Prepared by the Joint Fiscal Office
April 30, 2021

Earned Income Tax Credit Background

1) How was the EITC calculated pre-ARPA?

a) Determining Eligibility: Determining one's eligibility depends on income, number of qualifying children, and earned income.

The rules for the EITC follow a flow chart manner. The eligibility criteria falls into three parts: overall income and technical, qualifying children, and earned income.

First, the taxpayer must meet overall income and technical requirements:

- TY2020 AGI income requirements:
  - Less than $50,954 (or $56,844 for married joint filers) if you have three or more children.
  - Less than $47,440 ($53,330 MFJ) if you have two children.
  - Less than $41,756 ($47,646 MFJ) if you have one child
  - Less than $15,820 ($21,710 MFJ) if you have no children.
- Must have a Social Security number
- Cannot file married filing separately
- Be a US citizen or resident alien
- Cannot have foreign earned income
- Have investment income less than $3,650
  - This is defined as capital gains, interest and dividends, rentals, royalties, and partnership income, and passive activities.
- Must have earned income.

If the taxpayer meets all of those, then the next step is to determine eligibility by number of qualifying children.

If the taxpayer has qualifying children, they must:

- Meet certain tests to verify they are actually the taxpayer's child.
- Confirm the children are not claimed by another person for their EITC

If the taxpayer doesn't have qualifying children, the taxpayer must:

- Be older than 25 and under 65 years of age.
- Not be a dependent on someone else's return
- Not be a qualifying child of another person.
- Lived in the US for at least half a year.

Finally, if the taxpayer meets those rules, the eligibility is then determined by how much earned income they have. In order to qualify, earned income must be less than the AGI thresholds above.

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b) Calculating the EITC

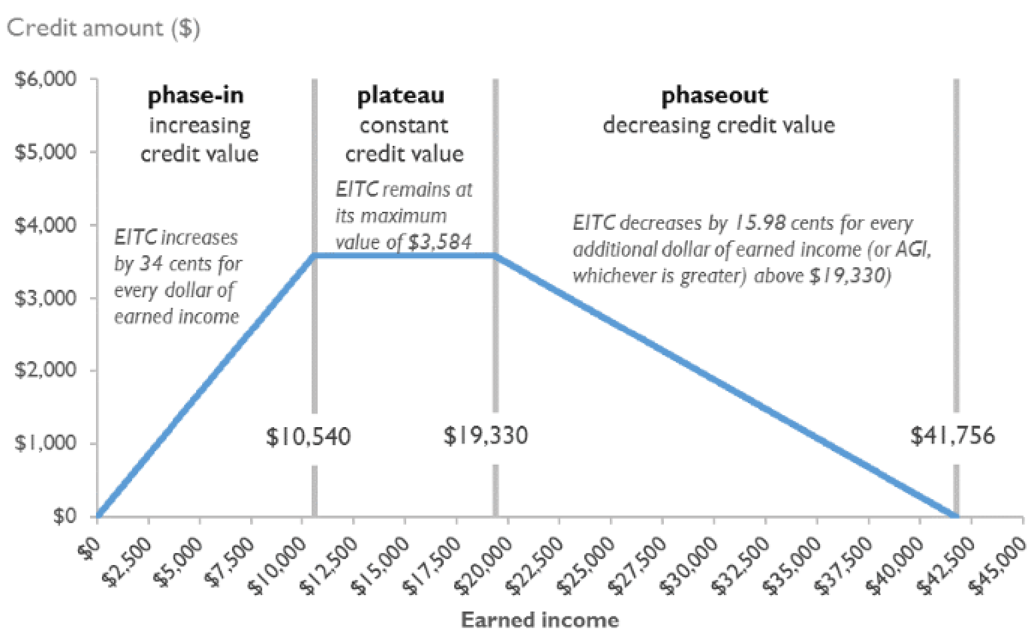
In most cases, the IRS completes the calculation for the EITC for the taxpayer. The formula considers earned income, number of qualifying children, marital status, and AGI. The credit phases in, hits a maximum, and then phases out depending upon income ranges. The following table shows these parameters for TY2020:

Number of Qualifying Children	**0**	**1**	**2**	**3 or more**
income where credit = 0	$15,820	$41,756	$47,440	$50,954
married taxpayers (married filing jointly)				
credit rate	7.65%	34%	40%	45%
earned income amount	$7,030	$10,540	$14,800	$14,800
maximum credit amount	$538	$3,584	$5,920	$6,660
phaseout amount threshold	$14,680	$25,220	$25,220	$25,220
phaseout rate	7.65%	15.98%	21.06%	21.06%
income where credit = 0	$21,710	$47,646	$53,330	$56,844

Source: IRS Revenue Procedure 2019-44 and Internal Revenue Code (IRC) §32.

Source: "The Earned Income Tax Credit (EITC): How It Works and Who Receives It", Congressional Research Service, January 12, 2021

The following chart shows the credit calculation for an unmarried taxpayer with one child:



Source: "The Earned Income Tax Credit (EITC): How It Works and Who Receives It", Congressional Research Service, January 12, 2021

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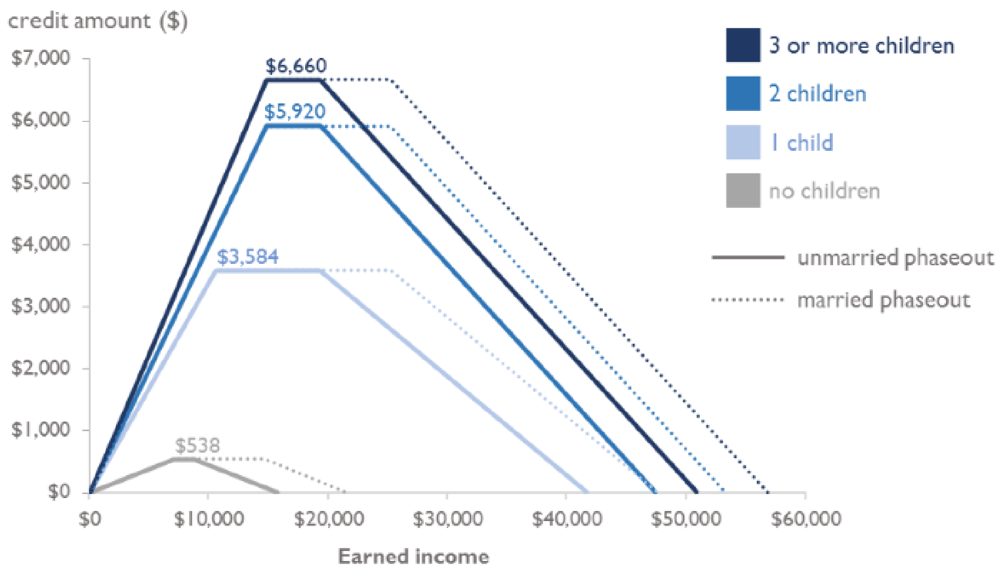
The following chart shows the phase-in, plateau, and phase-out ranges for married and unmarried taxpayers with and without children. Note the very small credit for individuals and couples without children.

EITC Amount by Number of Qualifying Children, Marital Status, and Income, 2020



Source: "The Earned Income Tax Credit (EITC): How It Works and Who Receives It", Congressional Research Service, January 12, 2021

2) What did ARPA change?

The major changes in the EITC are related to the credit for individuals and couples without children.

ARPA made the following changes to the EITC for TY2021 only:

- ARPA expands the EITC for individuals without children. For tax year 2021, the maximum credit for individuals without children increases from $543 to $1,502.
- Repeals the maximum age limit of 65
- Lowers the minimum age from 25 to 19.
- Raises the income limit to qualify from about $16,000 to at least $21,000.

ARPA also changed the maximum investment income limit from $2,220 to $10,000. It also allowed taxpayers to use tax year 2019 income figures for calculation of their TY2021 EITC.

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3) Why does this matter to Vermont?

Vermont has its own state EITC which is equivalent to 36% of the Federal EITC. It is fully refundable.

The EITC is Vermont's largest personal income tax (PIT) expenditure. In FY2019, it was about $27 million. Around 40,000 tax returns claim the credit every year. The average state credit is around $690.

The ARPA expansions are expected to increase the amount of credit disbursed (and therefore, reduce PIT revenues) in Vermont by $6.19 million in FY2022 with very limited impacts in future years. This is approximately a 23% expansion of the existing credit.

Most of the impact, like the Federal credit, will largely benefit Vermont individuals and couples without children. JFO estimates about 14,000 tax returns claimed the EITC did not have any dependents or children at home. The average state credit was $150.

4) What do other states do?

28 states and DC have a state EITC, usually linked to Federal EITC. Vermont's EITC, with its refundability, is one of the more generous EITCs available.

At least 7 states have static conformity and an EITC

Static Conformity States and EITC			
Static	**EITC?**	**Refundable?**	**Share of Federal**
Maine	Yes	Yes	12%, except 25% for childless workers
Ohio	Yes	No	30%, but limited to 50% of tax liability if TI>$20,000
West Vriginia	No		
Kentucky	No		
Indiana	Yes	Yes	9%
North Carolina	No		
South Carolina	Yes	No	62.50%
Georgia	No		
Iowa	Yes	Yes	15%
Wisconsin	Yes	Yes	4% for families with one child, 11% for families with two children, 34% for families with three or more
Idaho	No		
Oregon	Yes	Yes	9%

Source: Tax Policy Center