

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 2012, individuals with more than \$3,200 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 2012, 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	\$472	\$118	\$7,720	\$7,720	\$13,890	\$13,900
1 child	\$3,148	\$943	\$16,980	\$20,170	\$36,682	\$36,621
2 children	\$5,200	\$1,818	\$16,980	\$23,930	\$41,671	\$41,580
3 or more children	\$5,850	\$1,818	\$16,980	\$23,930	\$41,671	\$41,580
<i>Married claimants</i>						
No children	\$472	\$118	\$12,890	\$7,720	\$19,060	\$13,900
1 child	\$3,148	\$943	\$22,150	\$20,170	\$41,852	\$36,621
2 children	\$5,200	\$1,818	\$22,150	\$23,930	\$46,841	\$41,580
3 or more children	\$5,850	\$1,818	\$22,150	\$23,930	\$49,841	\$41,580

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 2009, 347,149 Minnesota returns claimed the EITC and 325,673 claimed the WFC. These claims represent 13.7 percent of all federal returns filed by Minnesotans and 12.7 percent of all state returns filed by Minnesota residents.

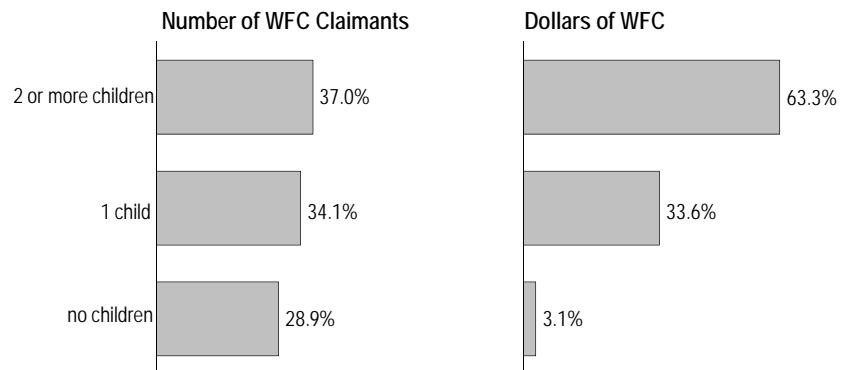
How much is paid out in credits?

In tax year 2009, Minnesotans claimed \$662 million in EITC, of which \$84 million offset tax liability, and the remaining \$578 million was paid as a refund. The average EITC claimed by Minnesotans was \$1,907.

Minnesotans claimed an additional \$194 million in WFC, of which \$36 million offset tax liability, and the remaining \$158 million was paid as a refund. The average WFC was \$595.

How are the credits distributed among different types of families?

Seventy-one 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 2009. Individuals without children filed 28.9 percent of returns claiming credits, but received only 3.1 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?

While over 47 percent of the returns claiming credits came from the Twin Cities metropolitan area, these seven counties generated about 52 percent of all returns filed. Put another way, in 2009 nonmetro filers were more likely to claim the credit than were metro area filers.

How does Minnesota compare with other states?

Nationwide, 19.2 percent of all income tax returns claimed the EITC, compared to 13.7 percent in Minnesota. The average EITC nationwide in 2009 was \$2,195; it was \$1,907 in Minnesota. Minnesota's number of recipients and credit amounts are lower than the national averages because state residents have above-average incomes.

Twenty-two other states and the District of Columbia provide 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](#), August 2010.

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