

# Full Review: Vermont Earned Income Tax Credit

Ways and Means

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**JFO**

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# 2023 Tax Expenditure Review Report

- The 2023 Tax Expenditure Review Report includes one full review of the Vermont EITC and six expedited reviews prepared by the Tax Department including:
  - the Child and Dependent Care Tax Credit,
  - Military Pay Exemption,
  - Trade-in Allowance,
  - the \$10,000 Exemption from the Property Value of Disabled Veterans,
  - Energy Purchases for a Residence, and
  - Energy Purchases for Farming.
- The full review of the Vermont EITC includes:
  - Four major findings
  - Three considerations for legislators



# Overview of the Credit

- The Earned Income Tax Credit (EITC), as established in 32 V.S.A. § 5828b, provides refundable tax credits to low- and moderate-income workers and families.
- The credit works by reducing personal income tax liability for filers based on income level, marital status and the number of dependent children.
- Statutory Purpose in 32 V.S.A. § 5813s is to provide incentives for low-income working families and individuals and to offset the effect on these Vermonters of traditionally regressive taxes.



# Overview of the Credit

- The federal EITC was established in 1975 on a temporary basis and was made permanent in 1978.
- The Vermont EITC was initially established in 1980 as a flat 23% of the federal credit.
  - Context: 23% was also the “applicable percentage” used to determine state tax liability.
  - Example: If Vermonters had \$1,000 in federal tax liability and received a \$100 EITC on the federal level, their tax liability in Vermont would be \$230 and their State EITC would be \$23.



# Overview of the Credit

- Because the Vermont EITC is a flat percentage of the federal EITC, eligibility criteria and maximum credit amounts are established on the federal level.
- Today the Vermont “applicable percentage” used to calculate the State EITC is 38% (was last increased from 36% in 2022 in Act 138).
- Any changes to the EITC made on the federal level flow directly down to Vermont.
  - Temporary changes made for tax year 2021 at the federal level had significant impacts on Vermonters which we will discuss later.



# Eligibility Criteria and Credit Amounts

Because the Vermont EITC piggybacks off the federal EITC, all eligibility criteria and the initial credit calculations are based on the federal structure.



# Eligibility Criteria: Federal Level

- Three primary criteria need to be met to qualify for the federal EITC:
  - Filers are required to have earned income (wages, salaries, tips, etc.).
  - Filers must be within certain AGI ranges.

AGI Thresholds for the 2022 Tax Year		
Children or Relatives Claimed	Filing as Single, Head of Household, or Widowed	Filing as Married Filing Jointly
Zero	\$16,480	\$22,610
One	\$43,492	\$49,622
Two	\$49,399	\$55,529
Three or more	\$53,057	\$59,187

- Filers cannot have investment income greater than \$10,300 in tax year 2022.



# Credit Amounts: Federal Level

- Maximum credit amounts vary based on the number of dependent children claimed.

<b>Tax Year 2022 Maximum EITC Amounts</b>	
<b>Children or Relatives Claimed</b>	<b>Maximum Credit Amount</b>
<b>Zero</b>	<b>\$560</b>
<b>One</b>	<b>\$3,733</b>
<b>Two</b>	<b>\$6,164</b>
<b>Three or more</b>	<b>\$6,935</b>





# Credit Amounts: Federal Level

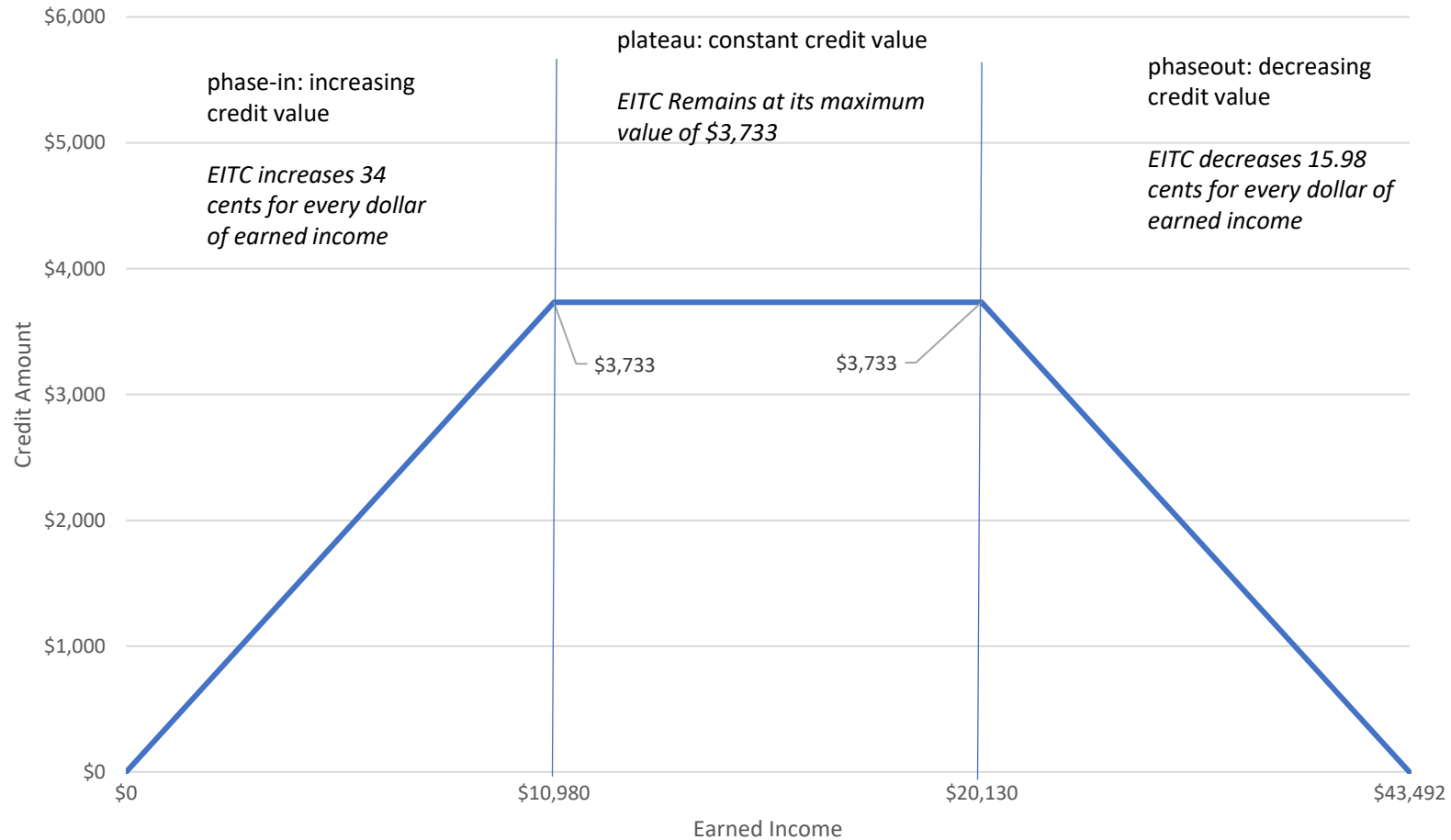
Parameters	Unmarried Filers			
	0	1	2	3+
Number of Qualifying Children	0	1	2	3+
Credit Rate	7.65%	34%	40%	45%
Earned Income Amount	\$7,320	\$10,980	\$15,410	\$15,410
Maximum Credit Amount	\$560	\$3,733	\$6,164	\$6,935
Phaseout Amount Threshold	\$9,160	\$20,130	\$20,130	\$20,130
Phaseout Rate	7.65%	15.98%	21.06%	21.06%
Income Where Credit = 0	\$16,480	\$43,492	\$49,399	\$53,057

Parameters	Married Filers			
	0	1	2	3+
Number of Qualifying Children	0	1	2	3+
Credit Rate	7.65%	34%	40%	45%
Earned Income Amount	\$7,320	\$10,980	\$15,410	\$15,410
Maximum Credit Amount	\$560	\$3,733	\$6,164	\$6,935
Phaseout Amount Threshold	\$15,290	\$26,260	\$26,260	\$26,260
Phaseout Rate	7.65%	15.98%	21.06%	21.06%
Income Where Credit = 0	\$22,610	\$49,622	\$55,529	\$59,187



# Credit Amounts: Federal Level

2022 EITC for an Unmarried Taxpayer with One Child By Income

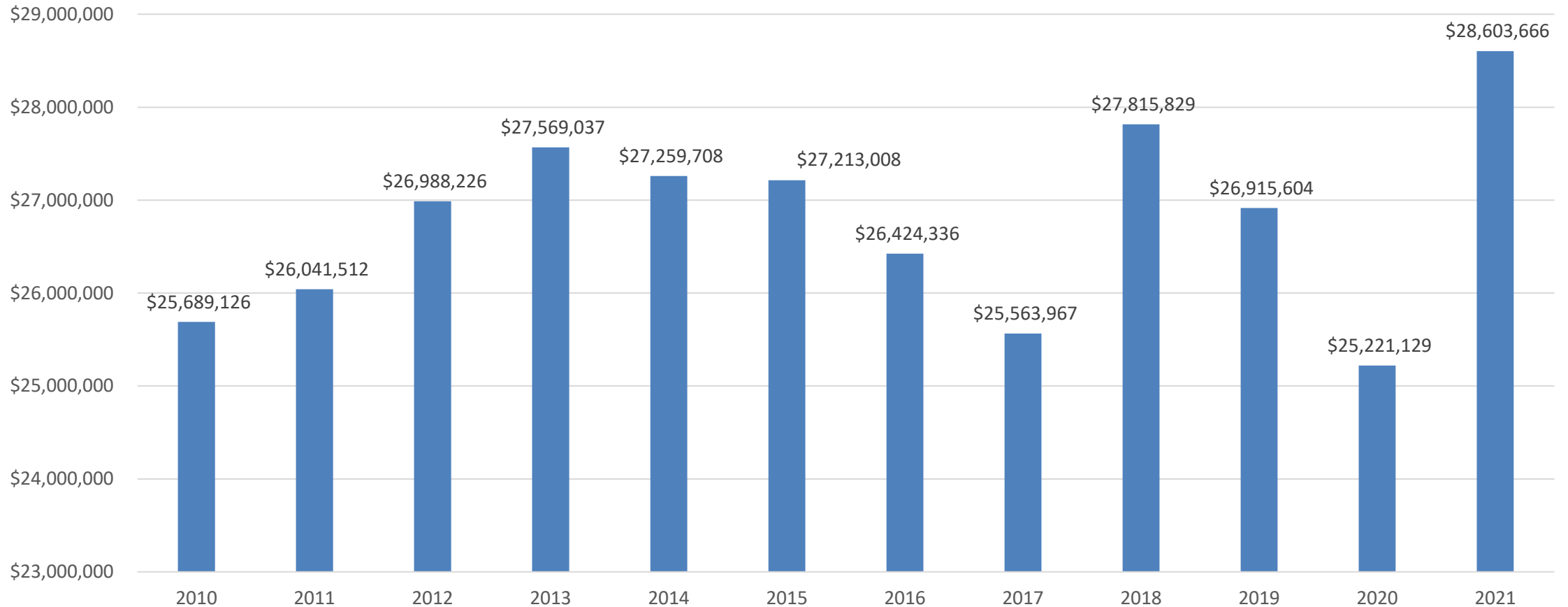


# Vermont EITC by the Numbers

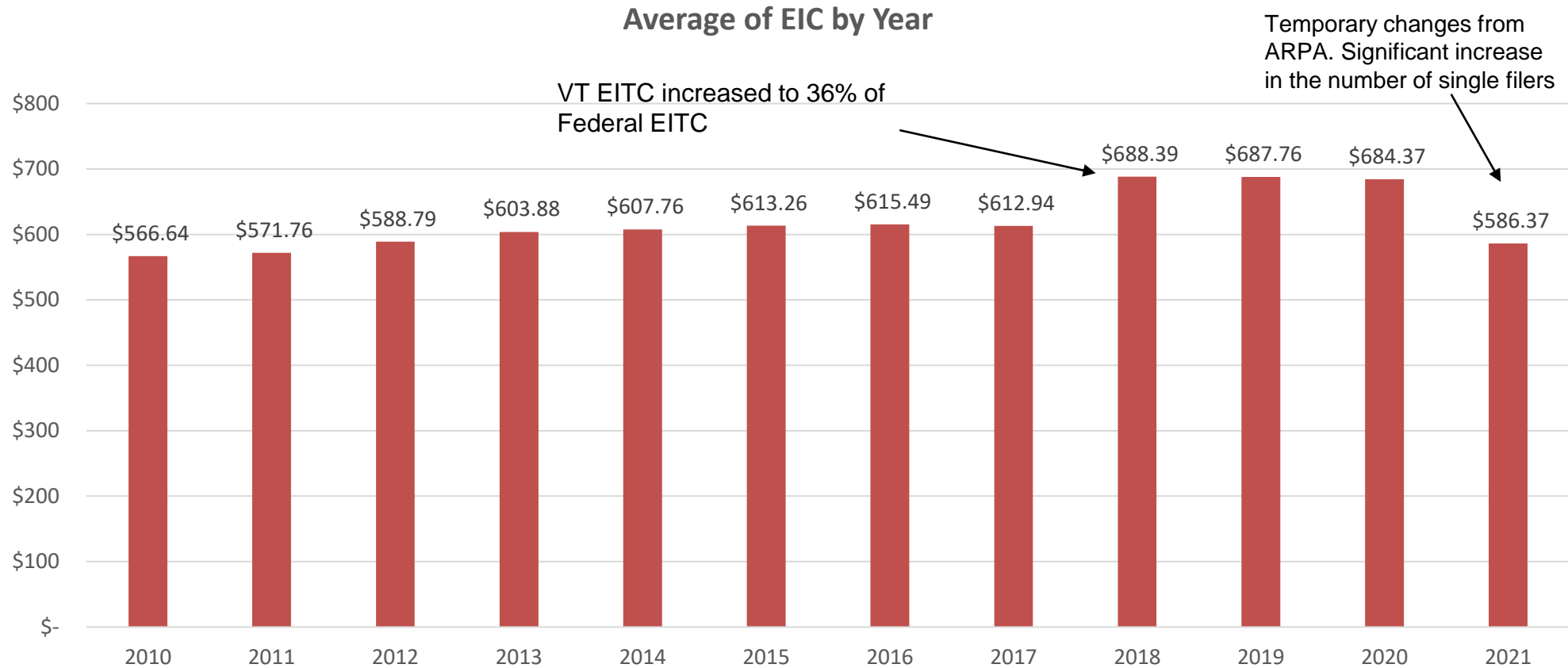


# Total Value of the VT EITC by Year

Sum of EIC by Year

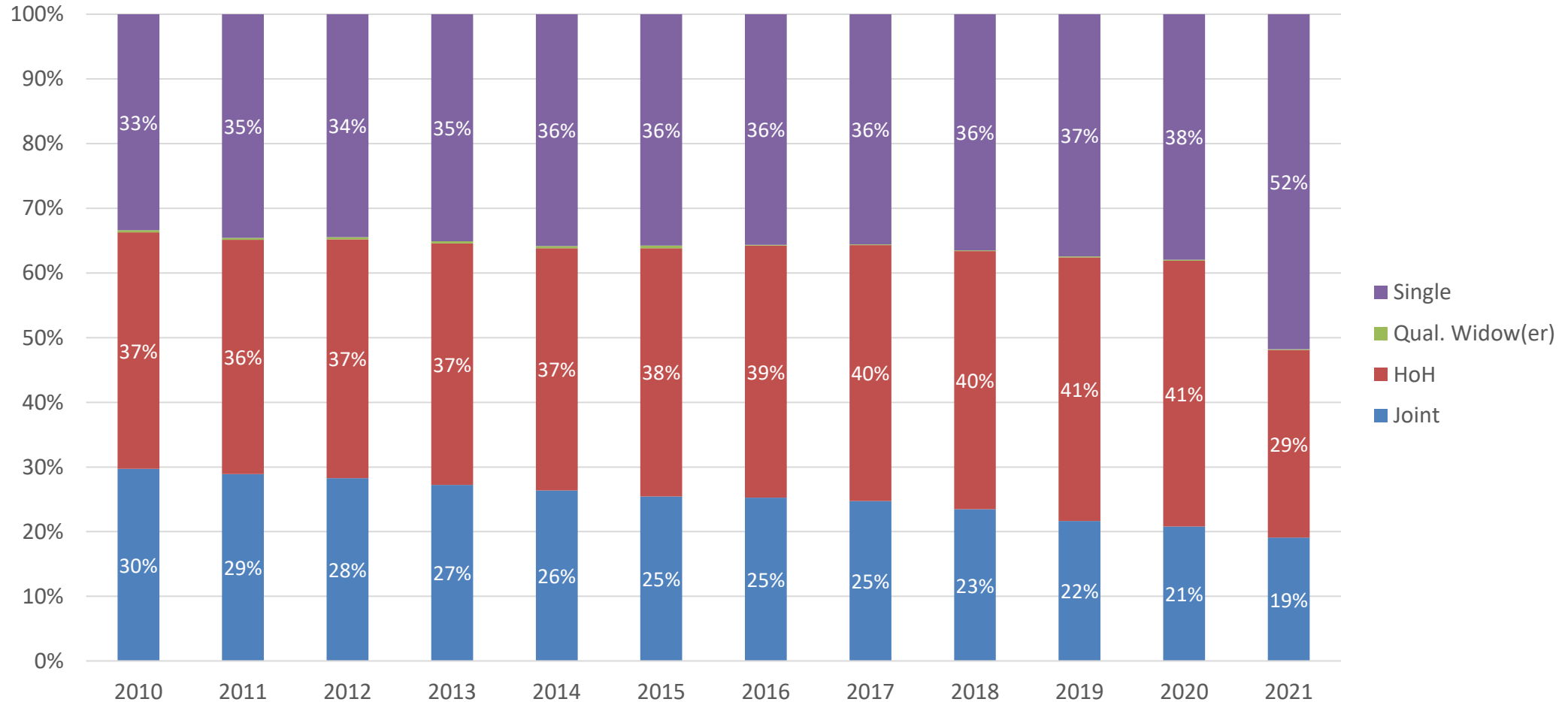


# Average Value of the VT EITC by Year



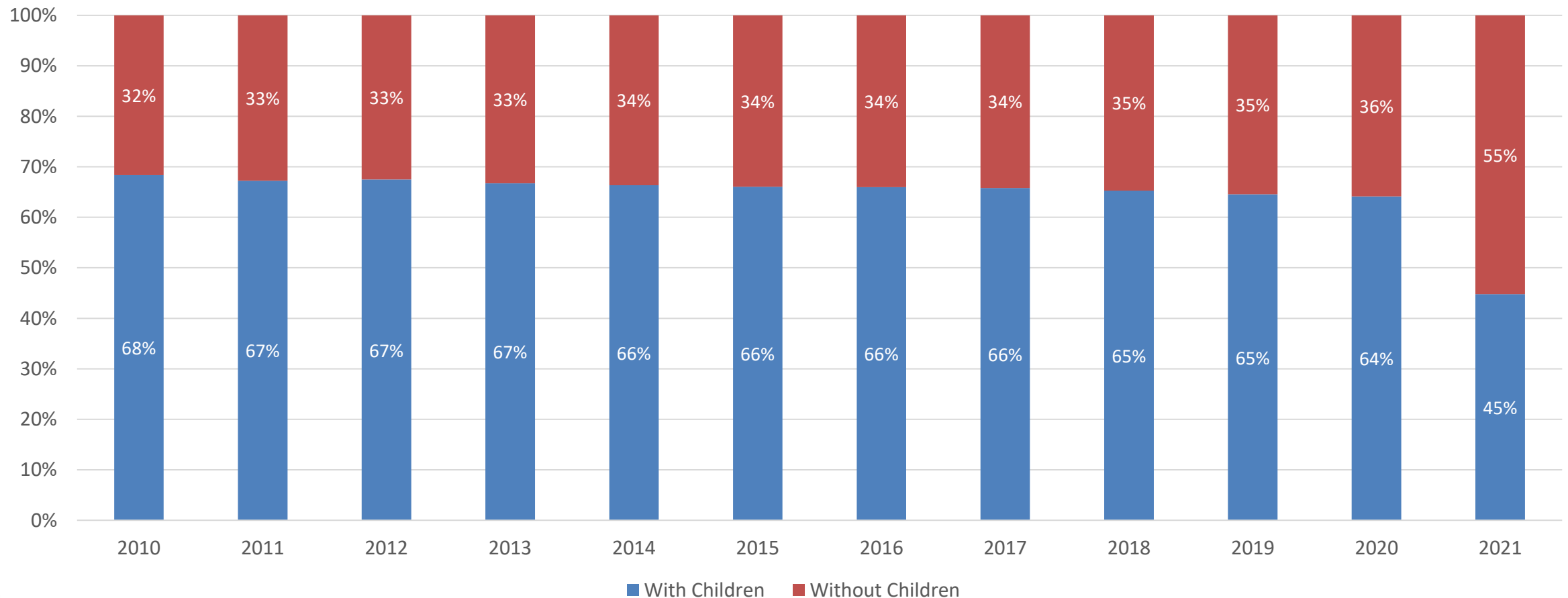
# Share of EITC Claimants by Filing Status

Share of EITC Claimants by Filing Status



# Share of EITC Claimants with and without Children

Share of Vermont EITC Claims With and Without Children



# Share of EITC Claimants by Inflation Adjusted AGI

<b>Share of Vermont EITC Claimants by Inflation Adjusted AGI</b>			
<b>AGI (Inflation Adjusted) (\$)</b>	<b>2010</b>	<b>2020</b>	<b>2021</b>
<b>&lt;\$0</b>	1.1%	1.5%	1.0%
<b>\$0-\$10,000</b>	23.9%	25.1%	24.0%
<b>\$10,000-\$25,000</b>	38.3%	34.4%	47.5%
<b>\$25,000-\$35,000</b>	16.8%	17.6%	13.4%
<b>\$35,000-\$50,000</b>	17.3%	19.3%	12.9%
<b>&gt;\$50,000</b>	2.6%	2.0%	1.3%





# Major Finding 1

The Vermont EITC is successful in offsetting traditionally regressive taxes for most types of eligible taxpayers.



# Major Finding 1

- The first half of the statutory purpose of the Vermont EITC is to offset the effect of traditionally regressive taxes on low- and moderate-income Vermonters.
- Vermont has a portfolio of taxes that disproportionately effect lower income Vermonters.
- For the purpose of the analysis in this report JFO focused on consumption-based taxes on consumer staples.
  - There are other regressive taxes that Vermont currently does not have. If another one were to be introduced, it would be important to factor that into the analysis.



# JFO Analysis of Regressive Taxes paid vs. Average VT EITC

<b>Table 6: JFO Analysis of Regressive Taxes Paid vs. Vermont EITC</b>					
<b>Average Estimated Regressive Taxes Paid in the Northeast</b>					
	Average for all Filers	Less than \$15,000	\$15,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999
Average Estimated Taxes Paid	\$716.37	\$248.44	\$324.47	\$416.77	\$469.25
<b>Average Vermont EITC by Filing Status</b>					
		Less than \$15,000	\$15,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999
Household Income					
Married		\$565.84	\$1,239.44	\$1,044.11	\$583.30
HoH		\$1,018.86	\$1,265.14	\$555.31	\$363.46
Single		\$172.40	\$843.24	\$539.63	\$729.17

Source: Chainbridge Tax Simulation, Bureau of Labor Statistics, Consumer Expenditure Surveys, 2020-2021 and JFO Analysis

## Sales & P&U taxes considered (not exhaustive):

- Laundry and cleaning supplies
- Furniture
- Personal care products
- Phone service
- Small appliances
- New/used cars and trucks
- Household textiles

## Gross receipts & gallonage taxes considered (not exhaustive):

- Natural Gas
- Electricity
- Fuel



# Major Finding 1 by the numbers

- Head of Household filers earning \$40,000 to \$50,000 do not have their regressive taxes fully offset,\.
- This cohort represents 6.4% of HoH EITC claimants.
- Single filers earning \$15,000 or less do not have their regressive taxes fully offset.
- This cohort represents 48% of single claimants and roughly a third of total EITC claimants.
- Claimants of all other filing statuses and incomes are fully offset.
- Overall, 63.7% of total EITC claimants have their traditionally regressive taxes fully offset by the EITC.
- Among EITC claimants who do not have their regressive taxes fully offset, they are still being offset by upwards of 65%.



# Major Finding 2

The Vermont EITC creates unequal incentives for low- and moderate-income working families and individuals across different filing statuses.



# Major Finding 2

- The second half of the statutory purpose of the Vermont EITC is to provide incentives to low- and moderate-income Vermont workers.
- The credit does provide an incentive for Vermonters to work, because it requires earned income to receive a credit.
- The credit may provide an incentive for workers to enter the workforce but there are mixed opinions about whether it encourages workers to work more or less.
- Single childless filers have much lower incentives than other filing statuses.



# There isn't strong consensus on work incentives in the academic literature

- Research that argues that EITC provides a **disincentive** to work
  - Some workers may reduce the number of hours they work in order to maintain credit eligibility or to maintain the maximum credit amount.
  - For workers in the phaseout range there is an opportunity cost of more work. Every extra dollar earned corresponds to a decrease in their credit amount.
  - One paper found that secondary earners in a household within the household are 5% less likely to work.
  - Another paper found that single parents who were already working and began receiving the EITC reduced their hours by 15 hours on average.



# There isn't strong consensus on work incentives in the academic literature

- Research that argues that EITC provides an **incentive** to work
  - Many papers conclude that the EITC incentivizes people to enter the workforce.
  - The credit requires earned income to receive the credit. Workers with children receive more generous credit amounts.
  - A couple of papers have found that the EITC increases the number of single parents who work by anywhere from 2.8 to 7.5 percentage points.
  - Contrary to the last slide many papers do not find strong evidence that the EITC causes workers to reduce hours worked.





# Academic Research cited

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4. Sikivie, Michael, *How the EITC Affects the Labor Supply of Single Women*, Georgia State University, 2019, [https://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1165&context=econ\\_diss](https://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1165&context=econ_diss)
5. Picker, Lester A., *Married Women Work Less Because of the EITC*, National Bureau of Economic Research, April 1999, <https://www.nber.org/digest/apr99/married-women-work-less-because-eitc>



# The EITC provides unequal incentives based on filing status

- Single filers without children are only eligible at much lower income thresholds and their maximum credit amounts are also much lower.
  - Example: Two filers, one single and childless and the other HoH with one child. Both earn \$20,000 per year.
    - Single filer does not qualify for the EITC and receives no credit.
    - HoH filer does qualify and receives their maximum Vermont credit amount of approximately \$1,420.
- Single filers face much less generous eligibility criteria and credit amount which makes their incentive much smaller compared to other filing statuses.



# Major Finding 3

Head of Household filers who claim the EITC make up a disproportionate share of overall claims and are more likely to claim on a persistent basis



# Head of Household filers are more likely to claim the EITC than any other filing status

- Head of Household filers represent a relatively small portion of total Vermont taxpayers, but make up a significant share of EITC claimants.

Total Filing Status - Residents	Count of Total Filers	Share of Total Filers	Share Claiming EITC
Married	124,171	35.2%	6.2%
HoH	27,864	7.9%	54.4%
Widowed	148	0.0%	31.8%
Single	200,571	56.8%	7.0%
Total	353,242	100.0%	10.4%

- HoH filers make up 7.9% of total tax returns in Vermont but make up approximately 41% of EITC claimants in any given year.
- 54.4% of HoH filers claim the EITC.
- By contrast, single filers make up 56.8% of total tax returns in Vermont, but only make up approximately 38% of EITC claimants in any given year.



# HoH filers receive a greater share of total EITC than any other filing status

- HoH filers make up approximately 41% of total EITC claimants in any given year but receive roughly 57% of the total EITC claimed

Filing Status	EITC Amount (millions)	Share of Total EITC Received	Share of Vermont Tax Returns
Married	\$7.08	26.6%	35.2%
HoH	\$15.20	57.1%	7.9%
Widowed	\$0.07	0.3%	0.04%
Single	\$4.25	16.0%	56.8%
<b>Total</b>	<b>\$26.60</b>	<b>100.0 %</b>	<b>100.0%</b>

- HoH claimants received \$15.2 million from the EITC in 2019, more than all other cohorts combined.
- The disparity in the amount of EITC received by single and HoH claimants is the result of much more generous eligibility criteria and higher maximum credit amounts.
- Remember the example of a single and HoH filer, both earning \$20,000.



# HoH filers are more likely to be repeat, persistent EITC claimants

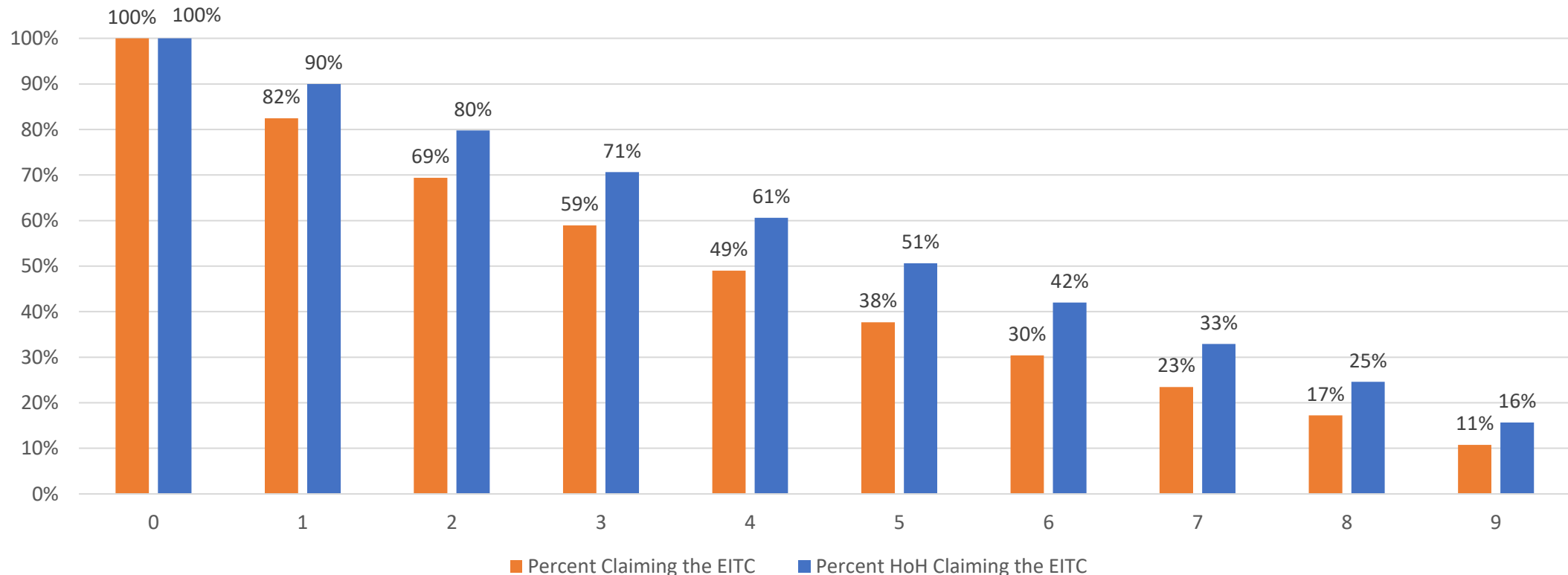
- JFO looked all taxpayers who received the EITC in 2019 and counted how many additional times they claimed it going back to 2010.
  - HoH household were more likely than any other filing status to claim the EITC more than once and much more likely to claim every year.
  - This highlights that HoH filers are more likely to have persistently low income compared to other statuses.
  - Reminder: HoH filers are unmarried and claim dependent children.

<b>Multiple EITC Claims</b>	<b>Joint</b>	<b>HoH</b>	<b>Single</b>	<b>Total</b>
<b>At least once</b>	86.9%	90.0%	71.7%	82.4%
<b>5 times or more</b>	32.2%	50.6%	26.8%	37.7%
<b>Every Year</b>	9.4%	15.7%	6.2%	10.8%



# HoH filers are more likely to be repeat, persistent EITC claimants

Figure 13: Share of 2019 EITC Claimants by how many additional times they claimed the EITC from 2010 to 2019



# Major Finding 4

The temporary expansion of eligibility and credit sizes for single childless filers for tax year 2021 in the American Rescue Plan Act resulted in a significantly different composition of Vermont EITC filers and total credit claimed





# ARPA's temporary expansion of the EITC resulted in an influx of single childless claimants in 2021

- For tax year 2021 the federal government made changes to the EITC that made thousands of single Vermonters eligible for the EITC and effectively tripled their maximum credit amounts and eased age restrictions.
- These changes were made for the 2021 tax year only. Many single childless filers who received the EITC in 2021 will no longer qualify as eligibility requirements revert to their pre-2020 structure.
- The eligibility and credit calculation rules remained the same for all other filing statuses



# ARPA's temporary expansion of the EITC resulted in an influx of single childless claimants in 2021

- From 2010 to 2020 the total number of Vermont EITC claimants decreases steadily from around 45,000 to 37,000.
- In 2021 the total number of claimants jumped to almost 49,000 largely as a result of the temporary federal changes to the EITC.
- There were 16,897 filers who claimed the EITC for the first time in 2021 compared to approximately 5,000 to 7,000 in a typical year.
- 12,961 or 76.7% of the first-time claimants in 2021 were single and childless.



# ARPA's temporary expansion of the EITC resulted in an influx of single childless claimants in 2021

Filing Status	2020		2021	
	Count	Share	Count	Share
<b>Joint</b>	7,665	20.8%	9,306	19.1%
<b>HoH</b>	15,149	41.1%	14,157	29.0%
<b>Qual. Widow(er)</b>	47	0.1%	45	0.1%
<b>Single</b>	13,992	38.0%	25,273	51.8%
<b>Total</b>	36,853	100.0%	48,781	100.0%



# ARPA's temporary expansion of the EITC resulted in an influx of single childless claimants in 2021

No. Qualifying Children	2020		2021	
	Count	Share	Count	Share
<b>0</b>	13,220	35.9%	26,932	55.2%
<b>1</b>	12,470	33.8%	11,371	23.3%
<b>2</b>	7,745	21.0%	7,130	14.6%
<b>3 and above</b>	3,418	9.3%	3,348	6.9%
<b>Total</b>	36,853	100.0%	48,781	100.0%



# ARPA's temporary expansion of the EITC resulted in an influx of single childless claimants in 2021

- From 2020 to 2021 the number of claimants increased approximately 32%
- At the same time, the total value of EITC received increased by about 13%
- The total credit amount increased by a lower percentage than the number of claimants because most of the new claimants were single and on average received smaller credit amounts than other filing statuses.

	Filing Year	
	2020	2021
<b>Total EITC</b>	\$25,221,129	\$28,603,666
<b>Average EITC per Claimant</b>	\$684.37	\$586.37



# Considerations for Legislators



# Consideration 1: Legislators could consider clarifying the intent of the Vermont EITC

- The credit appears to create unequal incentives for low- and moderate-income working Vermonters across different filing statuses.
- Legislators could consider what incentives are most important:
  - Is it to encourage Vermonters to enter the workforce?
  - Is it to act as a wage subsidy for low- and moderate-income workers?
  - Is it important that the credit provide equal treatment to all filing statuses?



## Consideration 2: Legislators could consider if it is important for Vermont to have more control over eligibility and credit amounts

- The Vermont EITC is set up as a flat percentage of the federal EITC.
  - Any changes to the credit made by the federal government flow directly to the Vermont EITC.
  - Any boosts or cuts to the federal credit would directly affect the Vermont credit and would be out of the State's control currently.
- One option is to decouple from the federal credit and establish a standalone structure based on income.
  - This would give Vermont more control over eligibility and credit amounts and ultimately how much the credit costs the State.
  - California, Minnesota and Washington are the only states with decoupled EITC's.





# Consideration 3: Legislators could consider altering the Vermont EITC to provide more equity across filing statuses

- As an example, incentives for single filers are much lower than for other filing statuses.
- If legislators wanted to use the EITC to provide more support to single filers, they could consider adjusting the flat percentage structure.
- Washington, D.C., Maine and Maryland provide different flat percentages of the federal credit to claimants based on filing status.

Washington, D.C.	Provides 70% of the federal credit to claimants with children and 100% of the federal credit to claimants without children
Maine	Provides 12% of the federal credit to claimants with children and 25% of the federal credit to claimants without children
Maryland	Provides 45% of the federal credit to claimants with children and 100% of the federal credit to claimants without children

- Some states take the opposite approach and provide a larger percentage of the federal credit to claimants the more children they have.
  - Oregon
  - Wisconsin



# Questions?

