

The Working Family Credit and Federal Earned Income Credit

August 2019

What are the credits?

The Minnesota working family credit (WFC) and federal earned income tax credit (EITC) 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. Filers claim the credits when they file their federal and state income tax returns, by completing a schedule or worksheet.

Who is eligible for the credits?

To claim the EITC and the WFC, an individual must have wages or self-employment income. Taxpayers generally must qualify for the federal credit to claim the Minnesota credit. Certain taxpayers are not eligible for the federal credit, including nonresident aliens, individuals living abroad, and individuals without a Social Security number. Individuals with significant investment income (more than \$3,600 in tax year 2019) are also ineligible for the credit. To claim the federal credit, a taxpayer must either be 25 years old or have at least one qualifying child; the age requirement for the Minnesota credit is 21.

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. The numbers for tax year 2019 are as follows:

	Maximum credit		Phaseout threshold		Income at which credit fully phased out	
	EITC	WFC	EITC	WFC	EITC	WFC
Unmarried claimants						
No children	\$529	\$279	\$8,650	\$8,730	\$15,570	\$22,673
1 child	\$3,526	\$1,117	\$19,030	\$22,770	\$41,094	\$41,392
2 children	\$5,828	\$2,156	\$19,030	\$27,000	\$46,703	\$47,533
3+ children	\$6,557	\$2,500	\$19,030	\$27,300	\$50,162	\$51,110
Married claimants						
No children	\$529	\$279	\$14,450	\$14,570	\$21,370	\$28,513
1 child	\$3,526	\$1,117	\$24,820	\$28,610	\$46,884	\$47,232
2 children	\$5,828	\$2,156	\$24,820	\$32,840	\$52,493	\$53,373
3+ children	\$6,557	\$2,500	\$24,820	\$33,140	\$55,952	\$56,950

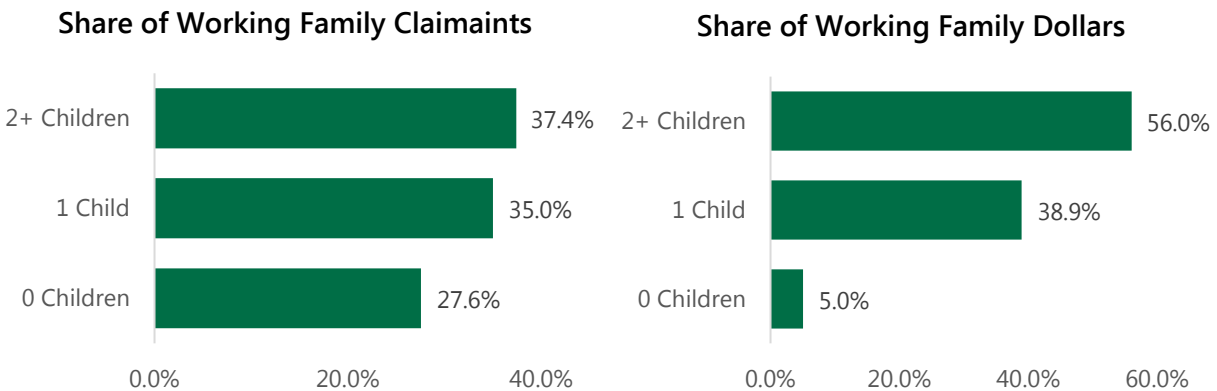
How many Minnesotans claim the credits, and how much is paid out?

In tax year 2016, 343,550 Minnesota returns claimed the EITC and 324,390 claimed the WFC. These claims represent 12.6 percent of all federal returns filed by Minnesotans and 11.3 percent of all state returns.

In tax year 2016, Minnesotans claimed \$744 million in EITC, of which \$98 million offset tax liability, and the remaining \$645 million was paid as a refund. The average EITC claimed by Minnesotans was \$2,167. Minnesota returns claimed \$249 million in WFC, of which \$44.3 million offset tax liability, and the remaining \$204.8 million was paid as a refund. The average WFC was \$768.

How are the credits distributed among different types of families?

Seventy-two percent of all working family credits went to families with one or more children. These families received about 95 percent of the total amount of credits paid in 2016. The distribution of earned income tax credits is similar.



How are the credits distributed geographically?

In 2016, just over half (52 percent) of the returns claiming credits were in the Twin Cities metropolitan area and just under half (48 percent) in Greater Minnesota. In Wadena County, 18.7 percent of returns claimed credits, as compared with only 6.5 percent in Carver County. The highest average credit went to Lyon County claimants, at \$863, and lowest to Cook County claimants, at \$656.

How does Minnesota compare with other states?

Nationwide, 18.2 percent of all income tax returns claimed the EITC in tax year 2016, compared to 12.5 percent in Minnesota. The average EITC nationwide in 2016 was \$2,421; it was \$2,166 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 2017, 29 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: See the House Research publication *The Federal Earned Income Tax Credit and the Minnesota Working Family Credit*, December 2016.



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