



Earned Income Tax Credit: A Targeted Tax Change with Significant Impact

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A “sweeping victory for fairness” and “perhaps the biggest antipoverty program in our history.”
President Ronald Reagan on the Federal Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people. It encourages and rewards work as well as offsets federal payroll and income taxes.

In the 2013 tax year, working families with children that have annual incomes below about \$37,900 to \$51,600 (depending on marital status and the number of dependent children) may be eligible for the federal EITC. Also, working individuals that have incomes below about \$14,300 (\$19,700 for a married couple) can receive a very small EITC.¹ **In tax year 2011, the most recent year for which the data are available, 514,367 Missouri families received the federal EITC.**² In that year, the average federal EITC was \$2,905 for a family with children, boosting take home pay by about \$240 a month.³

Because of the success of the federal EITC, twenty-six states have established their own state EITCs, **including several of Missouri’s neighbors: Oklahoma, Kansas, Iowa, and Illinois.**⁴ **House Bill 1120 would create a Missouri EITC equal to 20 percent of the value of the federal credit.**⁵ The same 514,367 that are eligible for the federal EITC would be eligible for the new Missouri EITC if HB 1120 is approved.

26 State EITCs

Including Oklahoma, Kansas, Iowa,
and Illinois

Research indicates that states can maximize the proven effectiveness of the federal EITC by implementing a state-level credit. Multiple studies point to a variety of benefits including:

1. **By enhancing take home pay, EITCs help families pay for necessities,** repair homes, maintain vehicles that are needed to commute to work, and in some cases, obtain additional education or training to boost their employability and earning power.

¹ Center on Budget & Policy Priorities, “Policy Basics: State Earned Income Tax Credits”, January 2014

² Brookings Institute EITC interactive, data from tax year 2011

³ Center on Budget & Policy Priorities, “Policy Basics: The Earned Income Tax Credit”, January 2014

⁴ Center on Budget & Policy Priorities, “Policy Basics: State Earned Income Tax Credits”, January 2014

⁵ State EITCs range from 3.5 percent to 40 percent of the federal credit

2. **EITCs encourage work.** A significant body of research indicates that the EITC was more significant in encouraging the rise in employment among low income single mothers with children during the 1990s than either welfare reform or the economy.

3. **EITCs improve the educational outcomes of young children in low-income families.**⁶ A growing body of recent research indicates a strong correlation between increases in family income from tax credits and statistically significant increases in school performance, including test scores.

4. **EITCs have lasting economic benefits.** Additional research indicates that refundable tax credits like the EITC increase the lifetime earnings of children in low income families. Research demonstrates that for every dollar of income provided in tax credits, the value of a child’s future earnings is increased by more than one dollar.⁷

“We have reliable evidence involving thousands of families in multiple studies demonstrating that “making work pay” causes improvements in young children’s school performance”

Gordon Berlin, President
MDRC
<http://www.mdrc.org>

House Bill 1120 would benefit up to 60 percent of Missourians

Based on data from the Institute on Taxation and Economic Policy, Missourians with incomes ranging from \$11,000 - \$42,000 on average would receive the greatest impact from HB 1120. Missourians in the bottom three income quintiles would receive average tax reductions ranging from \$88 - \$206 per year depending on family size.

Impact of Changes to Missouri Tax Structure
Missouri Residents, 2013 income levels
House Bill 1120

2013 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than \$18,000	\$18,000 – \$33,000	\$33,000 – \$52,000	\$52,000 – \$83,000	\$83,000 – \$157,000	\$157,000 – \$391,000	\$391,000 – Or More
Average Income in Group	\$11,000	\$25,000	\$42,000	\$67,000	\$109,000	\$227,000	\$1,094,000
Tax Change as % of Income	-1.0%	-0.8%	-0.2%	-0.0%	—	—	—
Average Tax Change	-\$111	-\$206	-\$88	-\$8	\$0	\$0	\$0

SOURCE: Institute on Taxation and Economic Policy, January 2014

⁶ Raj Chetty, John N. Friedman, and Jonah Rockoff, “New Evidence on the Long-Term Impacts of Tax Credits,” Statistics of Income Paper Series, November 2011, <http://www.irs.gov/pub/irs-soi/11rpchettyfriedmanrockoff.pdf>. Gordon Dahl and Lance Lochner, “The Impact Of Family Income On Child Achievement: Evidence From The Earned Income Tax Credit,” *American Economic Review* (2012), pp. 1927-1956, <http://www.aeaweb.org/articles.php?doi=10.1257/aer.102.5.1927>.

⁷ Center on Budget & Policy Priorities, “Earned Income Tax Credit Promotes Work, Encourages Children’s Success at School, Research Finds For Children, Research Indicates that Work, Income, and Health Benefits Extend Into Adulthood,” April 2013

Further, the EITC would benefit more than 514,000 families & individuals across Missouri. The following table shows the number of families by state house legislative district that benefited from the federal EITC in 2011 and whom would likely also be eligible for the new Missouri EITC.

Missouri Earned Income Tax Credit by State House District for the Members of the House Ways & Means Committee	
HOUSE DISTRICT	Number of Families
State House District 11	3,665
State House District 25	1,707
State House District 63	2,176
State House District 66	6,498
State House District 69	3,166
State House District 73	5,500
State House District 86	4,346
State House District 99	1,566
State House District 109	2,752
State House District 115	2,792
State House District 116	3,048
State House District 127	3,648
State House District 130	3,284
State House District 157	3,418
State House District 160	3,727
Statewide	514,367
<i>Source: Brookings Institute, data from tax Year 2011</i>	