



February 16, 2009

## Creating a State Earned Income Tax Credit for Missouri: Supporting Work, Families & the Local Economy

The State EITC is one of the most effective Economic Stimulus Measures: **In this time of economic turmoil, one of the most effective steps state lawmakers can take to stimulate Missouri's economy is to create a State Earned Income Tax Credit (EITC).** A State EITC could benefit as many as 440,000 Missouri families and is **also proven to be a valuable economic stimulus, generating economic activity** that would reach every corner of Missouri.

- There is a substantial body of evidence that **State EITCs have a significant economic stimulus impact. Leading national economists agree that** putting money into the hands of low and middle income families who will spend the money quickly is the best way to ensure economic growth.
- **Chad Stone, Chief Economist** at the Center on Budget & Policy Priorities states, “The quickest, most effective way to bolster demand is to put money in the hands of people who will spend it quickly – namely, people who need it to cover basic expenses such as housing, food and transportation....each dollar in tax cuts for low and moderate-income families....-will generate more of an increase in demand (for business and products)... Helping struggling families thus isn't an alternative to preserving and creating jobs; it's one of the **most effective ways to preserve and create jobs...**”<sup>1</sup>
- **Mark Zandi, Chief Economist for Moody's Economy.com** and former advisor to Senator John McCain, concurs in testimony he provided to Congress recently that the leading stimulative measures are the ones that place funds into the hands of low and middle income families.<sup>2</sup>

Several recent studies of state and local earned income tax credits demonstrate the stimulative impact that EITCs have in the economy. One study, conducted for the city of San Antonio estimates that **for every \$1 of EITC, an additional \$1.58 in economic activity is generated.**<sup>3</sup> A Baltimore study had similar results.

**A Missouri State EITC benefits every Missouri County:** More than **440,000 Missouri families** qualify for the Federal Earned Income Tax Credit, and the benefits reach every corner of Missouri (see Table 1). For Tax Year 2008, two-parent families with two or more children qualify for the federal EITC up to an income of \$41,646. Families with incomes near the federal poverty level, or approximately \$18,740 for married couples with two children, receive the highest federal credit of \$4,824. As income increases above poverty, the tax cut is phased out.<sup>4</sup>

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<sup>1</sup> “Assistance for Hard-Pressed Families is One of the Best Ways to Preserve and Create Jobs”, Center on Budget & Policy Priorities, Chad Stone, January 9, 2009.

<sup>2</sup> “Written Testimony of Mark Zandi, Chief Economist and Co-Founder of Moody's Economy.com Before the US Senate Budget Committee”, November 19, 2008, <http://budget.senate.gov/democratic/testimony/2008/Zandi1119081.pdf>

<sup>3</sup> “2004 Update: Increased Participation in the Earned Income Tax Credit in San Antonio”, Texas Perspectives Inc., November 2004, <http://www.sanantonio.gov/communit/pdf/112604%20EITC.pdf>

<sup>4</sup> “State Earned Income Tax Credits: 2008 Legislative Update”, Center on Budget & Policy Priorities, Jason Levitis and Jeremy Koulisch, October 8, 2008.

Low and middle-income families, those who are most likely to spend their resources quickly in their local economy, would therefore be targeted by a new Missouri State EITC that “piggybacks” on the federal eligibility levels. As a result, **a Missouri EITC would be a guaranteed investment in Missouri economic growth.** In addition, since the EITC reaches families in every county of Missouri, a State EITC would have the additional advantage of spreading the **stimulative economic benefits statewide.**

**State EITCs enjoy strong bipartisan support:** Due to the proven economic and family benefits of State Earned Income Tax Credits, the EITC enjoys bipartisan support throughout the country.<sup>5</sup> When the federal earned income tax credit was expanded in 1986, **President Ronald Reagan called it ‘...the best anti-poverty, the best job creation, the best pro-family measure to come out of Congress.’**<sup>6</sup> The EITC is proven to reduce child poverty and encourage work by allowing low income families to retain more of their earnings.

As a result of the bipartisan support for the EITC, **24 states have enacted State Earned Income Tax Credits**, including Missouri’s border states of **Iowa, Illinois, Kansas, Nebraska and Oklahoma** (See Table 2).<sup>7</sup> State EITC amounts range from 3.5 to 43 percent of the federal credit.

**State EITCs are Cost Effective and Administratively Simple:** One reason that so many states have chosen to enact State EITCs that are tied to federal eligibility is because they are **administratively simple and cost effective.** The federal IRS shares with state revenue departments data on federal EITC filers. This allows the state revenue department to verify eligibility in a timely and cost effective manner. Determining credit amounts is also simplified when the state credit is a straightforward percentage of the federal credit.<sup>8</sup>

**A Missouri Non-Refundable EITC at 5% of the Federal:** Missouri currently has the ninth lowest threshold for state income taxes in the nation. Families with incomes at just 82 percent of the federal poverty level, or an income of \$13,600 per year for a one parent family with two children and an income of \$17,000 per year for a two parent family with two children, are required to pay state income taxes.<sup>9</sup>

**Assuming Missouri were to enact a non-refundable state EITC valued at 5 percent of the federal credit, the maximum credit amount would be \$241. The average credit would be approximately \$86.**

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<sup>5</sup> Based on MBP analysis of Brookings Institute data, the City of San Antonio EITC economic multiplier, assuming a State EITC at 5 percent of the Federal EITC.

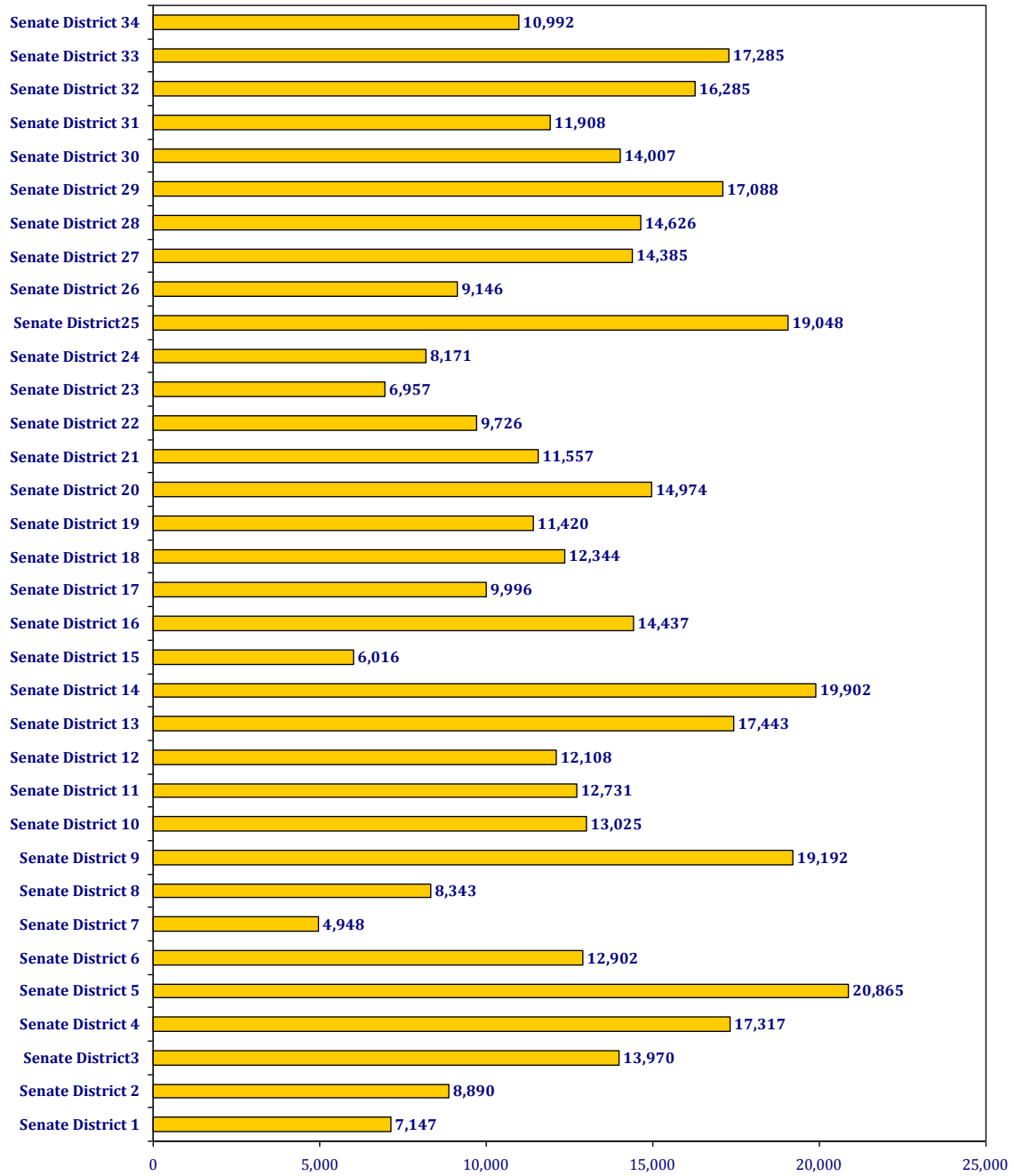
<sup>6</sup> The Hatcher Group

<sup>7</sup> “*State Earned Income Tax Credits: 2008 Legislative Update*”, Center on Budget & Policy Priorities, Jason Levitis and Jeremy Koulisch, October 8, 2008.

<sup>8</sup> “*State Earned Income Tax Credits: 2008 Legislative Update*”, Center on Budget & Policy Priorities, Jason Levitis and Jeremy Koulisch, October 8, 2008.

<sup>9</sup> “The Impact of State Income Taxes on Low-Income Families in 2006”, Center on Budget & Policy Priorities, March 27, 2007.

**Table 1: Missouri Households Claiming Federal EITC (Tax Year 2005)**



*Source: Brookings Institute*

<b>Table 2: State Earned Income Tax Credits</b>		
<b>State</b>	<b>Refundable</b>	<b>Percentage of Federal Credit</b>
<b>Delaware</b>	<b>No</b>	<b>20%</b>
<b>District of Columbia</b>	<b>Yes</b>	<b>40%</b>
<b>Indiana</b>	<b>Yes</b>	<b>6% increasing to 9% in 2009</b>
<b>Illinois</b>	<b>Yes</b>	<b>5%</b>
<b>Iowa</b>	<b>Yes</b>	<b>7%</b>
<b>Kansas</b>	<b>Yes</b>	<b>17%</b>
<b>Louisiana</b>	<b>Yes</b>	<b>3.5%</b>
<b>Maine</b>	<b>No</b>	<b>5%</b>
<b>Maryland</b>	<b>Yes</b>	<b>25%</b>
<b>Massachusetts</b>	<b>Yes</b>	<b>15%</b>
<b>Michigan</b>	<b>Yes</b>	<b>10% increasing to 20% in 2009</b>
<b>Minnesota</b>	<b>Yes</b>	<b>33% (average)</b>
<b>Nebraska</b>	<b>Yes</b>	<b>10%</b>
<b>New Jersey</b>	<b>Yes</b>	<b>22.5% increasing to 25% in 2009</b>
<b>New Mexico</b>	<b>Yes</b>	<b>10%</b>
<b>New York</b>	<b>Yes</b>	<b>30%</b>
<b>North Carolina</b>	<b>Yes</b>	<b>3.5% increasing to 5% in 2009</b>
<b>Oklahoma</b>	<b>Yes</b>	<b>5%</b>
<b>Oregon</b>	<b>Yes</b>	<b>6%</b>
<b>Rhode Island</b>	<b>Partially</b>	<b>25%</b>
<b>Vermont</b>	<b>Yes</b>	<b>32%</b>
<b>Virginia</b>	<b>No</b>	<b>20%</b>
<b>Washington</b>	<b>Yes</b>	<b>5%</b>
<b>Wisconsin</b>	<b>Yes</b>	<b>Range from 4% – 43%</b>

*Source: Center on Budget & Policy Priorities*