



Bipartisan Policy Center

# Credit Where Credit's Due

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**ENGAGING STATE AND LOCAL  
GOVERNMENTS IN REFUNDABLE  
TAX CREDIT DESIGN AND  
ADMINISTRATION**

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# Introduction

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The Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) are two of the most effective anti-poverty tools in the United States, helping to boost household economic security and incentivize work for millions of Americans each year. Over the past three years in particular, attention increased on the interactions between state and federal tax policy as states grappled with the EITC's and the CTC's rapid temporary expansion, as well as changes to complementary federal policies and programs during the COVID-19 pandemic. Changes to these two credits highlighted critical challenges facing policymakers related to optimal tax policy design and administration across federal, state, and local governments.

Concerns around inefficient administration of these credits at the federal and state level are not new—the pandemic only highlighted the issue. Improper payments, for example, increased between fiscal years 2020 and 2022, limiting the credits' effectiveness and challenging their legitimacy among policymakers.<sup>1,2</sup> Fortunately, many states and localities found innovative solutions to enhance their tax programs and outreach to meet residents' needs.

BPC conducted a comprehensive review of existing state EITCs and CTCs and of changes implemented at the state and local levels during and after the pandemic. Additionally, BPC hosted a series of roundtables across the country with diverse stakeholders—including state officials, program administrators, revenue officers, human services providers, and community partners—to better understand the unique challenges facing their communities and to uplift examples of leading state and local action.

This report highlights examples of best practices to help improve coordination between federal, state, and local policymakers, and it offers a road map to optimize tax credit policy design and implementation.

# State and Local EITC and CTC Designs

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State and local tax codes play an important role in shaping economic conditions and incentives. Indeed, many states have implemented their own counterparts to the federal EITC and CTC. Since the late 1980s, states have steadily enacted their own versions of the EITC, building on the policy successes of the federal EITC to supplement wages and incentivize labor force participation.<sup>3,4</sup> State CTCs, seen as a way to provide additional financial support to families, have become more popular in recent years, largely in response to the expiration of the expanded CTC under the 2021 American Rescue Plan Act (ARP).<sup>5,6</sup>

The scope and structure of, as well as the eligibility requirements for, state tax credits continue to evolve to meet residents' diverse needs. State autonomy to change these programs provides important insights to inform optimal policy design. By comparing those program features with their federal counterparts, policymakers can better understand the opportunities and challenges these differences present for taxpayers and, where possible, identify ways to harmonize tax credit design to simplify the claiming process.

## STATE EARNED INCOME TAX CREDITS

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As of March 2024, 31 states and the District of Columbia, along with several localities, have enacted their own EITCs.<sup>7,8</sup> Nearly all state EITCs are tied to the federal credit, where the state credit is calculated as a percentage of the federal EITC and is available to all tax filers eligible to claim the federal credit. California and Minnesota are notable exceptions: California caps income eligibility at \$30,950 for all workers (those with and without children) to ensure that the credit is targeted to the lowest wage earners, while Minnesota calculates the credit as a percentage of a taxpayer's earned income up to a certain dollar amount.<sup>9</sup> **Table 1** provides an overview of the key design elements of state EITCs.

**Table 1: Overview of State EITCs**

State	Enacted	Percentage of Federal Credit	Refundable
California	2015	47.5%	Yes
Colorado	2013	38%	Yes
Connecticut	2011	40%	Yes
Delaware	2005	4.5% (refundable) 20% (nonrefundable)	Yes
District of Columbia	2014	70%	Yes
Hawaii	2017	40%	Yes
Illinois	2000	20%	Yes
Indiana	1999	10%	Yes
Iowa	1989	15%	Yes
Kansas	1998	17%	Yes
Louisiana	2007	5%	Yes
Maine	2000	25% (workers with children) 50% (childless workers)	Yes
Maryland	1987	45% (refundable); 100% (nonrefundable)	Yes
Massachusetts	1997	30%	Yes
Michigan	2006	30%	Yes
Minnesota	1991	4% of earned income up to \$350 credit	Yes
Missouri	2021	10%	No
Montana	2017	10%	Yes
Nebraska	2006	10%	Yes
New Jersey	2000	40%	Yes
New Mexico	2007	25%	Yes
New York	1994	30% (reduced by the amount of any other household credit)	Yes
Ohio	2013	30%	No
Oklahoma	2002	5%	Yes
Oregon	1997	12% (families with child under 3); 9% (families with all other child dependents)	Yes
Rhode Island	1986	15%	Yes
South Carolina	2017	125%	No
Utah	2022	20%	No
Vermont	1988	38%	Yes
Virginia	2004	15% (refundable); 20% (nonrefundable)	Yes
Washington	2021	Not applicable*	Yes
Wisconsin	1989	4% (workers with one qualifying child) 11% (workers with two qualifying children) 34% (workers with three or more children)	Yes

Sources: [Institute on Taxation and Economic Policy \(2019\)](#), [National Conference of State Legislatures \(2023\)](#), and BPC analysis of state laws.

\* Washington's state EITC is calculated using a flat rate based on income and household size: \$300 for single/married filers with no children; \$600 for households with one child; \$900 for households with two children; and \$1,200 for households with three or more children. Maximum income levels range from \$17,640 for single filers/\$24,210 for joint filers with no children to \$56,838 for single filers/\$63,398 for joint filers with three or more children.

**Refundability:** Twenty-eight states offer a refundable EITC option, which allows taxpayers with little to no tax liability to receive the balance as a refund if they meet the earnings requirement. Four states—Missouri, Ohio, South Carolina, and Utah—offer only a nonrefundable credit, which limits the credit’s ability to reach residents with little to no tax liability. Three states—Delaware, Maryland, and Virginia—offer refundable and nonrefundable versions of the credit (with an option to claim the greater value of the two), which can benefit different populations of taxpayers. For instance, offering a nonrefundable credit can be less expensive for states because it only offsets the taxpayer’s existing liability, which might be less than the full value of the credit. However, by also providing a refundable credit option, these states are providing additional targeted support to the lowest-wage earners who otherwise have no state income tax liability.

**Expanding Age Eligibility:** Workers with children can claim the federal EITC at any age, whereas childless workers must be between 25 and 64 years old. Eight states—California, Colorado, Illinois, Maine, Maryland, Minnesota, New Jersey, and New Mexico—allow childless workers younger and older than the federal credit’s age range to claim the state credit. Five of the eight states have a minimum eligibility age of 18 years old, while Colorado and Minnesota have a minimum age of 19 years old. Maryland has no minimum age for childless claimants who otherwise meet the federal eligibility criteria. Two states—Illinois and New Jersey—allow workers over 65 years old to claim the state credit if they meet other eligibility criteria.

**Expanding Eligibility to ITIN Filers:** To claim the federal EITC, taxpayers must have a Social Security number (SSN). Despite legally paying both federal and state income and payroll taxes, many immigrants file using an Individual Taxpayer Identification Number (ITIN), making them ineligible to claim the federal EITC. In response, some states have sought to make their EITC more inclusive of immigrant populations.<sup>10,11</sup> Since 2020, 10 states—California, Colorado, Illinois, Maryland, Maine, Minnesota, New Mexico, Oregon, Vermont, and Washington—and the District of Columbia allow taxpayers who file taxes using an ITIN to claim the state EITC if they meet the remaining eligibility criteria.<sup>12,13</sup>

**Payment Delivery:** Some states have explored the effectiveness of delivering their EITC periodically throughout the year rather than as a lump sum at tax time, which is how the federal credit is delivered. The District of Columbia was the first to enact a monthly payment program in 2022, requiring that the credit be administered in 12 monthly installments if an individual’s refund exceeds \$1,200. (Refunds under \$1,200 are delivered as a lump sum at tax filing.) Notably, to reduce the risk of overpayments and associated audits that would negatively affect filers, this plan delays delivery of the credit by administering it in the months following tax filing, as opposed to providing advanced payments.<sup>14</sup>

**Temporary Programs:** Two states—North Dakota and Arkansas—created temporary state EITCs to boost economic support for residents in response to the pandemic and inflationary pressures. In 2021, North Dakota enacted a temporary, nonrefundable credit (the Individual Income Tax Credit) of \$350 for individual filers and \$750 for couples filing jointly.<sup>15</sup> The credit was available only for tax years 2021 and 2022. Similarly, in 2022, Arkansas enacted a temporary, nonrefundable EITC (the Inflationary Relief Income Tax Credit) of up to \$460 for a broad swath of its residents (incomes up to \$101,000 for single filers/\$202,000 for joint filers).<sup>16</sup> Although temporary relief programs often create further confusion among taxpayers when they are no longer available, these actions demonstrate that many policymakers view state EITCs as effective tools to help vulnerable populations.

### **LOCAL REFUNDABLE EITCS**<sup>17</sup>

Like credits administered at the federal and state levels, a well-structured local credit should enhance economic security, incentivize work, and not overburden local revenues to ensure the credit's success. As of 2024, three localities offer their own refundable version of the EITC (in addition to a state EITC), largely to residents who are already eligible for the federal and/or state EITC. These three credits, according to estimates, boost income or reduce taxes yearly for nearly 700,000 eligible households across the country.<sup>18</sup>

- **Montgomery County, MD,** provides a 56% match of the state EITC to eligible residents who file a Maryland tax return.<sup>19</sup>
- **San Francisco** offers up to \$250 to families who qualify for either the federal or state EITC.<sup>20</sup>
- **New York City** provides a credit worth 10%-30% of the federal EITC, with a higher match distributed to the lowest-income households.

**Local Nonrefundable EITCs:** Philadelphia and 23 localities across Maryland offer a nonrefundable EITC or other similar tax supports to residents.<sup>21,22,23</sup>



## STATE CHILD TAX CREDITS

As of January 2024, 15 states offer their own version of the CTC. Nine states enacted CTCs following the ARP credit’s expansion, with state policymakers seeking to bolster income security, help families offset the costs of raising children, and alleviate poverty. Additionally, the majority of these state CTCs (11) are fully refundable, which allows families with little to no tax liability to claim them.<sup>24,25</sup> **Table 2** highlights the variation in state policy design.

**Table 2: Overview of State CTCs**

State	Year First Available	Description	Refundable	Phase-In or Earnings Requirement	Income Threshold Where Phaseout or Cliff Begins	Maximum Credit per Child
Arizona	2019	Available to families with children under age 17 and dependents 17 and older.	No	No earned income required	\$200,000 single/\$400,000 joint (phaseout)	\$100
California	2019	Available to families with children under 6 who otherwise qualify for the state EITC (unless the family has no income, in which case they still qualify).	Yes	No earned income required	\$30,931 (phaseout)	\$1,117 ( <i>not</i> per child, but maximum total)
Colorado	2022	Available to families of children under 6. The size of the credit is a flat rate, varied by income.	Yes	No earned income required	\$25,000 single/\$35,000 joint (phaseout)	\$1,200
Idaho	2018	Available to families with qualifying children under 17.	No	No earned income required	N/A	\$205
Maine	2018	Available to families with children under 17 or other qualifying dependents.	Yes	\$2,500 (federal CTC requirement)	\$200,000 single/\$400,000 joint (phaseout)	\$300
Maryland	2021	Available to families with children under 6 or with a disability under 17.	Yes	No earned income required	\$15,000 (cliff)	\$500
Massachusetts	2023	Available to families with a child under 12, a dependent with a disability, or a (non-spouse) dependent 65 and over.	Yes	No earned income required	N/A	\$440, depending on the number of dependents
Minnesota	2023	Available to families with children under 17.	Yes	No earned income required, though this credit combines with Minnesota’s Working Family Credit so that families with earnings receive more credit dollars	\$29,500 single/\$35,000 joint (phaseout)	\$1,750

State	Year First Available	Description	Refundable	Phase-In or Earnings Requirement	Income Threshold Where Phaseout or Cliff Begins	Maximum Credit per Child
New Jersey	2022	Available to families with qualifying children under 6. Credit amount is determined based on varied income thresholds.	Yes	No earned income required	\$30,000 (phaseout)	\$1,000
New Mexico	2022	Available to families with children under 17. Credit amount per child is determined based on varied income thresholds.	Yes	No earned income required	\$25,000 (phaseout)	\$600
New York	2006	Available to families with children under 17. The maximum credit per child is the greater amount of 33% of the federal CTC or \$100.	Yes	No earned income required	\$75,000 single/\$110,000 joint (phaseout)	\$333
Oklahoma	2008	Available to families with children under 17. Eligible families can claim either 5% of the federal CTC or 20% of the federal Child and Dependent Care Tax Credit (CDCTC) per child, whichever is greater.	No	No earned income required	\$100,000 (cliff)	Greater of 5% of the federal CTC or 20% of the federal CDCTC
Oregon	2023	Available to families with children under 6.	Yes	No earned income required	\$25,000 (phaseout)	\$1,000
Utah	2023	Available to families with children older than 1 and under 4.	No	No earned income required	\$43,000 single/\$54,000 joint (phaseout)	\$1,000
Vermont	2022	Available to families with children under 5 who meet income requirements and are otherwise eligible for the federal CTC.	Yes	No earned income required	\$125,000 (phaseout)	\$1,000

Sources: [National Conference of State Legislatures \(2024\)](#), [Institute on Taxation and Economic Policy \(2023\)](#), and BPC analysis of states laws.

**(De)coupled from Federal CTC:** Unlike state EITCs, state CTC designs are often independent of the federal version, leading to more distinct differences in structure and eligibility. New York’s credit (known as the Empire State Child Credit), however, remains tied to the federal structure, and permanent federal law dictates eligibility: Households with children can claim the greater amount of \$100 per qualifying child or 33% of the pre-2018 federal CTC amount (33% of \$1,000, or \$333).<sup>26</sup>

A few states did couple their state CTC with the federal credit, but continued uncertainty surrounding the federal CTC’s future has led some to reverse course to reduce budget volatility. For example, Colorado expanded the state version of both the CTC and the EITC in recent years to compensate for the end of temporary federal expansions in 2021—its state CTC is now the second largest in the country. Following the uncertainty over potential changes to the federal

CTC in recent years, Colorado lawmakers ultimately decided to decouple the state version of the credit from the federal CTC. Decoupling gives the Department of Revenue more control over the design and size of the credit without having to be reactive to changes in federal policy and subsequent state budget uncertainty.

**Refundability and Earnings Requirements:** Two critical—and often confused—design considerations are refundability (how much of the credit is available to families with little to no tax liability) and an earnings requirement (whether the credit is available to families with little to no earnings).<sup>27</sup> The federal CTC is only partially refundable, meaning that taxpayers with little to no tax liability can only claim a refund of up to \$1,700 per child, compared with the full \$2,000 credit amount in 2024. Eleven states have made their credit fully refundable, allowing eligible taxpayers to claim the full credit amount as a refund regardless of their tax liability, while four states—Arizona, Idaho, Oklahoma, and Utah—have nonrefundable credits. Additionally, the federal credit has an earnings requirement of \$2,500, with a phase-in thereafter that taxpayers must meet to be eligible to claim the credit, which incentivizes workforce participation. Currently, Maine is the only state with an earnings requirement, matching the federal requirement of \$2,500.<sup>a</sup>

**Income Thresholds:** States have primarily adopted income thresholds using two different methods: an *earnings cliff*, where at a certain income threshold taxpayers \$1 over are ineligible for the credit, or a *phaseout threshold*, where the benefit begins to decrease at a steady rate before it phases out completely. The federal CTC, alongside most states with credits, has a phaseout threshold, which limits taxpayers with higher earnings from claiming the credit. This threshold can better target the credit to low- and middle-income earners and help rein in costs for state budgets. The federal CTC currently begins to phase out at \$200,000 for single filers and \$400,000 for joint filers. Arizona and Maine are the only states that match the federal phaseout thresholds, while six other states have lower thresholds for single and joint filers. The remaining seven states have one threshold (phaseout or cliff) for all filers—a policy that could exacerbate marriage penalties in those states' tax codes. Two states—Idaho and Massachusetts—provide their state CTC to all taxpayers with children, regardless of income.

**Multiple Child Credits:** Oklahoma gives residents the flexibility to claim the greater of two credits offered to help offset the costs of raising children based on their unique needs. The state couples the credit to both the federal CTC and the federal Child and Dependent Care Tax Credit (CDCTC): Families making \$100,000 or less are given the option to claim either a nonrefundable credit worth 5% of the federal CTC or a nonrefundable credit worth 20% of the federal CDCTC.

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<sup>a</sup> In states where the CTC is nonrefundable, the lack of refundability acts similarly to an earnings requirement, as households without any income will be ineligible for the credit.

## STATE CHILD AND DEPENDENT CARE TAX CREDITS

In addition to the CTC, CDCTCs are popular tax supports for families at the state level. The federal CDCTC subsidizes the costs of child care, allowing parents to offset a portion of qualifying expenses. Historically, when offsetting costs directly related to raising children, states have been more likely to enact CDCTCs (28) than CTCs (15).<sup>28</sup>

The consistent presence of state CDCTCs is likely due to the longevity of the federal credit and the lower fiscal sticker price compared with the CTC. The federal CDCTC was enacted in 1976, and Delaware was the first state to implement its own version in 1985. The federal CTC, on the other hand, was not enacted until 1997, over 20 years later. By the time the first state CTC was enacted by New York in 2006, 25 states already had their own nonrefundable (12) or partially refundable (13) child care credits in place.<sup>29</sup> Recent trends and increased attention toward the federal CTC suggest that balance might be shifting.

In addition, as states grapple with whether to enact one or both of these credits to help defray costs for families, they might consider the fiscal impact of the CDCTC and CTC to decide which is more feasible—although several states do have both. State CDCTCs generally have a smaller impact on state revenues because they are more narrowly targeted to offset costs of child care, so the CDCTC route can make it easier for states to provide meaningful and specific child care supports for working families within potential budget constraints. However, CTCs provide more flexibility for parents to spend the money, creating important trade-offs for policymakers to weigh.

**Young Child Credit:** Several states have aimed their CTCs at families with young children (generally ages 6 and under) due to the higher costs these families face. States also use this strategy to limit the budgetary impact of state CTCs.<sup>30</sup> California, Colorado, New Jersey, Oregon, Utah, and Vermont, for example, *only* offer a young-child credit. Maryland's credit similarly includes only young children (under age 6) or children with disabilities under 17; also noteworthy, the credit is narrowly targeted to very low-income households (federal adjusted gross income under \$15,000).<sup>31,32</sup> Alternatively, until 2023, New York's credit was available only to filers with older children (at least 4 years old), but it has since expanded the credit to include the youngest children as well.<sup>33</sup>

**Temporary Programs:** As with the EITC, several states enacted temporary rebates for families to provide targeted financial assistance in the wake of the pandemic and higher inflation. In 2022, for example, Connecticut—a state without a CTC—enacted a temporary child tax rebate of up to \$750 (\$250 per

child for up to three children) to provide additional relief to families.<sup>34</sup> Notably, Connecticut delivered this rebate through its Department of Revenue Services and not as part of its income tax forms.<sup>35</sup> Given the success of the temporary program, state lawmakers continue to push to pass a permanent credit in line with recent trends nationwide.<sup>36</sup> Although Arizona already has a dependent tax credit, it also passed a one-time family tax rebate in 2023.<sup>37</sup> Eligibility was based on tax year 2021 returns, where taxpayers must have filed a return, have at least \$1 in personal income tax liability, and claimed the dependent tax credit. Rebates could be claimed for up to three dependents.<sup>38</sup>

## KEY TAKEAWAYS FOR POLICYMAKERS

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The following considerations are key to optimal policy design as states look to enact or expand their own versions of the EITC and the CTC.<sup>39</sup> In doing so, states should balance budgetary constraints with widespread interest in piloting new ideas that could uniquely benefit their residents.

- **Income Targeting:** Given that all states face budget constraints, tax credits targeting low- and-middle income residents can make the most of limited resources. State CTCs' annual revenue impact ranges from \$10 million (Utah) to \$780 million (New York).<sup>40</sup> For the CTC, limiting eligibility for higher-income residents could address budgetary constraints or allow for a larger credit to the workers and families who would benefit most from the additional support.
- **Refundability:** To reach lower-income families who have no tax liability, states have primarily relied on refundable versions of these credits. Currently, 28 state EITCs and 11 state CTCs are refundable. Some states have done this to fill perceived gaps with their federal counterparts, specifically the federal CTC, which is only partially refundable. Similar to income targeting, states should consider how to best target benefits to rein in costs.<sup>b</sup>
- **Earnings Requirements:** Tax credits like the EITC and CTC not only help families financially, they can also incentivize people to work. The EITC is designed to reward work by increasing the credit amount as earnings increase. For the CTC, states have instead opted for no earnings requirement, which can help reach households with little to no earnings. When designing state CTCs, policymakers should consider who they want to reach and weigh the trade-offs between encouraging work and helping the most vulnerable populations.
- **Access and Eligibility Requirements:** When enacting a state version of the EITC or the CTC, states should generally mirror existing eligibility

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b For more information on earnings requirements and refundability, see: Andrew Lautz and Rachel Snyderman, "Breaking Down the Child Tax Credit: Refundability and Earnings Requirements," Bipartisan Policy Center, December 18, 2023. Available at: <https://bipartisanpolicy.org/blog/breaking-down-the-child-tax-credit-refundability-and-earnings-requirements/>.

requirements of their federal counterparts to minimize confusion for taxpayers. Many states have also experimented with expanding or limiting access based on documentation (SSN vs. ITIN), the minimum claiming age, and the age of eligible children. All these options, among others, can help create a more tailored solution for the state but might increase costs or pose additional administrative challenges that must also be weighed during design.

- **Funding Mechanisms and Pilot Programs:** States need the fiscal space to enact these credits, with the flexibility to test what design features work best for their residents. Closely mirroring the federal credit reduces complexity, but there is not a one-size-fits-all prescription for every state. Given that states each face unique budget constraints, shifting demographics, and varied political environments, policymakers may need to pilot different versions of these credits to find success. For example, Washington identified a need to provide additional economic support for residents through the tax code, so officials ensured adequate fiscal space for their state EITC, the Working Families Tax Credit (*see text box on page 12*). In other instances, states allocated funds to public education campaigns to better inform residents about existing credits to improve take-up without adding new programs to the docket.

# Coordination and Outreach in a Changing Tax Policy Landscape

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The design of federal and state tax credits is important in determining access, but incomplete take-up of credits by those eligible to claim them, alongside other administrative complexities, hampers their effectiveness. Issues stemming from lack of coordination and communication between federal, state, and local governments were exacerbated throughout the pandemic and persist—limiting the impact that these state programs can have within the communities they intend to reach.

Even before the pandemic, many households faced significant barriers to claiming tax benefits, due to the complex eligibility requirements of the federal EITC and CTC. State and local governments have risen to the occasion over the years—and the COVID-19 pandemic presented a prime case study through which to examine their efforts to overcome long-standing tax administration “plumbing” issues. They creatively navigated a sprawling federal benefits system and delivered timely, accurate information to their constituents alongside trusted community partners to counteract the “knowledge deficit” around temporary tax and benefit program changes under the ARP.<sup>41</sup> Consistent communication via trusted community partners, including libraries, child care centers, and pediatricians’ offices, helped ensure that potentially eligible households learned about the credits—local, state, and federal. When the pandemic interrupted access to in-person services, state and local officials continued to innovate with emergency federal funds to build out more robust information campaigns and improve outreach to residents.<sup>c</sup>

**Administrative Complexity:** Although state EITC and CTC programs have become more inclusive, those changes have compounded the administrative complexities that filers face in claiming credits.<sup>42</sup> Reducing administrative burdens and complexities across federal, state, and local tax filing is critical to the programs’ success. Working with the state of Maryland, Montgomery County automatically provides the local EITC to residents who claimed the state EITC that year. Maryland previously attempted to automate claiming between the state and federal versions of the credit, but issues related to data

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<sup>c</sup> Throughout 2022 and 2023, BPC met with several state and local officials responsible for the implementation and oversight of public services and taxpayer support. These discussions made clear that regular federal-state coordination—especially during implementation of the ARP and the unwinding of the public health emergency—was and remains essential.

sharing authorities halted progress.<sup>43</sup> As such, harmonizing eligibility and administrability of the local credit with federal and state versions—as these three localities have done successfully—can make claiming these credits a more seamless process for residents.

## NO INCOME TAX, NO PROBLEM: WASHINGTON’S WORKING FAMILIES TAX CREDIT

Washington is the only state without an income tax that has implemented a state EITC, known as the Working Families Tax Credit (WFTC). Although the credit was enacted in 2008, its availability was contingent on adequate funding.<sup>44</sup> Motivated in part by the economic needs of residents throughout the pandemic, state lawmakers passed additional legislation in 2021 with dedicated funding to support the credit.<sup>45,46</sup> Notably, the credit is not coupled with its federal counterpart and is instead calculated using a flat rate based on income and household size.<sup>47</sup>

**Table 3: Washington State’s Income and Household Size Requirements**

Number of Qualifying Children	Maximum Income Threshold		Maximum Credit Amount
	Single	Married (filing jointly)	
0	\$17,460	\$24,210	\$315
1	\$46,560	\$53,120	\$625
2	\$52,918	\$59,478	\$940
3	\$56,838	\$63,398	\$1,255

The Washington Department of Revenue had been solely responsible for collecting and administering taxes for businesses, but the state tasked the agency with administering the WFTC. This essentially created a new customer base that the agency had to accommodate and required a new set of internal processes, including outreach strategies, an application process, taxpayer verification methods, and fraud prevention tactics. To build this program, the state created the Working Families Tax Credit Division dedicated to taxpayer outreach and coordination of the claiming process.<sup>48</sup>

The division’s collaboration with other state agencies and partner organizations was key to implementing the program. In marketing the WFTC, and to help it build trust and credibility among taxpayers, the division sought guidance from agencies and partners already serving the population eligible to receive the credit. Agencies that assist recipients of the Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF) were critical resources as they worked together to promote the credit and coordinate outreach throughout the community. As part of the 2021 legislation, these agencies also received supplemental funds to award to community partners who helped promote the credit, which made for a more robust education campaign in addition to the use of traditional and digital advertisements.

To ease the filing process for eligible taxpayers, the division built an online portal that helps residents check their eligibility to claim the state EITC and to file.<sup>49</sup> Moreover, the



website and most communications from the division's office are available in both English and Spanish, while the paper form has been translated into 12 languages to increase accessibility of these materials. In continuing to refine and improve its platforms, the division hopes to translate the online portal into more languages.

In its first year, the program was a success, reaching nearly 163,000 eligible residents and totaling approximately \$116 million in refunds.<sup>50</sup> The take-up rate in the first year was an estimated 41%, which is similar to other state EITCs based on conversations the division had with other administrators; however, this still lags behind take-up of the federal credit in the state, which hovers around 70%.<sup>51</sup> In preparation for the second year, outreach and education remain priorities for the division.

Despite this initial success, challenges in accessing data and verifying eligibility persist. Because Washington does not have an income tax, it lacks access to the full scope of data from the IRS that other states receive. As a result, the division has created innovative data sharing agreements to verify eligibility and prevent fraud. Currently, it has agreements with the Social Security Administration to validate SSNs, in addition to coordinating with the state licensing and unemployment offices to verify income. Finding better ways to access data to validate residency and the number of qualifying children will further improve the compliance process.

**Digital Campaigns:** To distribute information efficiently, many communities rely on targeted outreach via text message or through trusted online channels. This outreach was especially important during the pandemic when in-person services were limited. For instance, officials in Allegheny County, PA, provided near-daily communication to all contracted service providers across the county—over 400 organizations—to ensure awareness of and compliance with emergency mandates. In addition, they sent daily updates to all county residents to increase awareness of changes to benefits programs and eligibility requirements, particularly for the CTC and economic impact payments.<sup>d</sup>

Colorado agencies relied on texting campaigns through the online platform Bright by Text, sending messages directly to individuals in target ZIP codes with information about available tax and benefit programs.<sup>52</sup> Bright by Text already worked closely with several nonprofits and community partners to share information with parents, so it was a trusted online service through which government agencies could share timely, accurate information.<sup>53</sup> This outreach helped dispel residents' concerns that fraudulent information was being shared and improved the community's relationship with government agencies.

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d Starting in March 2020, the federal government sent stimulus checks to millions of qualifying households in response to the COVID-19 pandemic and subsequent recession. Three rounds of these payments were made between March 2020 and the end of 2022.

Colorado took its outreach one step further by streamlining coordination across tax and benefits programs to maximize the impact of the state’s digital campaigns. Given the programs’ similar eligibility requirements, outreach to recipients across programs was an effective tool to increase awareness. For example, Colorado sent recipients of income security programs, such as SNAP, messages with information about tax credits like the EITC during tax filing season to raise awareness and uptake.<sup>54</sup>

**Local Partnerships:** While many communities turned to digital services to help taxpayers, others implemented a multipronged approach to ensure that hard-to-reach communities were included—and would continue to be included—in efforts to increase uptake of these tax credits. Harris County, TX, launched a partnership with local tax assistance organization BakerRipley in October 2021 to create a more robust outreach campaign and increase awareness of the CTC and EITC, among other available tax programs.<sup>55,56,57</sup> Dedicated funding from the county government to support this partnership enhanced outreach in three ways: 1) The partnership hired additional staff for neighborhood tax centers; 2) built a grassroots education campaign; and 3) launched a new mobile tax unit that brought tax services directly to communities across the county. As a result, the partnership helped more than 6,000 Harris County residents claim an estimated \$10 million in tax credits between the expanded federal CTC and EITC during the 2022 tax season.<sup>58</sup>

Strengthening communication channels between local government agencies and community partners can improve outreach on and the take up of tax and benefit programs despite bandwidth and funding constraints. For instance, free tax-preparation sites can struggle to provide sufficient in-person meeting times or expert volunteers equipped to handle complex returns; they often have to refer clients to other locations to help with their caseload. Moreover, few centers handle case management for both tax and public benefit programs (e.g., SNAP or housing assistance), further burdening those who are most in need of assistance. As one participant in BPC’s research discussions noted, it is hard for one person to be an expert on each program and have the capacity to effectively assist clients in claiming benefits for all eligible programs—coordination across government and community partners becomes key.<sup>59</sup>

**Legislative Action:** Many states revamped their information campaigns in response to the pandemic, but others had previously passed legislation that required more-targeted outreach and communication efforts—particularly around the EITC—to ensure that residents get information on available federal and state tax credits. Nine states and the city of Philadelphia, for example, have laws in place that require employers to notify employees of EITC programs.<sup>60</sup>

Another seven states have passed laws appropriating funds for tax-assistance sites to increase awareness and education around the federal EITC and, where relevant, state EITCs, among potentially eligible households.<sup>61</sup> State funds

are a critical support for educational outreach and free tax-prep services, as most agencies lack the resources to conduct robust campaigns. In some conversations, state and local officials said that inadequate funding was the primary barrier to effective outreach.

Maryland remains a leader in promoting outreach and awareness of the EITC, particularly through legislative action. In 2020, the Legislature passed a bill requiring employers to flag if their employees might be eligible for the state and federal EITC based on their income.<sup>62</sup> In 2022, the Maryland Earned Income Tax Credit Assistance Program for Low-Income Families was launched to provide the state's comptroller with greater authority to target outreach and to identify eligible Maryland residents who have not claimed the local, state, or federal EITC.<sup>63</sup> The law also requires a streamlined mechanism through which residents can claim these credits, which should improve delivery and increase uptake.

Similarly, in 2023, Kentucky's Legislature passed a bill that requires the Cabinet for Health and Family Services to study benefits cliffs and implement outreach and education efforts for various programs, including the federal EITC.<sup>64</sup> The law came in response to recommendations by the state's bicameral Benefits Cliff Task Force, established in 2022, after it assessed the impact of how benefits cliffs create economic barriers for low-income families in the state.<sup>65</sup>

## KEY TAKEAWAYS FOR POLICYMAKERS

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Ensuring that outreach and education on the CTC and EITC is timely and accurate requires a consistent, coordinated administrative effort between federal, state, and local agencies. For future success, federal policymakers and agency officials should bear in mind the following:

- **Administrative Burden:** When reforming the structure of and eligibility requirements for state credits, policymakers should avoid unintentionally increasing administrative complexities or adding barriers for residents to claim the credits. Where eligibility requirements align with the federal credit, as seen with most state EITCs, states should explore automating the claiming process for the state and/or local versions if qualifying taxpayers also claim the federal version. In doing so, however, states should be cautious that they do not violate data sharing restrictions imposed by state statute or infringe on taxpayers' rights (explored in the next section). Where states see fit to expand access to state credits, maintaining a simple, easy-to-understand claiming process is best. For example, although many states have expanded access to include ITIN filers for both the state EITC and CTC, additional layers of complexity for this population (e.g., obtaining an ITIN,

completing supplementary forms, and varied eligibility compared to the federal EITC) complicate the claiming process.<sup>e</sup>

- **Sustainability:** Despite successful efforts before and at the height of the pandemic, state and local communities found many of the outreach methods unsustainable. As communication about policy changes from the federal government became less consistent—in part, because federal policymakers remained uncertain about the credits’ futures—local officials and community providers found it harder to distribute information as clearly and rapidly as before. Without the federal government serving as the primary convener, text communication all but stopped, primarily because staff did not have the capacity to understand and distribute information on their own, further fueling confusion among taxpayers. Community outreach efforts need to be sustainable, whether through improved technology or adequate staffing, to support taxpayers long term—not just during emergencies. Dedicating time and resources *within federal agencies* for coordination with state and local governments and other community organizations—as BPC has previously recommended—is one way to ensure that best practices continue.
- **Partnerships:** State and local agencies should strongly consider partnering with community nonprofits to strengthen outreach capacity. Building robust partnerships with local organizations, such as Harris County did with BakerRipley, is key to sustaining the success of these education and outreach campaigns long term. Agencies should also further access to hard-to-reach communities by leveraging employers for information dissemination. Nine states have already capitalized on employer-based communication channels, while others have relied on child care centers to target potentially eligible residents for these two credits. This outreach method also circumvents potential data sharing constraints faced by state and local officials, because employers already have access to income information, so they can target employees who are likely to be eligible.
- **Funding:** Adequate resources—primarily funding—are required to successfully launch an education and outreach campaign. Seven states already provide annual appropriations to directly support free tax-prep assistance sites that provide crucial services to communities, as well as funding to expand outreach on federal and state tax credits. Other state and local governments should consider similar funding proposals in future budgets as fiscal space permits.

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e For more information on the challenges faced by ITIN filers, see Arianna Fano, Emily Wielk, and Rachel Snyderman, *Pathways to Prosperity: Exploring the Barriers to and Potential Impact of Improved Take-Up of the Child Tax Credit and Earned Income Tax Credit Among Immigrant Communities*, Bipartisan Policy Center, February 6, 2024. Available at: <https://bipartisanpolicy.org/report/pathways-to-prosperity/>.

# Technology and Data Sharing in Efficient Tax Administration

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Modernizing technology and enhancing coordination across agencies can reduce residual barriers to claiming the credits and significantly improve the delivery of tax and benefit programs. Across several states, however, clear guidance is lacking on how state and local government agencies can access and share data. Even when facing these headwinds, many state and local governments have explored options to streamline resources into one online platform, while others have leveraged artificial intelligence (AI) to improve customer service and reduce the administrative burdens of verifying program eligibility for residents. When deployed effectively and responsibly, technology can be a powerful tool for residents and program administrators, improving access to accurate information and the delivery of services.

**Leveraging Online Platforms:** Nationwide, 2-1-1 telephone or online resources are a primary resource to coordinate community needs, and some counties have built particularly robust platforms. For example, Southwest Pennsylvania built a 2-1-1 platform that serves as a central hub to identify potential eligibility across tax and benefit programs and ensure residents are directed to the appropriate resources.<sup>66</sup> For most visitors to the website, an AI chat function can expedite the intake process and direct individuals to relevant resources, freeing up the phone hotline for more complex inquiries. When residents call, operators talk directly with them, identify various needs, and connect them to the correct service providers across Allegheny County and most of the state's Volunteer Income Tax Assistance (VITA) sites. Creating a central hub to facilitate resource sharing drastically increased call intake capacity, scheduling ability, and site referrals, which improved system efficiency across the county and reduced long wait times that previously deterred individuals from accessing needed benefits.<sup>67</sup>

Colorado agencies worked with Gary Community Ventures to create MyFriendBen, a universal screening tool that helps people identify benefits (over 50 programs)—including city, county, state, and federal programs and services—for which they likely qualify and approximately how long it will take to apply to each program.<sup>68</sup> The tool reduced processing time for users from 45 minutes to approximately 8 minutes while maintaining over 90% accuracy regarding program eligibility. Additionally, the tool successfully connected users to new benefits beyond the initial screening process, helping residents

understand the scope of benefits available and shed light on lesser-known state programs.

Not only can technology enhance direct taxpayer services, but it can also improve data collection and information processing across federal, state, and local government agencies. Specifically, technology can reduce human error and increase accuracy and efficiency of data entry, ultimately improving services and giving benefits administrators more time to assist constituents with complex cases or needs. For example, in Colorado, some agencies use Intelligent Charter Recognition, which can identify information on written forms for programs like SNAP and upload it to relevant databases, expediting the intake process and delivering benefits to recipients faster.

Although online resources can greatly improve constituent education and increase program uptake, many low-income and hard-to-reach communities lack consistent, secure access to technology. The pandemic further heightened these challenges, as it directly inhibited the work of many tax-prep and human services centers that provide needed support to many vulnerable populations. Additionally, the adoption of new systems was slow: Tax assistance sites in Southwest Pennsylvania found that virtual tax assistance calls took twice as long to complete, further hindering the region's ability to serve the community's needs. As the federal government, and the IRS in particular, continue to digitize their services and the tax filing process, it is paramount that these systems accommodate *all* taxpayers.

**Data Sharing Dilemmas:** Confusion over best practices for data sharing continues to hamstring program efficiency and effectiveness. Ultimately, data sharing across government agencies requires balancing good stewardship, constituent privacy, and ease of access. Despite efforts to reduce some of the data sharing barriers between programs, statutory limitations coupled with capacity barriers have stalled progress. As one participant shared in a Colorado roundtable, in most cases, "it's not really a lack of will" that prevents data sharing, but rather the reality that a third-party administrator is needed to initiate such efforts. Because many benefits programs are state-funded and county-administered, data sharing between state and county officials adds another layer of complexity to the equation.

Working with the nonprofit Maryland Health Care for All, Maryland successfully implemented the first statutorily approved data sharing effort. A checkbox on state tax forms now allows uninsured taxpayers to consent to sharing information with relevant agencies to receive more information on Medicaid or other marketplace options for health insurance.<sup>69</sup> Before

sharing data, representatives from the comptroller's office de-identify.<sup>70</sup> Similar checkboxes were subsequently added to the state's unemployment assistance application. Despite this success, concerns persist about the Office of the Comptroller's ability to efficiently facilitate this data transfer, and that more programs will want their own "box," creating additional administrative burdens unless the state's tax processing system is overhauled.

States have attempted to implement data sharing across some benefits programs but face technical challenges (e.g., relevant data does not always exist across programs) and consent considerations (e.g., residents opting into one program might not give government officials consent to apply this data to other programs). For example, in Colorado and Pennsylvania, state administrators explored increasing data sharing across programs like the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and SNAP but ran into two immediate challenges: 1) Unique identifier information in WIC is not shared, making it impossible to match recipients in other programs; and 2) participating in a program like WIC does not grant the state permission to sign constituents up for other programs like SNAP.

At the federal level, recent efforts to modernize tax administration through the Internal Revenue Service (IRS) focused on improving IT infrastructure and digitizing processes. The IRS aims to strengthen taxpayer data protections to better secure sensitive information and combat cyberthreats.<sup>71,72</sup> As part of this transformation, policymakers have the opportunity to identify and implement the necessary safeguards to facilitate data sharing between federal and state tax authorities while balancing taxpayers' right to data privacy.

The IRS, however, has strict data sharing requirements it imposes on states, noting in its Taxpayer Bill of Rights: "Taxpayers have the right to expect that any information they provide to the IRS will not be disclosed unless authorized by the taxpayer or law."<sup>73</sup> As a result, the bar for sharing data, even with state tax authorities, is high.



## STATE-FEDERAL DATA PRIVACY AND MISUSE

Despite the IRS's strict data sharing requirements, there is room to improve existing safeguards, as taxpayer data remains vulnerable to misuse or security breaches.<sup>74</sup> When it comes to misuse, two issues emerge:

1. **The intent behind data collection and its use matters.** There is an inherent difference between using taxpayer data (de-identified where possible) to inform or educate taxpayers on other tax or benefits programs they could be eligible for with their consent and using it to inform decision-making program eligibility without their consent. This was an important tension that state and local officials raised in discussions with BPC. They recognized that access to data to identify eligible claimants does not equate to consent to unrestricted use of the data.
2. **AI systems need adequate safeguards when they are used for tax administration.** If the AI technology identifies concerns upfront that leads to a tax return being rejected—rather than first informing or alerting the taxpayer of the potential errors—it risks denying them their rights (e.g., quality service, clear explanations of IRS decisions, and the ability to challenge these decisions).<sup>75</sup> For example, if errors are found on an EITC claimant's return, the taxpayer has the right to dispute claims and leverage the support of a Low-Income Tax Clinic (LITC), if eligible, to correct the problem—but only if his or her return remains in the compliance process, not if it is denied.<sup>76</sup> If returns are prematurely rejected, it can further complicate the processing of state returns that often rely on federal data when verifying eligibility for state EITCs and CTCs.

Imperfect systems coupled with imperfect data are areas ripe for action, as states and the federal government grapple with solutions to data sharing capabilities and tax system modernization. Maintaining taxpayer trust and ensuring data privacy are paramount, as one misstep from a single state revenue agency could greatly fracture this trust and indirectly inhibit the take-up of state and federal tax or benefit programs.

**Legal Guidance:** The persistent lack of clarity regarding data sharing capabilities between government agencies will continue to stifle state and local efforts to innovate and to improve administrative efficiency across tax and benefit programs. The IRS has strict data protection guidelines under Internal Revenue Code Section 6103 on privacy that dictate with whom information can be shared. The IRS generally can share tax information with state and local governments for tax purposes, which can help them verify eligibility for state credits.<sup>77</sup> However, under current law, the IRS is statutorily prohibited from providing access to tax returns to assist agencies with non-tax programs without additional legislation authorizing the exchange.<sup>78</sup> Notwithstanding clear advantages to sharing such information, this limitation protects taxpayers by not sharing their data with other agencies without their direct consent.



Oftentimes, handling sensitive data is a matter of risk tolerance in these systems, with officials fearing legal challenges if they misuse residents' data when trying to improve outreach and claiming methods. One participant at the Colorado roundtable remarked: "There are things that you can and can't do, but then there's the things that you are afraid to do because you don't want the publicity failure."

## KEY TAKEAWAYS FOR POLICYMAKERS

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As policymakers continue to modernize tax and benefit systems, ensuring taxpayer privacy must be a top priority. Misusing data or sharing sensitive information across state and federal programs without the individual's consent could lead to legal challenges and erode trust in government. To eliminate confusion over data sharing capabilities across federal, state, and local government agencies, federal guidance on the following is essential.

- **Data Access:** Exchange of data should primarily be used to 1) inform taxpayers of unclaimed credits and deductions, or to alert them to potential errors on their tax return; and 2) broadly educate taxpayers on available tax benefits throughout the year, or to streamline information sharing related to other programs for which they might be eligible. Narrow, clearly defined data sharing agreements or Memorandums of Understanding (MOUs) are crucial to ensuring that agencies use data appropriately—with taxpayer consent established to avoid misuse. Officials should not use data to address concerns outside the scope of the data sharing agreement.
- **Data Accuracy:** Even if policymakers establish a defined process through which agencies could share data between the federal and state governments, concerns over data accuracy will persist. In some instances, data might not be collected consistently across agencies, rendering it incomparable when information is integrated into the decision-making process. For example, SNAP and other programs collect monthly gross income data, while state revenue offices and the IRS collect tax data quarterly and annually. Policymakers in collaboration with government officials should work to identify, where possible, consistent data collection processes and maintain central repositories like Data.gov to house relevant data.
- **AI Guardrails:** Working with diverse stakeholders, policymakers should create guidelines on the utilization of AI technology for tax administration—whether to assist and answer taxpayer questions or to manage and analyze large amounts of data, such as screening for improper payments—with clear policies on data protection. Coupled with proper training for staff, guidelines will help ensure that agencies secure and use data appropriately as they integrate the information into their technological infrastructure and modernization plans.

# Conclusion

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By uplifting unique features and best practices of these credits, states and municipalities can identify ways to improve their implementation. No one-size-fits-all model exists, but states can still learn from each other when designing refundable tax credits that best meet the needs of their residents.

This report highlights the crucial role that state and local governments play in ensuring that individuals have access to the tax and benefit programs for which they are eligible; however, without the federal government serving as consistent convener and coordinator, states are often left to navigate a rapidly evolving policy landscape with little guidance. Major, temporary expansions to tax and benefits programs helped Americans weather economic uncertainty during the pandemic, but they also highlighted the lack of a coordinated and persistent outreach and education strategy between federal, state, and local governments and alongside community partners. Efforts to improve coordination and to streamline claiming for much needed support programs will ultimately improve administrative efficiency and program efficacy.

With several Tax Cuts and Jobs Act (TCJA) provisions set to expire at the end of 2025, and a continued push in Congress to expand the CTC and EITC, now is an opportune time to tackle policy design and improve administration of these credits—at the federal, state, and local levels.<sup>79</sup>

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