

Help Montana Working Families Become Self-Sufficient It's Time to Support a State Earned Income Tax Credit (EITC)

A state EITC would provide tax relief to hard-working, low-income families, helping them close the gap between what they earn and what they need to make ends meet. A state EITC, piggybacking on the federal EITC, would help families and put millions of dollars back into the local economy. In 2003, 72,000 Montana households in every urban, suburban, and rural community claimed the federal EITC, returning \$118 million to low-wage earners. Twenty states plus the District of Columbia have enacted state EITCs. It is time for Montana to follow their lead and enact a state EITC.

- ◆ **A State EITC Can Make a Significant Difference for Hard-Working Families.** The National Center for Children in Poverty found that the federal EITC reduces child poverty for young children by nearly 25 percent – more than any other government program. A state EITC builds on the benefits of the federal EITC. A state EITC would relieve the regressive nature of payroll and property taxes, and make Montana’s state tax system more equitable.
- ◆ **The EITC Has a History of Bi-Partisan Support.** Enacted in 1975 under President Ford, and expanded under Presidents Reagan, Bush and Clinton, the federal EITC is supported by policy makers on both sides of the aisle. President Reagan called the EITC “the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.” Twenty-one state EITCs have been enacted with both Democratic and Republican governors.
- ◆ **The EITC Stimulates the Local Economy.** Working families use the EITC refund to pay off debt, finance transportation to work, invest in education, and buy basic necessities. Dollars spent in the local community provide an economic stimulus to the state, including urban, suburban and rural communities.
- ◆ **The EITC Provides a Vehicle to Build Assets.** Many working families use their EITC refund as a first step to build assets, financial security and long-term wealth.
- ◆ **How Would A State EITC Work?** A state EITC simply piggybacks on the federal EITC. A state EITC would provide low-income working families with a refund equal to 20 percent of their federal EITC return, even if they don’t owe state income taxes. An addition of one line to the state income tax form is all that is needed to implement the state EITC.
- ◆ **Who Would Benefit From a State EITC In Montana?** Working families with incomes of up to \$31,030 with one child and up to \$35,263 with two+ children, qualify for the federal EITC, the same threshold for a state EITC. Most beneficiary families (74 percent) earn less than \$20,000 per year; working families with incomes between \$11,500 and \$16,000 benefit the most. About 17 percent of Montana tax filers claim the federal EITC. The average federal credit is \$1,641; the average credit projected for a state EITC would be \$328. Working Montana families in both urban and rural communities benefit from the EITC.
- ◆ **How Much Would a State EITC Cost the State of Montana?** A 20 percent, refundable EITC would cost about \$23 million annually.