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STATE ALTERS EARNED INCOME TAX CREDIT; CHANGES WILL BENEFIT LOW-INCOME WORKERS

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By Mary Massingale, State Capitol Bureau

Some 150,000 to 200,000 low-income workers are expected to get a break on their Illinois income taxes next year because of changes to state tax laws.

Illinois lawmakers and Gov. Rod Blagojevich this year made the state's earned income tax credit permanent and "refundable" with Senate Bill 4. Previously, if the credit were greater than the taxpayer's tax liability, the amount owed was simply wiped out. Beginning with the 2003 tax season, the difference between the state tax credit and the tax liability will be "refunded" to the taxpayer. Additionally, residents who don't have to pay income taxes because of low earnings will be able to get a refund equal to the state tax credit.

The Rev. Sam Winger of Springfield said the extra dollars would come in handy. As pastor of the Serving Jesus Willingly Urban Ministry, Winger said he often finds himself in the same financial circumstances as members of his congregation. A widower with the youngest of six children just starting college, Winger said the expected state refund would go toward payments on his house and car.

"This will put me at a level that is a little closer to the American dream called independence," said Winger, 66.

Last year's state tax credit had a maximum of \$207, because it is equal to 5 percent of the federal earned income tax credit, which in 2002 was capped at \$4,140. The federal tax credit, which has always been refundable, was established in 1975 as a way to fight poverty and encourage employment.

The refundable state tax credit will cost an estimated \$23 million but will be paid for with federal welfare funds, or Temporary Assistance for Needy Families.

Advocacy groups including Voices for Illinois Children, the Center for Tax and Budget Accountability and the Center for Economic Progress pushed for the refundable state tax credit. When coupled with the minimum wage increase to \$5.50 an hour beginning Jan. 1, 2004, the revamped state tax credit will put dollars in the pockets of such workers as housekeepers, personal-care assistants, janitors and classroom aides who shoulder the burden of sales, property, excise and utility taxes.

"While we're making progress in Illinois, we still rank near the bottom in how we tax families who earn lower incomes," said Jerry Stermer of Voices for Illinois Children. "Huge numbers of low-income workers never move to the middle class."

Residents must qualify for the federal tax credit to get the state tax credit. Last year, the maximum federal tax credit of \$4,140 was available to families with two or more children and earning less than \$33,178. Families earning less than \$29,201 and raising one child could get up to \$2,506. Meanwhile, families earning less than \$11,060 with no children could get up to \$376.

As the owner of Sharp Income Tax Services in Peoria, Bill Sharp said the refundable state tax credit could mean a paid utility bill for the more than 40 percent of his clients who earn \$12,000 to \$15,000 annually.

"To someone making \$50,000 to \$100,000 a year, \$50 or \$100 isn't going to mean much," Sharp said. "But to people with two, three or four kids and barely getting by, it's significant money."

Advocates caution that residents who normally aren't required to file an income tax return because of low earnings must file if they want the refundable tax credit.

"Each year, there are up to 15 to 20 percent of all people eligible for the federal earned income tax credit who don't file the appropriate documentation or paperwork," said David Marzahl of the Center for Economic Progress.

Marzahl's organization annually sponsors free income-tax preparation for low-income residents at 26 sites throughout Illinois. For more information, call (888) 827-8511 or go to the center's Web site at www.centerforprogress.org.

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