-level EITC program is not without costs, this article finds that the benefits outweigh the costs. This article estimates costs for each state based on 5 percent, 10 percent, and 20 percent matches to the federal EITC. While these costs are not insignificant, the funds tend to be spent in a way that directly benefits the state economy and local governments.

Background on the Federal EITC

The federal EITC is an income tax refund offered to low-income workers and working parents through the tax code. The federal government offers this credit to incentivize work. Those who are working but remain below certain income thresholds are eligible to receive a tax credit when they file their personal income taxes. Rather than having the government trans-

fer money to families in need, the credit is realized as individuals file their personal income tax returns with the Internal Revenue Service (IRS). The benefits of the credit are phased-in for low-income earners over a range of incomes, held constant over a range of incomes (the "plateau"), and then phased-out at a higher range of incomes (Figure 1). The specific ranges are determined by the number of children in the household, number of parents in the household, and the individual or family income (Scott 2011). For tax year 2012, a worker with no children making less than $13,980 can receive up to $475, while single parents with three or more children who made less than $45,060 can receive up to $5,981 (Internal Revenue Service 2013). Further, the IRS notes that the filing status for an EITC claimant must be either single, head of household, married filing jointly, or qualifying widow or widower (Internal Revenue Service 2013b).

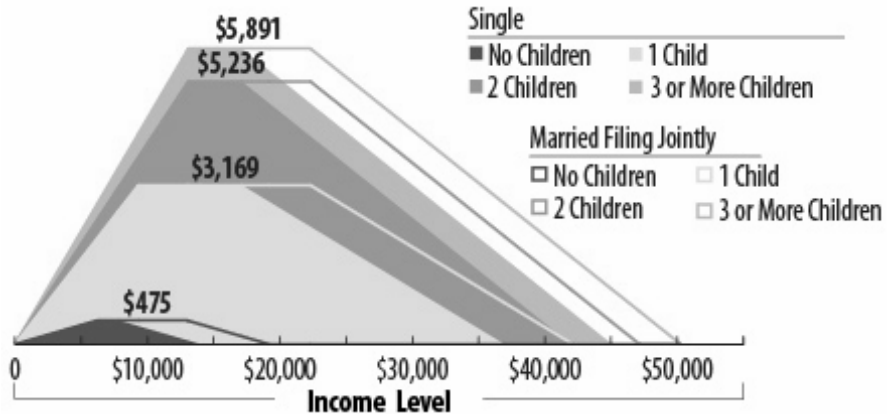
The EITC has consistently been characterized as one of the best anti-poverty measures in the United States, and it has become "the largest cash-transfer program for low-income families at the federal level" (Eissa and Hoynes 2006, 73). The EITC was created in 1975 in an effort to protect low-wage workers from the "regressive effects" of rising payroll taxes (Crandall-Hollick 2011), and it has enjoyed broad bipartisan support, as well as support from "business groups, labor, faith-based organizations, and social service advocates" (CBPP 2011, 1). Scholz (2006, 17) notes that payroll tax relief might be beneficial for low-wage earners, and "those supporting EITC have argued that it offsets the regressive burden of payroll taxes."

In 1975, the federal EITC delivered $1.25 billion to 6.2 million families (Berube 2006) through a maximum credit of $400—10 percent on wages up to $4,000 (Tax Policy Center 2013). This amount translates into a maximum credit of $1,738 in 2012 dollars. In 2009, the EITC delivered $59.7 billion for more than 27 million tax filers (Scott 2011). In the 2012 tax year, the maximum credit will be $5,891 (IRS 1040 Tax Form 2012). For individuals filing their 2012 taxes, the maximum EITC for tax filers without children will be $475; for families with one child the maximum credit will be $3,169; for families with two children the maximum will be $5,236; and for those families with three or more children the maximum credit will be $5,891 (IRS 1040 Tax Form 2012).

State EITC Programs

Like the federal EITC, state EITCs allow low-income working families to receive a credit. Most states simply "piggyback" on the federal EITC using the same eligibility requirements and set state-level

Figure 1: EITC Diagram with Phase-Out and Amounts



Source: Center on Budget and Policy Priorities 2011. (Reprinted with permission.)

Table 1: State Earned Income Tax Credits

State	% of Federal Credit	Refundable Credit State	Cannot carry over deficit from year to year (balanced budget)
Connecticut	N/A**	Yes	---
Delaware	20%	No	X
DC	40%	Yes	---
Illinois	5%	Yes	---
Indiana	9%	Yes	X
Iowa	7%	Yes	X
Kansas	18%	Yes	X
Louisiana	3.5%	Yes	X
Maine	5%	No	X
Maryland	25%	Yes	---
Massachusetts	15%	Yes	---
Michigan	20%	Yes	---
Minnesota	Average 33%	Yes	X
Nebraska	10%	Yes	X
New Jersey	20%	Yes	---
New Mexico	10%	Yes	X
New York	30%	Yes	---
North Carolina	5%	Yes	X
Oklahoma	5%	Yes	X
Oregon	6%	Yes	X
Rhode Island	25%	Partially	X
Vermont	32%	Yes	---
Virginia	20%	No	X
Washington	Enacted, but no funds to implement	Yes	X
Wisconsin	4%—one child	Yes	---
	14%—two children		
	43%—three children		
	No credit for childless workers		

Source: Center on Budget and Policy 2011, National Conference of State Legislatures 2010.
*Tax year 2010, except as noted.
**Connecticut adopted an EITC in 2011 (United Way of Connecticut 2013).

credits at some fraction of the federal EITC. Individuals then receive the federal credit and the state credit. Matches currently range from 3.5 to 43 percent (CBPP 2011).

In 2010, 23 states and the District of Columbia had EITC programs (See Table 1). Five states had enacted the program as recently as 2006, including Michigan (2006), North Carolina (2007), Louisiana (2007), New Mexico (2007), and Washington (2008). Three states have non-refundable EITCs: Maine, Virginia, and Delaware (Williams, Johnson, and Shure 2010). In 2011, Connecticut enacted a state EITC program (United Way of Connecticut 2013). If the filer has a negative tax liability (owes less than the credit), the filer in states with a refundable credit receives the difference, while those filers who have negative tax liability but live in a state without a refundable credit do not receive the difference. Filers in non-refundable states simply pay nothing. To counteract the regressive nature (those with lower incomes pay larger share) of many state taxes (e.g. sales taxes), some states use a refundable credit system (See Table 1).

Table 1 examines states and local governments that currently have an EITC. All of the states, with the exception of Washington, have provided EITC credits to filers. Many of the states, as mentioned above, apply a percentage match to the federal allocation. These range from 3.5 percent (Louisiana) to 43 percent for a family of three or more (Wisconsin). Twenty-two of these state governments have a refundable credit. It is important to recognize that some states are not able to carry over debt from year to year, and, therefore this table also displays whether the government has a balanced budget requirement.

Benefits of Adopting a State EITC

The 26 states without a state-level EITC should consider (1) adopting an EITC program and (2) making their credits refundable. As noted previously, the credit itself has been shown to incentivize employment, bolster urban areas, redress tax inequities, and reduce poverty and economic hardship. It accomplishes each of these goals in an administratively-efficient fashion. Celik (2011) found non-refundable credits to be less effective at alleviating the effects of poverty. Further, Celik indicates that refundable credits improve the employment impacts over non-refundable credits. She shows that non-refundable credits present a small downward bias in the employment impacts, suggesting that the employment impacts are greater for refundable credits (5, n5). The question remains as to whether employment gains outweigh the costs of the program and administrative costs.

Incentivizing Employment

Broad support for the EITC program is attributed to the fact that the program both requires and incentivizes work. The design of the EITC has been shown to have a significant effect on incentivizing new entrants into the workforce (Eissa and Liebman 1996; Scholz 1996; Schmeiser 2007; Williams et al. 2010; Celik 2011). The credit starts at zero and increases as workers generate additional income until it plateaus and eventually decreases over a range of values. The structure of this incentive, therefore, leads many to enter the labor market for the first time (Scholz 1996b).

Several researchers, using a range of research designs and methods, have found that the EITC incentivizes employment, especially among single mothers. These designs included triple difference models (accounting for differences between similar states), simulation models, standard regression models, and several natural experiments. Scholz (1996) analyzed responses to the EITC based on monthly Survey of Income Program Participation data and found that, at the national level, the EITC provided 145 million new hours of work in the labor market per year. A possible concern is that the phase-

out portion could disincentivize work and thus cancel out the employment benefits. However, Scholz found that the phase-out disincentive is outweighed by the additional hours from the new entrants and by those at the phase-in and plateau portions of the income distribution (Scholz 1996). Romich and Weisner's (2000, 10) ethnographic study of EITC recipients found that one-third of the participants thought that the EITC had a positive linear relationship between the hours they worked and the total amount of their credit, and only two of the 42 participants knew that they had to earn a specific amount in order to maximize their credits. This corroborates the fact that their employment was not particularly sensitive to the phase-out portion of the credit. Therefore, while their incomes rose, they did not consider a potential decline in their credit amount. Chetty (2011, 2) notes that while 50 percent to 90 percent of low-income families know that the EITC is a tax refund for workers, "less than 5% understand how the amount they earn affects the size of their credit." Therefore, the construction of the credit seems to induce new employment.

Using parameters from the labor supply and the EITC literature, Schmeiser (2007) simulated the accounting and behavioral impact of a 15 percent expansion of the New York EITC on the state's labor supply. Using single mother labor supply elasticities from the literature to simulate the model in the range of .69 (Meyer and Rosenbaum's (2011) quoted in Schmeiser 2007) to 1.16 (Hotz and Scholz's (1996) quoted in Schmeiser 2007), Schmeiser estimates that between 7,125 and 21,363 single mothers would enter the labor force (2007). This study highlights the intended effects of the EITC on new entrants into the labor force. Of course, new entrants in the labor force could displace old workers, negating the net labor supply effects. Consistent with the findings of Scholz (1996) that the EITC represents an expansion of new labor market entrants, Schmeiser (2007) finds that current workers would work 563,000 to six million fewer hours nationwide as a result of new entrants into the labor force—indicating a substitution effect for new market entrants. This negative effect, however, is overcome by the 11.6 million to 34.9 million hours of new entrants into the labor force. In total, he finds that labor earnings would also increase by $63.4 million to $94.3 million (Schmeiser 2007).

Hotz, Mullin, and Scholz (2006) also found that the 1993 federal EITC expansion increased employment in California by "about 3.4 percentage points for families with two or more children relative to families with one child" (quoted in Celik 2011, 6). In addition, in a natural experiment accounting for state-variation in EITC credits between 1980 and 2002, Strully, Rehkopf, and Xuan (2010, 549) found that having a state EITC program increased a "mother's odds of working for at least one week by 19%" while controlling for other assistance programs (Aid to Families with Dependent Children, Temporary Assistance to Needy Families, Women, Infants, and Children, and minimum wage), state factors (unemployment, number of poor, state gross product), and demographic information (mother's age and education level, number of children in home). After controlling for the same social policies, the EITC program still increased mother's wages by 32 percent (Strully, Rehkopf, and Xuan 2010). The finding that a mother's wages would increase was corroborated by Celik (2011) using a triple difference model (accounting for state-time variation in EITC), which allowed for macroeconomic policy control changes. She found that a 10 percentage point increase in the state EITC supplement increased employment among low educated single mothers by 3.4 percentage points. These findings are suggestive of the broad employment effects that the state EITC has on individuals. While some new workers are substitutes for those being pushed out of the labor market, the overwhelming evidence indicates that the EITC yields a net gain.

Bolstering Local Economies

The benefits of a state EITC program have increasingly been found in local areas. Low-income individuals tend to spend EITC-related tax refunds directly into the economy while saving very little of their refunds (Berube 2006; Romich and Weisner 2010). In the short run, this spending has an immediate economic benefit to the local community, and the dollars are instantly recirculated. This spending, according to Berube (2006, 3), often takes the form of "(a) buying clothes for children, (b) replacing furniture and appliances, (c) repairing a vehicle, (d) going on a trip, and (e) catching up on past-due rent and utility bills." This recirculation of funds within the local economy is often referred to as the multiplier effect. At least one estimate from the San Antonio area put the economic multiplier effect of these dollars at 1.58 (similar for Baltimore), suggesting that every dollar of EITC yields an additional $.58 in the local economy (Berube 2006). A report by the Jacob France Institute (2004) estimates an employment multiplier of 1.41 for San Antonio. This estimate means that for every 10 jobs that are created as a result of the direct spending of EITC dollars, four additional jobs will be created through indirect effects (a fraction of the salaries are re-spent in the local economy). For example, if the recipient buys food at a grocery store, the purchase supports the workers at the store who then spend money on other goods or services in the local economy.

Kneebone (2009) estimates that 4.6 million EITC recipients (roughly 60 percent of the total recipients) live in the 100 largest metro areas (41 percent of the largest metro areas are in states with a state-level EITC). Table 2 indicates the number of Metro Statistical Areas by state, as well as whether the state has a state-level EITC. A surprising 67 of the top 100 metro areas are in states that do not have a state-level EITC. Adopting a state EITC would, therefore, benefit those metro areas that need additional sources of revenue. Tracking all forms of federal investment into urban areas, Berube (2006) found that the EITC program benefits urban areas more than any other federal investment. Berube notes that while many have viewed this credit as a positive for recipients, they have neglected to consider the impacts that it has on the physical location. A state EITC would contribute to the development of recipients' cities and urban areas. Finally, EITCs are often used among low-income individuals as an asset-building expenditure (Smeeding, Ross, O'Connor, and Simon 1999). Studies have shown that many individuals use their refunds to make investments, which promote economic opportunity, such as paying off debt and investing in education (CBPP 2011).

Redressing Tax Inequities

States should offer an EITC to their low-income constituents because state taxes in the form of excise, sales, and property taxes are regressive. Creating a state-level EITC program in states that lack them and expanding current state EITC allocations can help overcome this burden. According to the Institute on Taxation & Economic Policy (quoted in Blounin 2009, 7), in Missouri it is estimated that "the poorest of Missouri families (those earning less than $15,000 per year) pay 10% of their income in state and local taxes. Middle income families (those earning $25,000-$41,000) pay 9.3% of their income in state and local taxes in Missouri." Smeeding (2006, 82) noted that in the United States, "families with children whose market income is below the poverty level pay higher net taxes (even after the Earned Income Tax Credit) than do families in other nations." Smeeding's claim was in reference to several Western European countries and Canada. against whom the United States comparatively fared the worst in dollars spent assisting those in poverty, even though the United States had a larger GDP. States that enact an EITC program should make the credit

Table 2: Top 100 Metro Areas covered by State-level EITC Program

State	EITC	Top Metros
Alabama	No	2
Alaska	No	0
Arizona	No	2
Arkansas	No	2
California	No	11
Colorado	No	2
Connecticut	Yes	5
Delaware	Yes	1
DC	Yes	2
Florida	No	8
Georgia	No	3
Hawaii	No	1
Idaho	No	1
Illinois	Yes	2
Indiana	Yes	4
Iowa	Yes	2
Kansas	Yes	2
Kentucky	No	2
Louisiana	Yes	2
Maine	Yes	0
Maryland	Yes	3
Massachusetts	Yes	4
Michigan	Yes	2
Minnesota	Yes	1
Mississippi	No	2
Missouri	No	2

State	EITC	Top Metros
Montana	No	0
Nebraska	Yes	1
Nevada	No	2
New Hampshire	No	3
New Jersey	Yes	6
New Mexico	Yes	1
New York	Yes	7
North Carolina	Yes	4
North Dakota	No	0
Ohio	No	7
Oklahoma	Yes	2
Oregon	Yes	1
Pennsylvania	No	11
Rhode Island	Yes	3
South Carolina	No	5
South Dakota	No	0
Tennessee	No	4
Texas	No	6
Utah	No	3
Vermont	Yes	0
Virginia	Yes	4
Washington	Yes	2
West Virginia	No	2
Wisconsin	Yes	4
Wyoming	No	0

Source: Center on Budget and Policy Priorities and United States Census Bureau Population by Combined Statistical Area 2011 estimates as cited by Wikipedia.
*"Top Metro Areas" totals 147 because some metro areas overlap several states using the Combined Statistical Area figures.

refundable in recognition of the regressive tax structure at the state level. Delaware, Maine, and Virginia should also consider modifying their legislation to make their EITC credits refundable.

Reducing Poverty and Economic Hardship

While the EITC is of great importance to low-income adults, it is particularly effective at alleviating childhood poverty, as most of the recipients are working parents (Greenstein 2005). In 2003, the EITC reduced national childhood poverty by 2.4 million (Greenstein 2005). Given the expansion over time, more recent estimates indicate that the

EITC reduces poverty among families with children from 22.7 percent to 18.4 percent for those programs with refundable tax credits (Crandall-Hollick 2011). This means that families in these programs move above the federal poverty line. Schmeiser (2007) estimates that if, in 2004, New York had matched the federal EITC at a rate of 45 percent instead of 30 percent, it would have decreased childhood poverty from 15.1 percent to 14 percent and lifted 48,000 children out of poverty. While this is an example of expansion, not adoption, it highlights the ability of these credits to alleviate poverty.

States like New York have even used their EITC program to incentivize noncustodial parents to pay the full amount of their child support obligations by making these parents eligible for the credit (Lippold and Sorensen 2011). A recent study by Strully, Rehkopf, and Xuan (2010) compared state variation in EITC amounts and found that after controlling for other state assistance programs, state fiscal health, and family demographics, having a state EITC program was associated with increased birth weights, on average, of 16 grams. This has longer term effects on the health of the baby, which can lead to positive impacts on future labor supply and reduced medical costs.

Ease of Implementation

Implementing an EITC program is administratively efficient relative to other programs, as it is embedded directly into the income tax. However, it is likely to be more difficult to implement in those states without an income tax (Williams, Johnson, and Shure 2010). Williams, Johnson, and Shure (2010, 3) indicate that state EITCs are one of the easiest programs to administer as states rely on the "federal statutory structure and compliance apparatus." It is also easy for filers to calculate: they simply multiply the federal credit by their state's matching percentage. In fact, according to a fiscal note developed for the state of Washington, the administrative cost in a state that has an income tax would typically be well below 1 percent of the credit value (Williams, Johnson, and Shure 2010). Therefore, the administrative costs would be miniscule relative to the benefits for those states that have a personal income tax.

In a comparison between "hiring credits" directed as a subsidy to employers to hire workers and "worker subsidies" directed to individuals to spur employment, Neumark found that one benefit of the EITC program relative to hiring credit programs is "hiring credits may pose substantial administrative and compliance costs for employers that deter employers from using the credit" (2011, 22). Furthermore, hiring credits (as opposed to the EITC) are more likely to lead employers to stigmatize those being hired under the credit, whereas the EITC is administered through the tax code without the employers' knowledge (Neumark 2011).

Administrative Feasibility without a State Income Tax

While most states rely on individuals filing personal income taxes to determine the amount of the credit, this need not be the case. For example, the state of Washington has developed a straightforward method to administer its EITC program. Despite the fact that Washington state's credit has not gone into effect, legislation has been passed and the implementation will be straightforward to administer, according to Williams, Johnson, and Shure (2010). Washington will simply rely on data filed with the federal EITC program through a common data-sharing arrangement. This will allow it to "piggyback" on the federal requirements and verification of taxes. It is estimated that administration will constitute about 4 percent of the EITC cost in Washington (Williams, Johnson, and Shure 2010). While this administrative cost is four times larger than that of states with a personal income tax, the costs will likely decline over time as programs and procedures are put into

place. It is likely that the programming for implementation and databases will diminish over time, as will the costs inherent in learning to implement the credit.

This legislation, as noted in Williams, Johnson, and Shure (2010), could provide guidance for states with no broad-based income taxes like Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming.

Costs of the EITC Program

As with all programs, the EITC is not without its costs. These are highlighted here, however, it is maintained that the benefits of state EITC adoption still outweigh the costs (direct expenses of the credit and administration).

Estimating Program Costs for 2013

A concern for those states that have not yet elected to administer a state EITC may be the costs. Utilizing the methodology adopted by the Center on Budget and Policy Priorities, data is drawn from the IRS in terms of actual federal EITC expenditures by state and from the Joint Committee on Taxation on estimated future expenses. Once collected, the distribution of expenditures by state is assumed to be constant over time (e.g. if Alabama made up 2.3 percent of all federal EITC expenses in 2011, then it is assumed to make up 2.3 percent of all federal EITC expenses in 2013). Applying this percentage to the estimates by the Joint Committee on Taxation then yields the estimated state cost at varying levels of federal match (electing here to use a 5 percent match, a 10 percent match, and a 20 percent match). Given that the Joint Committee on Taxation underestimated the program costs by 12 percent in 2011, this estimate compensates by assuming that 2013 will be 12 percent more expensive than the Joint Committee previously estimated. Table 3 gives the estimated costs by state (for those without a state EITC program) for 2013. Furthermore, these estimates assume full participation at the level experienced by the federal credit. This assumption means that these values probably overestimate the true costs.

Can States Afford the Cost?

States are limited in their ability to fund new programs (Pew 2012). Considering the costs in light of the benefits is important in determining the feasibility of state EITC adoption. Nonetheless, an important consideration for states is how to address a depressed job market. Many states rely on targeted financial incentives to businesses. Often, these incentives are conditioned on hiring a certain number of individuals. Enforcement and administration can make it costly to achieve employment gains. In contrast, the EITC can spur employment and reduce the unemployment rate in many states. As has been noted, the administrative costs of the program are very low relative to other programs that a state may enact.

A comparison should be drawn between creating jobs through hiring credits, which are paid to subsidize the employer, and "worker subsidies," which are paid directly to individuals to enter the labor market (Neumark 2011). While Neumark (2011) finds that in a post-recession period hiring credits may have a larger overall effect, there are also large "wastage effects," which occur when the employer would have employed the worker regardless of the credits. It is nearly impossible to determine how likely this scenario is, but Bartik (2001) (quoted in Neumark 2011), estimates the wastage effect associated with these employers (instead of worker credits like EITC) is over 90 percent for many hiring credits. Furthermore, many employers simply churn employees (firing workers to bring on new ones as a means to increase their credit). This practice creates vast inefficiencies in the labor market and reduces stability among the working poor. Katz (1998) (quoted in Neumark 2011, 10) indicates that the "low earnings base for targeted workers implies that these programs are unlikely to move fami-

Table 3: Estimated 2013 Costs for State Earned Income Tax Credits for States Without a Current EITC Program

State	Amount of Federal EITC Claims, TY 2011 ($ millions)1	Percent of Total U.S. EITC Claims, TY 2011	Estimated Cost of Federal EITC in FY 2013 ($ millions)2	Estimated Cost of State EITC in FY 2013		
				Set at 5% of Federal Credit ($ milions)	Set at 10% of Federal Credit ($ millions)	Set at 20% of Federal Credit ($ millions)
Alabama	1,350,000	2.30%	$1,234,391	69	138	276
Alaska	86,580	0.15%	$79,166	4	9	18
Arizona	1,240,000	2.12%	$1,133,811	63	127	254
Arkansas	725,000	1.24%	$662,914	37	74	148
California	6,480,000	11.05%	$5,925,077	331	663	1,325
Colorado	684,000	1.17%	$625,425	35	70	140
Florida	4,510,000	7.69%	$4,123,780	231	461	922
Georgia	2,680,000	4.57%	$2,450,495	137	274	548
Hawaii	215,000	0.37%	$196,588	11	22	44
Idaho	283,000	0.48%	$258,765	14	29	58
Kentucky	880,000	1.50%	$804,640	45	90	180
Mississippi	1,008,000	1.72%	$921,683	52	103	206
Missouri	1,130,000	1.93%	$1,033,231	58	116	231
Montana	160,000	0.27%	$146,298	8	16	33
Nevada	488,000	0.83%	$446,209	25	50	100
New Hampshire	140,000	0.24%	$128,011	7	14	29
North Dakota	82,660	0.14%	$75,581	4	8	17
Ohio	2,060,000	3.51%	$1,883,589	105	211	421
Pennsylvania	1,810,000	3.09%	$1,654,998	93	185	370
South Carolina	1,140,000	1.94%	$1,042,375	58	117	233
South Dakota	130,000	0.22%	$118,867	7	13	27
Tennessee	1,510,000	2.58%	$1,380,689	77	154	309
Texas	6,480,000	11.05%	$5,925,077	331	663	1,325
Utah	414,000	0.71%	$378,547	21	42	85
West Virginia	328,000	0.56%	$299,911	17	34	67
Wyoming	71,100	0.12%	$65,011	4	7	15

Source: Author's computation. Modeled following Center on Budget and Policy Priority framework. (1) Costs are based on IRS figures for 2011. (2) Estimates are based on 12 percent over the estimated costs for the 2013 Federal EITC amounts based on Joint Committee on Taxation estimates.

lies out of poverty." Blank (1998) (quoted in Smeeding, Ross, O'Connor, and Simon 1999) also finds that EITCs are better targeted to low-income families than are employer-based wage subsidies of equivalent cost. Furthermore, at times of excess supply, Neumark notes that employers face a nearly infinitely elastic supply curve for workers in which a hiring credit will have no effect on hiring decisions (Katz 1998, 25 as quoted in Neumark 2011, 24). Given that there are so many other factors that go into deciding whether to bring on additional labor, Katz suggests that these decisions are not made solely based on the credits. Even those states that have a balanced budget amendment can divert current expenses from direct business credits to an EITC program.

Williams, Johnson, and Shure note that "current federal regulations also offer the opportunity to finance a portion of the cost of a refundable credit from a state's share of the federal Temporary Assistance to Needy Families (TANF) block grant" (2010, 8). This practice ensures that states with a balanced budget amendment and those facing significant fiscal constraints can leverage federal dollars to create a state EITC program. The balanced budget requirement disallows the state from having debt carried over from the previous year. Fifteen of the 24 states that currently have a no debt carry over provision have also enacted a state EITC program, which speaks to the ability to maintain the program even with this fiscal constraint (NCSL 2010). Four states could adopt an EITC without fear of exceeding debt limits (Arizona, Pennsylvania, Texas, and West Virginia).

Conclusion

States should adopt an EITC as a means to alleviate poverty, bolster the states' economies through employment incentives, and reduce tax burden inequities. For some states, this adoption may come at the expense of other labor incentives, but the sizeable expansion of these programs, along with the vast number of recent adopters, suggest that it is both a feasible and economically-sound policy decision. States with balanced budget requirements (even no debt carry over obligations) and states that do not have an income tax can and have participated in this program. The estimated costs of the program for 2013 are affordable; they range across states at a low of $4 million (Alaska, North Dakota, and Wyoming) at the 5 percent match, and up to $1.3 billion (California and Texas) at the 20 percent match. Unlike many programs, the EITC receives bipartisan support and achieves broad benefits (increased employment, reduced inequities in the tax code, and alleviation of poverty, especially among children). Furthermore, the program is relatively easy to administer given the ability to piggyback on the federal income tax. It is for these reasons that the remaining 26 states should seriously consider adopting a state-level EITC program.

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