

The Federal Earned Income Tax Credit and Minnesota Working Family Credit: An Overview

What are the credits?

The federal earned income tax credit (EITC) and Minnesota working family credit (WFC) equal a percentage of the earnings of low-income individuals. The credits are refundable; if the credit exceeds a filer’s tax liability, the rest is paid as a refund. Since these credits increase their recipients’ earnings, they act as wage supplements and are thought to provide a work incentive.

Who is eligible for the credits?

Anyone with wages or self-employment income may be eligible to claim the EITC and the WFC. In tax year 2017, individuals with more than \$3,450 in interest income, dividends, rental and royalty income, and capital gain income do not qualify.

How are the credits calculated?

The credits equal a percentage of earned income, up to a maximum credit amount, and are phased out when the claimant’s total income exceeds a threshold. The maximum credit amounts and income levels at which the credits are phased out vary depending on the number of children in the household and whether the claimants are married. Both the maximum credit and the phaseout threshold are adjusted annually for inflation. In tax year 2017, the maximum credits, phaseout threshold, and income level at which the credits are no longer allowed are as follows:

	Maximum credit		Phaseout threshold		Income at which credit fully phased out	
	EITC	WFC	EITC	WFC	EITC	WFC
<i>Unmarried claimants</i>						
No children	\$510	\$134	\$8,340	\$8,360	\$15,010	\$15,005
1 child	\$3,400	\$1,070	\$18,340	\$21,800	\$39,617	\$39,568
2 children	\$5,616	\$2,064	\$18,340	\$25,850	\$45,007	\$44,922
3 or more children	\$6,318	\$2,064	\$18,340	\$25,850	\$48,340	\$44,922
<i>Married claimants</i>						
No children	\$510	\$134	\$13,930	\$13,950	\$20,600	\$20,595
1 child	\$3,400	\$1,070	\$23,930	\$27,390	\$45,207	\$45,158
2 children	\$5,616	\$2,064	\$23,930	\$31,440	\$50,597	\$50,512
3 or more children	\$6,318	\$2,064	\$23,930	\$31,440	\$53,930	\$50,512

How do filers claim the credits?

Filers claim the credits when they file their federal and state income tax returns, by completing a schedule or worksheet.

How many Minnesotans claim the credits?

In tax year 2014, 357,410 Minnesota returns claimed the EITC and 345,858 claimed the WFC. These claims represent 13.3 percent of all federal returns filed by Minnesotans and 12.3 percent of all state returns filed by Minnesota residents. The number of EITC claims exceeds the number of WFC claims mostly because in 2014, the higher EITC rate for families with three or more children resulted in the

EITC for large families extending to higher incomes than did the WFC, which did not have a higher rate for families with three or more children.

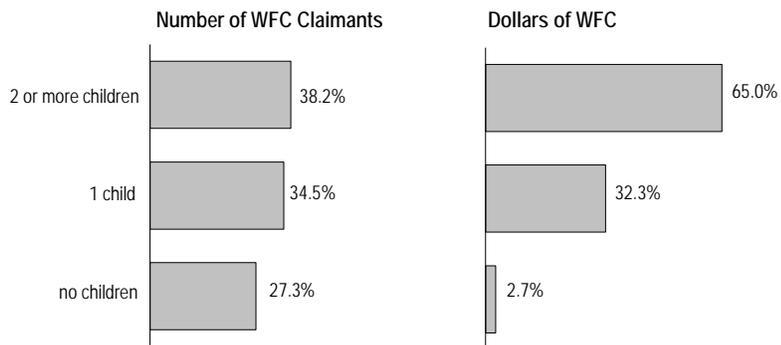
How much is paid out in credits?

In tax year 2014, Minnesotans claimed \$761 million in EITC, of which \$94 million offset tax liability, and the remaining \$667 million was paid as a refund. The average EITC claimed by Minnesotans was \$2,130.

Minnesota returns claimed \$256 million in WFC, of which \$42.5 million offset tax liability, and the remaining \$213.6 million was paid as a refund. The average WFC was \$741.

How are the credits distributed among different types of families?

Seventy-three percent of all working family credits went to families with one or more children. These families received about 97 percent of the total amount of credits paid in 2014. Individuals without children filed 27.3 percent of returns claiming credits, but received only 2.7 percent of the total amount of credits. Claimants with children received most of the total amount of credits because these families qualify for a higher maximum credit than do claimants without children. The distribution of earned income tax credits is similar.



How are the credits distributed geographically?

In 2014, just over half (51 percent) of the returns claiming credits were in the Twin Cities metropolitan area and just under half (49 percent) in Greater Minnesota; 20 percent of returns in Wadena County claimed credits, compared with only 7 percent in Carver County. The highest average credit went to Norman County claimants, at \$852, and the lowest to Winona County claimants, at \$642.

How does Minnesota compare with other states?

Nationwide, 19.1 percent of all income tax returns claimed the EITC, compared to 13.3 percent in Minnesota. The average EITC nationwide in 2014 was \$2,399; it was \$2,130 in Minnesota. Minnesota's number of recipients and credit amounts are lower than the national averages because state residents have above-average incomes.

In tax year 2015, 25 other states and the District of Columbia provided a state version of the EITC. In most cases the state credit equals a percentage of the federal EITC.

For more information: Contact legislative analyst Nina Manzi at 651-296-5204. Also see the House Research information brief *The Federal Earned Income Tax Credit and the Minnesota Working Family Credit*, December 2016.

The Research Department of the Minnesota House of Representatives is a nonpartisan office providing legislative, legal, and information services to the entire House.