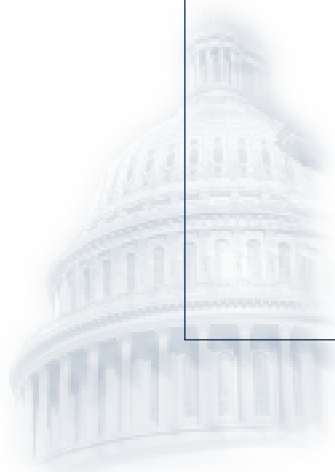


policy
brief



MOVING IDEAS
TO ACTION



REWARDING WORK

State EITCs for Working Families

October 2000





MOVING IDEAS TO ACTION ACROSS THE STATES

*The Center for Policy Alternatives (CPA)
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envision and realize progressive solutions for
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WHILE PARENTS WORK, CHILDREN REMAIN POOR

13 Million Children Live in Poverty; Three-Fourths in Working Families

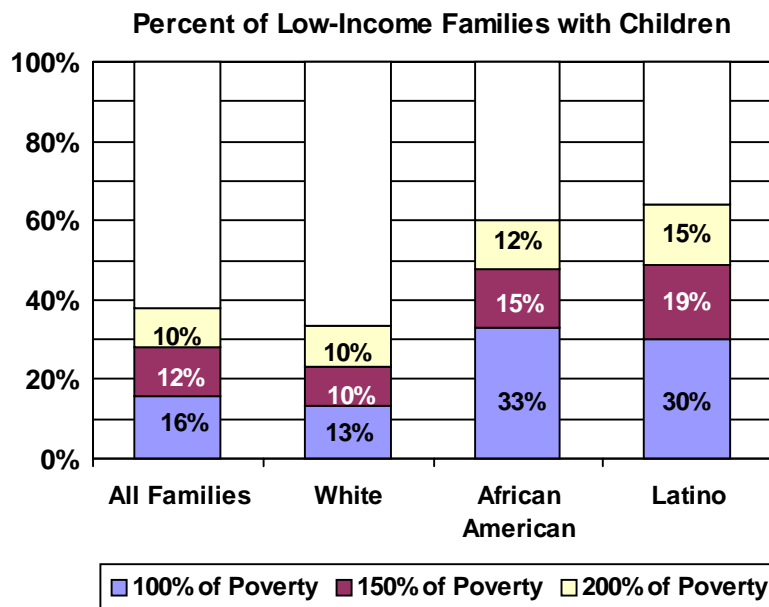
Even though the U.S. economy has been expanding at a record pace, nearly one in five American children, 13 million in all, lives in poverty. Federal welfare reform has sent millions to work, but the reality is that millions of parents work for full-time wages that keep their families—their children—below the poverty line.

Seventy-five percent of children in poverty—an astonishing 8.7 million—live in working families.¹ Children with single moms, or who live in Latino or African-American families, are particularly at risk of growing up poor. Among full-time, year-round workers with children, one in every ten Latinos, one in every thirteen African-Americans, and one in every thirteen single mothers still earn so little that their children remain in poverty. Despite their hard work, the American dream continues to elude them.

Nearly one in five American children lives in poverty, and nearly 3/4ths of them have parents who work.

Low Income Families Above the Poverty Line Also Struggle

Families that live somewhat above the poverty line also struggle to raise their children. A study in 1997 found that nearly one in three parents with incomes under twice the federal poverty line were not able to pay all of their rent, mortgage, or utility bills.¹ In all, 2 in 5 American children, and 2 in 3 African-American and Latino children, live in families with incomes less than twice the poverty level.



EITC IS THE MOST EFFECTIVE WORK SUPPORT PROGRAM

EITCs Are Strong Work Incentives

The federal Earned Income Tax Credit (EITC), created in 1975 and expanded several times since, is a powerful tool that moves families out of poverty by rewarding work. The EITC lifts 4.8 million Americans out of poverty, including 2.6 million children—affecting more families and more children than any other anti-poverty government program.

The EITC helps working Americans by reducing taxes on the wages of low-income workers. Unlike other tax credits, the EITC is refundable, so the poorest working families receive a check back from the government at tax time. The amount of the credit ranges up to a maximum of \$3,888 for a family with two children and \$2,353 for a family with one child. This mechanism directly and effectively rewards parents who work.

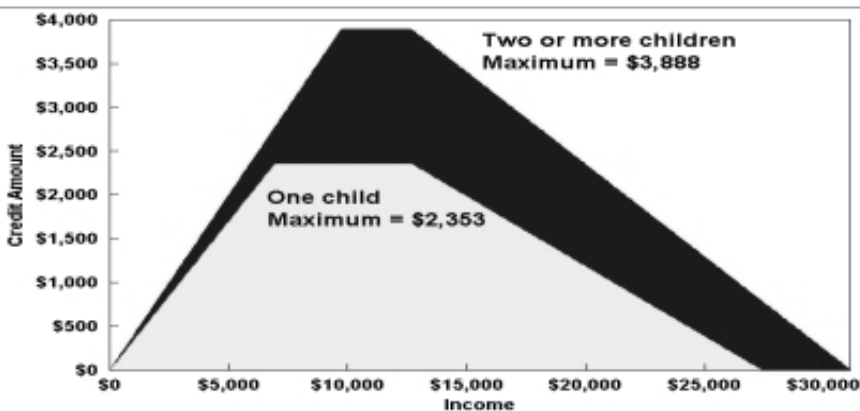
Most of the federal EITC's benefits are targeted toward families with children. Workers who have no children living with them are only eligible to receive up to \$353 from the federal EITC.

In 1998, the federal EITC enabled approximately 600,000 African-American children and 600,000 Latino children to escape poverty.² In addition, the EITC helps millions of other families marginally above the poverty level. In total, nearly 20 million families and individuals—roughly one tax return in six—now claim the federal EITC. Of those taxpayers, approximately 64 percent are white, while 16 percent are African-American and about 15 percent are Latino.³

The Earned Income Tax Credit is “the best antipoverty, the best pro-family, the best job creation measure to come out of Congress.”

– Former President
Ronald Reagan

Federal Earned Income Tax Credit Tax Year 2000



STATES BUILD ON SUCCESSFUL FEDERAL EITC MODEL

Although the federal EITC has existed for 25 years, it has only recently gained momentum at the state level. Just since 1997, eleven states and the District of Columbia have adopted or substantially increased EITCs. In the 2000 legislative sessions, for example, EITC laws were adopted in Illinois, Maine, New Jersey and DC, and the EITC was substantially expanded in Colorado, Maryland, Minnesota, New York and Vermont.

Nine states and the District of Columbia now have a “refundable” credit like the federal program. This means if the credit exceeds a family’s total income tax liability, the difference is paid to the family as a refund. If the family owes no income tax at all, they receive a check for the entire EITC. Five states have less effective “non-refundable” EITC statutes. In those states, the credit can erase tax liability but the poorest wage-earners, with incomes too low to owe any taxes, receive no benefit at all.

When added to the federal EITC, state EITCs substantially boost a family’s income. For example, in New York, which provides one of the most generous state EITCs, the federal and state credits together boost the effective wage of a family earning the minimum wage in a full-time job—\$5.15 an hour, or \$10,700 per year—by \$2.00 per hour, giving the family an effective hourly wage of \$7.15 per hour, or \$15,365 a year.⁶

State EITC Plans Can Piggyback on the Federal EITC

Most laws calculate the state EITC as a flat percentage of the federal tax credit. For instance, a state with a 30 percent refundable state EITC would provide all families who qualify for the federal EITC a refundable tax credit equal to 30 percent of their federal credit. This structure makes the EITC simple for qualifying families to claim and also minimizes administrative costs since the state can leverage off of federal efforts to publicize and monitor the earned income tax credit.

State EITCs can also provide more targeted assistance than the federal credit. In Wisconsin, for example, qualifying working families with two children receive a state EITC equal to 14 percent of the federal credit, while working families with three or more children receive the equivalent of 43 percent of the federal credit.

State Earned Income Tax Credits

Refundable credits

Colorado
District of Columbia
Kansas
Maryland
Massachusetts
Minnesota
New Jersey
New York
Vermont
Wisconsin

Non-refundable credits

Illinois
Iowa
Maine
Oregon
Rhode Island

EITC REWARDS WORK, BOOSTS FAMILIES, AND ECONOMIES

The EITC Is a Successful Work Incentive

EITCs fight poverty by rewarding work. State EITCs complement welfare-to-work programs since the average starting pay for parents leaving welfare is only about three-fifths of the poverty level for a three-person family.⁷ Together, federal and state EITCs can pay working poor families more than 40 cents for every dollar earned.

The program is a proven success. More than 60 percent of the increase in the employment of single mothers has been due to expansions in the federal EITC.⁸ Today, more single mothers with children are working than ever before—over 86 percent in 1998.⁹

The EITC encourages asset development, a strategy that creates opportunities for families to permanently move up. Because of the lump-sum nature of most EITC refunds, many families use it to invest in education, transportation, or geographic mobility that enhances their future job prospects.¹⁰

State EITCs Reduce the Tax Burden on Low-Income Working Families

State EITCs give a tax break to wage-earners who need it the most—those with very or moderately low incomes who support children. These are the taxpayers who are hit hardest by regressive sales, excise and property taxes. In 1995, the poorest fifth of married, non-elderly families paid 12.5 percent of their income out to state and local taxes—while the richest fifth paid less than 9 percent of theirs.¹¹

The EITC Fuels the Economy

Because an EITC is a targeted tax cut, expanding it will generate new economic growth, according to leading economists. Economic growth will strengthen states and neighborhoods, offsetting state costs of EITC plans.

As the effectiveness of the EITC becomes more and more evident, more states are adopting it for themselves. Since 1997, 11 states and the District of Columbia have enacted or expanded an EITC program.

Treasury Secretary Larry Summers stresses that EITC expansions could contribute to robust economic growth rates without igniting inflationary pressures.¹²

STATE EITCS ARE GOOD GOVERNMENT

EITC is a Bipartisan, Good Government Program

State EITCs have been enacted in states led by both Republicans and Democrats. Business groups, social service advocates, minority coalitions, and conservatives have all demonstrated strong support. Outspoken advocates range from Ronald Reagan to President Clinton, and from the National Council of Latinos to the Committee for Economic Development, an organization of 250 corporate executives and university presidents.

As a result, several states have been successful in aligning an array of local interests behind EITC legislation. For instance, a coalition that recently united behind the expansion of the Massachusetts EITC included dozens of organizations and prominent individuals, such as the Associated Industries of Massachusetts, City of Boston—Boston Women’s Commission, Dimock Community Health Center, Homes for Families, Parents United for Child Care, and the Women’s Educational and Industrial Union.¹³

States Can Afford EITCs

A number of states are reacting to strong fiscal conditions by considering substantial tax cuts. Enacting or expanding a state EITC would ensure that poor and low-to-moderate income families would share the benefits of any tax cut.

All states that currently have EITC programs originally created them out of state general budgets.³ Some states may be partially shifting funding sources as recent federal guidelines allow the cost of state refundable EITC payments to be allocated from Maintenance of Effort (MOE) or Temporary Assistance to Needy Families (TANF) resources.

Budgetary costs of enacting new or expanded EITC plans will range widely from state to state, but are likely to be less than many other major tax cuts since they are well-targeted to low and moderate-income working families. In 1996, the annual cost of refundable EITCs ranged from \$12 million in Vermont to \$291 million in New York.¹⁴

It is simply unacceptable to push people off the welfare rolls and close our eyes to their continued poverty. In this time of national prosperity, no American who works full-time and supports a family should be poor. That’s the philosophy behind the state EITC.

Estimated Cost of State EITCs by State

State	Federal EITC claims, FY 1998	Percent of total U.S. claims	Cost of Federal EITC in FY 2002*	Estimated Cost of State EITC in FY 2002	
				10%*	20%*
AL	\$785	2.56%	\$ 815	\$69	\$139
AK	\$ 40	0.13%	\$ 41	\$ 3	\$ 7
AZ	\$ 557	1.81%	\$ 575	\$ 49	\$ 98
AR	\$ 426	1.38%	\$ 440	\$ 37	\$ 75
CA	\$ 3,800	12.23%	\$ 3,896	\$ 331	\$ 662
CO	\$ 338	1.09%	\$ 348	**	**
CT	\$ 208	0.67%	\$ 215	\$ 18	\$ 37
DE	\$ 78	0.25%	\$ 81	\$ 7	\$ 14
DC	\$ 82	0.27%	\$ 85	**	**
FL	\$ 2,048	6.64%	\$ 2,116	\$ 180	\$ 360
GA	\$ 1,192	3.88%	\$ 1,235	\$ 105	\$ 210
HI	\$ 88	0.28%	\$ 90	\$ 8	\$ 15
ID	\$ 129	0.41%	\$ 132	\$ 11	\$ 22
IL	\$ 1,161	3.79%	\$ 1,207	\$ 103	\$ 205
IN	\$ 554	1.81%	\$ 577	\$ 49	\$ 98
IA	\$ 213	0.69%	\$ 221	\$ 19	\$ 38
KS	\$ 221	0.72%	\$ 228	**	**
KY	\$ 466	1.52%	\$ 485	\$ 41	\$ 82
LA	\$ 865	2.83%	\$ 901	\$ 77	\$ 153
ME	\$ 115	0.37%	\$ 119	\$ 10	\$ 20
MD	\$ 495	1.61%	\$ 513	**	**
MA	\$ 386	1.25%	\$ 399	**	**
MI	\$ 858	2.79%	\$ 890	\$ 76	\$ 151
MN	\$ 306	0.99%	\$ 315	**	**
MS	\$ 637	2.08%	\$ 664	\$ 56	\$ 113
MO	\$ 601	1.96%	\$ 623	\$ 53	\$ 106
MT	\$ 98	0.31%	\$ 100	\$ 9	\$ 17
NE	\$ 139	0.45%	\$ 144	\$ 12	\$ 25
NV	\$ 184	0.60%	\$ 190	\$ 16	\$ 32
NH	\$ 77	0.25%	\$ 79	\$ 7	\$ 13
NJ	\$ 675	2.19%	\$ 697	**	**
NM	\$ 286	0.93%	\$ 296	\$ 25	\$ 50
NY	\$ 2,006	6.49%	\$ 2,068	**	**
NC	\$ 1,036	3.38%	\$ 1,077	\$ 92	\$ 183
ND	\$ 53	0.17%	\$ 55	\$ 5	\$ 9
OH	\$ 1,040	3.39%	\$ 1,081	\$ 92	\$ 184
OK	\$ 452	1.46%	\$ 466	\$ 40	\$ 79
OR	\$ 299	0.96%	\$ 305	\$ 26	\$ 52
PA	\$ 1,016	3.31%	\$ 1,055	\$ 90	\$ 179
RI	\$ 84	0.27%	\$ 87	\$ 7	\$ 15
SC	\$ 625	2.04%	\$ 651	\$ 55	\$ 111
SD	\$ 72	0.23%	\$ 74	\$ 6	\$ 13
TN	\$ 766	2.50%	\$ 796	\$ 68	\$ 135
TX	\$ 3,273	10.64%	\$ 3,389	\$ 288	\$ 576
UT	\$ 167	0.53%	\$ 170	\$ 14	\$ 29
VT	\$ 49	0.16%	\$ 51	**	**
VA	\$ 688	2.24%	\$ 714	\$ 61	\$ 121
WA	\$ 447	1.44%	\$ 460	\$ 39	\$ 78
WV	\$ 209	0.68%	\$ 218	\$ 19	\$ 37
WI	\$ 365	1.19%	\$ 379	**	**
WY	\$ 48	0.15%	\$ 49	\$ 4	\$ 8

*Estimates of state EITCs assume participation rate equal to 85 percent of federal participation.

** State already has refundable state EITC.

*** For Illinois, Iowa, Maine, Oregon and Rhode Island, cost shown is the total cost of a refundable credit; since those states already offer non-refundable credits, the added cost of making the credit refundable would be substantially less than the amount shown here.

Source: Nicholas Johnson, Center on Budget and Policy Priorities, "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2000" (Washington, DC: July 24, 2000): 38. <http://www.cbpp.org/4-12-00sf.htm>

FOOTNOTES

- 1 Nicholas Johnson, Center on Budget and Policy Priorities, “A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2000” (Washington, DC: July 24, 2000): 2. <http://www.cbpp.org/4-12-00sfp.htm>
- 2 Alyssa Wigton and David D’Orio, Urban Institute, “Snapshots of America’s Families: Income and Hardship, Affordability of Housing” (Washington, DC: 1999). http://newfederalism.urban.org/nsaf/income_a4.html
- 3 Office of the Press Secretary, the White House, “President Clinton Proposes to Expand the Earned Income Tax Credit in Order to Increase the Reward for Work and Family” (Washington, DC: January 12, 2000).
- 4 Center on Budget and Policy Priorities, “Help Workers Boost Their Paychecks!: The Earned Income Credit 2000 Outreach Kit” (Washington, DC: 2000): 5.
- 5 Welfare Information Network, “Making Wages Work” (Washington, DC: June 14, 2000). <http://www.makingwageswork.org/earned.htm>
- 6 Children’s Defense Fund, *The State of America’s Children: Yearbook 2000*. (Washington, DC: 2000): 9.
- 7 Bruce D. Meyer, Dan T. Rosenbaum, “Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers,” *National Bureau of Economic Research Working Paper No. W7363* (Cambridge, MA: September 1999).
- 8 Based on calculations by Professor Jeffrey Liebman using data from the Bureau of Labor Statistics’ March Current Population Surveys. Office of the Press Secretary, the White House, “President Clinton Proposes to Expand the Earned Income Tax Credit in Order to Increase the Reward for Work and Family” (Washington, DC: January 12, 2000).
- 9 Timothy M. Smeeding, Katherin E. Ross, Michael O’Conner and Michael Simon, “The Economic Impact of the Earned Income Tax Credit” (paper presented at Population Association of America 1999 Annual Meeting). Also see Jennifer L. Romich and Thomas Weisner, Institute for Policy Research, Northwestern University, “How Families View and Use the EITC: The Case for Lump-Sum Delivery,” *Poverty Center Working Paper* (Evanston, IL: 1999).
- 10 Michael P. Ettlinger, John F. O’Hare, Robert S. McIntyre, Julie King, Neil Miransky and Elizabeth A. Fray, Citizens for Tax Justice and the Institute on Taxation and Economic Policy, *Who Pays?: A Distributional Analysis of the Tax Systems in All 50 State* (Washington, DC: June 1996): Appendix I, 52. http://www.ctj.org/whop/whop_us.pdf

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- 11 Committee for Economic Development, *Welfare Reform and Beyond: Making Work Work* (Washington, DC: February 2000). <http://www.ced.org>
 - 12 Massachusetts Family Self-Sufficiency Project, “The Family Tax Relief Plan: Fact Sheets & Selected Press Coverage” (Boston, MA: May, 1999).
 - 13 Welfare Information Network, “Making Wages Work” (Washington, DC: June 14, 2000). <http://www.makingwageswork.org/earned.htm>
 - 14 Nicholas Johnson, Center on Budget and Policy Priorities, “A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2000” (Washington, DC: July 24, 2000): 4. <http://www.cbpp.org/4-12-00sfp.htm>

RESOURCES: STATE EARNED INCOME TAX CREDIT

Center on Budget and Policy Priorities

820 First Street, NE, Suite 510

Washington, DC 20002

Phone: (202) 408-1080

Fax: (202) 408-1056

Website: <http://www.cbpp.org/>

Economic Policy Institute

1660 L Street NW, Suite 1200

Washington, DC 20036

Phone: (202) 775-8810

Fax: (202) 775-0819

Website: <http://www.epinet.org/>

Internal Revenue Service

Information on the federal EITC

Website: http://www.irs.ustreas.gov/prod/ind_info/eitc4.html#EITCQA

Making Wages Work

The Welfare Information Network

1000 Vermont Avenue, NW, Suite 600

Washington, DC 20005

Phone: (202) 628-5790

Fax: (202) 628-4206

Website: <http://www.makingwageswork.org/>

The Urban Institute

2100 M Street, N.W.

Washington, DC 20037

Phone: (202) 833-7200

Website: <http://www.urban.org/>



CPA's website is a portal to progressive resources—a tool to help policy advocates and legislators meet the escalating demands of devolution. On www.stateaction.org you can find an overview of policy issues across the states with profiles of leaders and specific legislation.