

The Earned Income Tax Credit and Child Tax Credit in Rhode Island

Co-produced by the Economic Progress Institute and the Rhode Island Coalition for Children and Families
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Introduction

The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are effective anti-poverty measures that have helped millions of people across the United States pay for necessities and invest in their futures. Combined, the federal EITC and CTC lifted 10.6 million people, of which 5.5 million were children, above the Federal Poverty Level (FPL) in 2018. The tax credits also made 17.5 million more people, of which 6.4 million were children, less poor in the same year.¹ These tax credits put money directly back into the pockets of working families, often allowing them to pay for basic needs like food, housing, and healthcare.

This brief provides an overview of these two tax credits and the benefits they provide to working families and the Rhode Island economy at large. Given that, in 2024, 68% of single adults in Rhode Island and 78% of single parents with two children were unable to meet their basic needs without assistance, policy measures like the EITC and CTC could go a long way to help meet the needs of working Rhode Islanders.²

Between 2019 and 2023, 13% of children in Rhode Island lived in poverty, and those rates were much worse for children of color. According to Rhode Island Kids Count, 29% of American Indian and Alaskan Native children, 25% of Hispanic children, 24% of Black children, 7% of Asian/Pacific Islander children, and 7% of White children lived in poverty.³ Rhode Island needs to reduce its child poverty rates, and the EITC and CTC have been proven to do so very effectively.

Background

The Federal Earned Income Tax Credit (EITC)

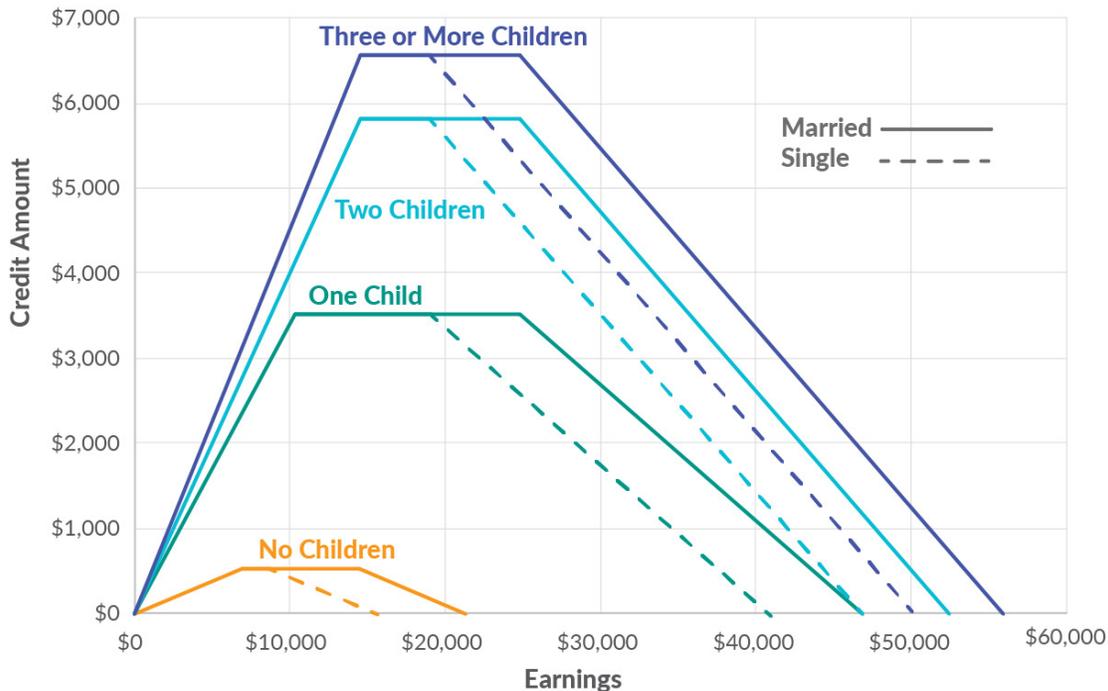
The federal EITC is a tax credit that puts money back into the pockets of low- and modest-income working people by offsetting payroll and income taxes. The EITC is available to single and married people without children. The credit is also “refundable,” meaning that low-wage workers will get money back from the IRS if the EITC exceeds their tax liability.

As Figure 1 shows, the EITC phases in as income increases and phases out after reaching a maximum level. The credit rises with earned income until reaching a maximum level and then gradually phases out at higher income levels. The credit is higher for individuals who are married and/or have children.

Figure 1

The Phase-In and Phaseout of the EITC

Credit Amount by Marital Status and Number of Children



Source: Amir El-Sibaie, "2019 Tax Brackets," Tax Foundation, Nov. 28, 2018.

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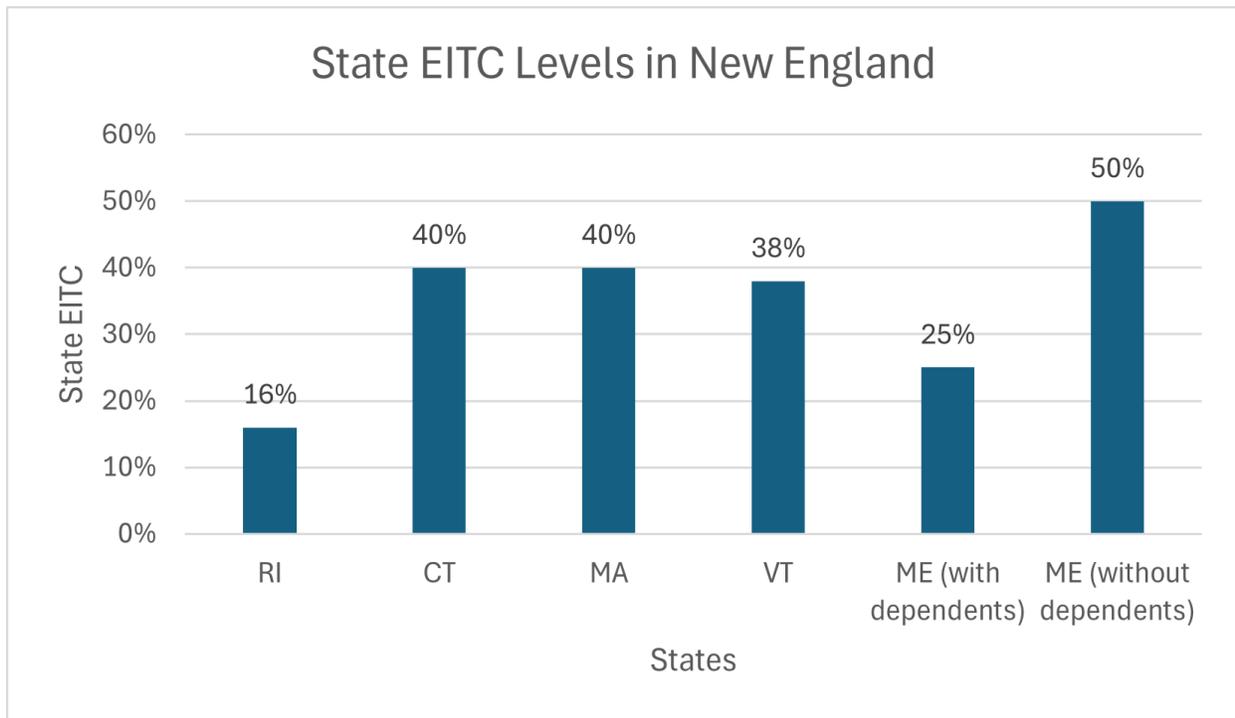
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The State Earned Income Tax Credit (EITC)

Thirty-one states plus the District of Columbia and Puerto Rico supplement the federal credit with a state EITC, which is usually set as a percentage of the federal EITC.⁴ Rhode Island's state EITC is currently set at 16% of the federal EITC. In 2015 and 2016, Governor Raimondo and the Rhode Island General Assembly approved increases to the state EITC from 10% to 12.5% of the federal credit for Tax Year 2016 and an increase to 15% for Tax Year 2017. The General Assembly voted to further increase it to 16% for Tax Year 2024; this 1% increase is the equivalent of less than two additional dollars per month. Currently, eligible Rhode Islanders receive an average of \$367 a year from the state EITC program.

Although the EITC is a powerful tool to lift working Rhode Islanders out of poverty, RI has not been on par with the rest of New England. As shown in Figure 2, Connecticut and Massachusetts have state EITCs that are at 40% of the federal EITC. Vermont is at 38%, and Maine is at 25% for workers with dependents and 50% for workers without dependents. Rhode Island is significantly behind at only 16%.

Figure 2



**State EITCs are shown as a percentage of the federal EITC.

The Federal Child Tax Credit

The federal CTC is a program that targets working families, allowing them to claim up to \$2,200 per eligible child (under the age of 17) each Tax Year as of 2025. It helps families offset the cost of raising children by helping them with expenses and empowering them to invest in their children. The federal CTC increases with a household's earnings. A family earning less than \$2,500 annually does not receive any of the credit. A family earning more than \$2,500 only receives a percentage of credit until they reach a certain income level. The federal CTC is partially refundable (up to \$1,700). This means that if the value of the credit exceeds the federal income tax the family owes, they will receive a refund from the IRS. However, they would likely still have to pay some amount in federal taxes.

In July 2025, the federal CTC was raised from \$2,000 per child to \$2,200 as a result of H.R.1 or the One Big Beautiful Bill Act (OBBBA). However, because the federal CTC is only partially refundable, the lowest-income Rhode Islanders are still left behind. Approximately 42,000 children in Rhode Island will not benefit from the \$200 increase because their parents do not earn enough. This is because when low-income tax filers do not owe enough in taxes, they will only be able to claim the amount that offsets what they owe, rather than the full tax credit. H.R.1 also requires US citizen children and those with lawful status to have at least one parent

The federal Child Tax Credit was expanded for one year in 2021 under the American Rescue Plan Act (ARPA). The maximum credit amount increased from \$2,000 to \$3,600 for children under 6 and from \$2000 to \$3,000 for children aged 6-17. The credit was also made fully refundable, meaning that those who had low or no earnings had access to the full federal credit for the first time. Families earning up to \$125,000 were eligible to claim the full credit. A large majority of low-income families used the credit to buy food, pay utility bills, make rent, buy clothing, and cover education costs.⁶ In 2021, the expanded Child Tax Credit under ARPA cut child poverty rates almost in half – reaching a record low of 5.2%. When the ARPA expansion ended in 2022, poverty rates more than doubled from 5.2% to 12.4%.⁷

The State Child Tax Credit (CTC)

Seventeen states and the District of Columbia have instituted state CTCs at varying amounts.⁸ Rhode Island does not currently have a state CTC. In 2022, Governor McKee signed into law the FY2023 budget, which included a one-time child tax rebate that issued \$250 per child for up to three children to eligible families.⁹ A single parent earning less than \$100,000 and two parents earning less than \$200,000 a year received up to \$750 for three children.

Governor McKee has proposed a fully refundable state CTC of \$325 per child in the FY2027 Rhode Island budget. There is also a legislative proposal for a fully refundable state CTC of \$650 per child.

Differences Between the EITC and CTC

The EITC and CTC are similar programs with comparable outcomes. However, there are a few key differences in the goals of these credits, who qualifies for them, and how they are administered. While the EITC aims to boost the incomes of those who are employed but earn low wages, the CTC is intended to help offset the cost of raising children. Therefore, the CTC is only for people with dependents while the EITC is for anyone who is employed. Moreover, the federal EITC is fully refundable, meaning that low-wage workers will get money back from the IRS if the EITC exceeds their tax liability, while the federal CTC is only partially refundable. Finally, state CTCs are usually set as a dollar amount while state EITCs are set as a percentage of the federal EITC. Although the EITC and CTC both exist at the federal level, RI also has a state EITC, while it does not have a state CTC.

Benefits of the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC)

Significantly Reduce Poverty

As noted above, tax credits such as the EITC and CTC have proven to significantly reduce poverty, including nearly cutting child poverty rates in half in 2021. In 2018, the federal EITC alone lifted about 5.6 million people above the poverty line, including 3 million children – and made another 16.5 million people, including 6 million children, less poor.¹⁰

In the same year, the EITC and CTC combined lifted 10.6 million people and 5.5 million children out of poverty. The tax credits also made 17.5 million people and 6.4 million children less poor.¹¹ The tax credits put money directly back into the pockets of working families, often allowing them to pay for basic needs like food, housing and healthcare.

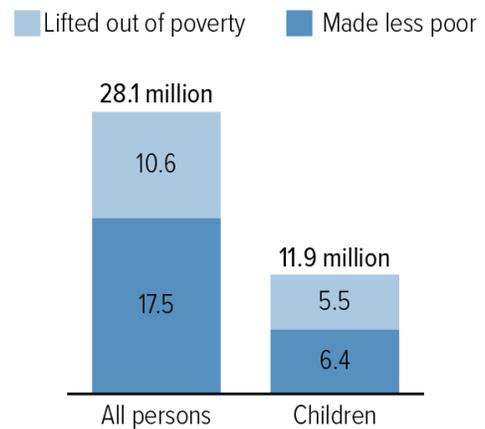
When the federal Child Tax Credit was expanded for one year in 2021 under the American Rescue Plan Act (ARPA), child poverty declined and reached a record low of 5.2%. The expanded Child Tax Credit under ARPA cut child poverty rates almost in half. When the ARPA expansion ended in 2022, poverty rates more than doubled from 5.2% to 12.4%.¹²

Black, Indigenous, and Latino children experience higher rates of child poverty than their White counterparts and, accordingly, saw the greatest reductions in poverty rates under the expanded CTC. Figure 4 shows child poverty decreased by 8.9% for Black families, 6.3% for Latino families, and 4.5% for American Indian/Alaska Native families. Meanwhile, White families saw only a 3% decrease in child poverty. Expanding the Child Tax Credit improved equity by disproportionately reducing poverty for historically marginalized populations.

Figure 3

Earned Income Tax Credit and Child Tax Credit Have Powerful Anti-Poverty Impact

Millions of people lifted out of poverty or made less poor by EITC and Child Tax Credit, 2018



Note: These figures use the Supplemental Poverty Measure. Unlike the Census Bureau's official poverty measure, the SPM counts the effect of non-cash government programs like housing and food assistance, and tax credits.

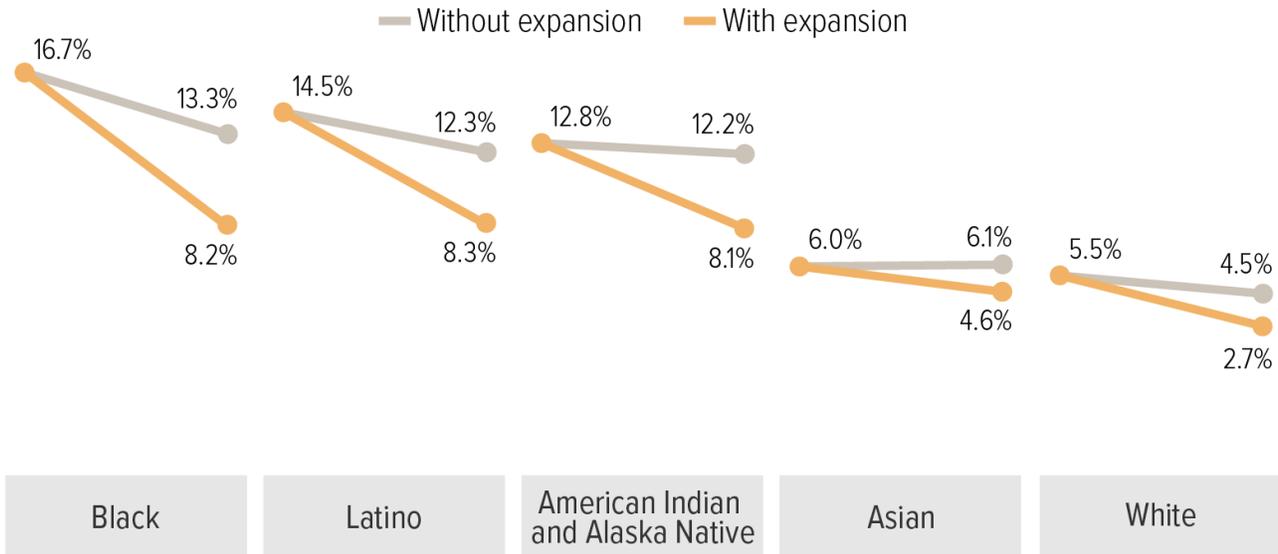
Source: CBPP analysis of Census Bureau March 2019 Current Population Survey.

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Figure 4

Child Tax Credit Expansion Drove Child Poverty Sharply Downward in 2021 Across Racial & Ethnic Groups

Child poverty rates, 2020 to 2021



Note: Figures use Supplemental Poverty Measure (SPM) and 2021 poverty line adjusted for inflation. American Indian and Alaska Native (AIAN) children may be AIAN alone or in combination with other races and ethnicities; Latino may be of any race; Black, Asian and white refer to children of that race alone and not Latino.

Source: CBPP analysis of U.S. Census Bureau's Current Population Survey

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Helps Families and Children Thrive

By reducing poverty, these tax credits help families and children thrive. Studies have shown that increasing the EITC is linked with improving infant and maternal health.¹³ Both tax credits have also been shown to boost school performance and college enrollment. Studies have demonstrated that for families receiving larger state or federal EITCs, their children achieve better test scores than children from similar families who did not receive the larger credit expansion. The children were also more likely to finish high school and go to college.¹⁴

The link between family financial insecurity and increased risk for child welfare agency involvement is becoming clearer. A growing body of research shows that many economic benefits and concrete social supports are associated with reduced risk of child abuse, neglect, and involvement with child welfare systems. A study from the **American Academy of Pediatrics** found that when states spend an additional \$1,000 on public benefit programs (per person living in poverty) annually, there is an associated 4.3% reduction in child maltreatment reports, a 4% reduction in substantiated child maltreatment, a 2.1% reduction in foster care placements, and a 7.7% reduction in child fatalities related to abuse or neglect.¹⁵

Stimulate Local Businesses and the State's Economy

The EITC generates positive effects that reverberate throughout the local economy and become income for local businesses, employees, and governments. Mark Zandi, a renowned national economic forecaster from Moody's Analytics, identifies a "multiplier effect" for refundable tax credits to low-income earners in the range of 1.22 to 1.26, meaning that every dollar spent generates an additional \$1.24 in economic activity.¹⁶ Applying this multiplier to a state EITC set at 30% of the federal credit would add an estimated \$64.2 million to the Rhode Island economy, \$30 million more than added with the current 16% EITC.

Encourage Work

The EITC and CTC help lower-wage working families pay for expenses that allow them to work, such as child care and transportation. The credits are also structured to encourage the lowest-earning families to work more hours. Extra time and experience in the working world translate into better opportunities and higher pay over time. Three of every five recipients of the federal EITC use it temporarily – for just one or two years – while they get back on their feet.¹⁷

The state-level EITC improves employment outcomes for parents. With each \$1,000 in additional EITC benefits, unmarried mothers were nine percentage points more likely to work. Studies also find that that state-level EITCs lead to increases in household resources and decreases in child poverty rates as a result. Moreover, state-level EITCs increased mothers' annual wages by 32%.¹⁸

Improve Equity for Historically Marginalized Groups

Low wages make it hard for working families, especially working families of color, to afford necessities like decent housing, nutritious food, reliable transportation, quality child care, and education opportunities that can move families toward the middle class. In Rhode Island, the median household income for Black (\$66,250) and Latino (\$58,477) households is well below that of Non-Hispanic White households (\$96,277),¹⁹ making it more likely that the former will benefit from an expanded EITC and CTC.

Easy to Adminster and Relatively Inexpensive

States incur virtually no costs for determining eligibility for these credits, because in most cases, families eligible for the federal credit are also eligible for the state credit. And because the EITC in Rhode Island is set at a fixed percentage of the federal credit, revenue departments need only add or modify one line on a state's tax form. State EITCs and CTCs also offer good value to states. Existing refundable EITCs in states with income taxes cost less than 1% of state tax revenues each year.²⁰ Though low-income households comprise a substantial share of all taxpayers, they account for a smaller share of tax revenue. A few hundred dollars for each family makes a big difference in their ability to make ends meet without making a major dent in the state's treasury.

Approaches to Improving the State EITC and CTC in Rhode Island

Although the EITC and CTC have been powerful tools in reducing poverty, RI has yet to pass legislation that provides sufficient financial relief for low- and modest-income Rhode Islanders. With the EITC, Rhode Island has fallen significantly behind other New England states in meeting the needs of its working citizens. Given the success of the expanded CTC under the ARPA expansion, the state has more than enough evidence that creating a state CTC would effectively and substantially reduce child poverty rates. To reduce child poverty rates, the state should create a CTC that would make a meaningful difference for Rhode Island families.

Issue: Rhode Island's state EITC is substantially lower than those of other New England states. As mentioned earlier, Connecticut and Massachusetts have state EITCs that are at 40% of the federal EITC. Vermont is at 38% and Maine is at 25% for workers with dependents, and 50% for workers without dependents. Rhode Island is significantly behind at only 16%, with the average Rhode Islander only receiving \$367 a year from the state credit.

Legislative Solution: Increase the state EITC to 30% of the federal EITC. On average, Rhode Island workers would have \$321 more in their pockets each year, for a total average state credit of \$688 annually. While this is still lower than other New England states, it's a strong starting point for lifting working Rhode Islanders out of poverty.

Issue: Families in Rhode Island are struggling to meet their basic needs. 78% of single-parent households with two children and 34% of two-parent households with two children make less than the amount required to meet their basic needs without assistance.²¹ This means that parents are struggling to feed, clothe, and house their children.

Legislative Solution: Institute a substantial and refundable state CTC for Rhode Island families. To match the expanded federal CTC that cut child poverty rates almost in half, the state could implement a CTC of \$1,600 for children under 6 and \$1,000 for children aged 6-17 and cap the income eligibility requirement at \$125,000. Policymakers have several options for setting credit amounts (of several hundred dollars or up to \$1,000 per child) and age ranges (same for all children vs higher amounts for the youngest children). Instituting a state CTC would complement the federal CTC and, if high enough, would decrease child poverty rates, especially for low-income families and families of color.

Governor McKee has proposed a fully refundable state CTC of \$325 per child in the FY2027 Rhode Island budget, which would reduce child poverty in Rhode Island by 2.12%. There is also a legislative proposal for a fully refundable state CTC of \$650 per child, which would decrease child poverty in Rhode Island by 6.28%.²²

Endnotes

- 1 [Chart Book: The Earned Income Tax Credit and Child Tax Credit – Center on Budget and Policy Priorities](#)
- 2 [2024 Rhode Island Standard of Need – Economic Progress Institute](#)
- 3 [2025 Factbook – Rhode Island Kids Count](#)
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- 18 [State EITC Evidence Review Snapshot, Prenatal-to-3 Policy Impact Center](#)
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