

Earned Income Tax Credits

Targeted Tax Credits with Significant Impact

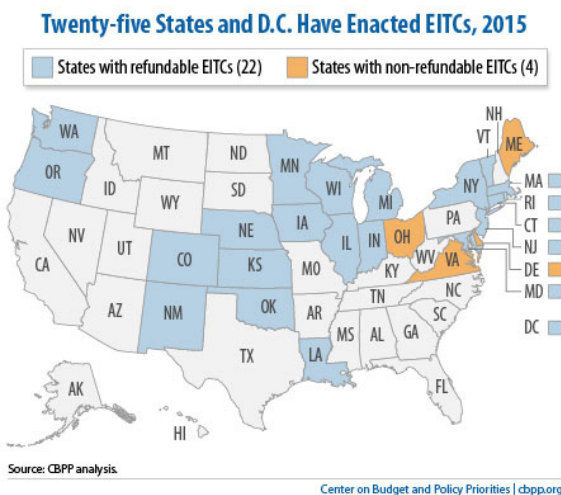
Earned Income Tax Credits (EITC) encourage work, enhance take-home pay, improve health and economic outcomes, and have lasting benefits. Proposals to create a state-level EITC would build on these benefits of the federal credit for more than 500,000 Missouri families.

EITC Basics

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 2014 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 2012, the most recent year for which the data are available, 510,427 Missouri families received the federal EITC.² In that year, the average federal EITC was \$2,982 for a family with children, boosting take home pay by about \$248 a month.³

Because of the success of the federal EITC, twenty-five states and the District of Columbia have established their own state EITCs, **including several of Missouri's neighbors: Oklahoma, Kansas, Iowa, and Illinois.**⁴



Proposals to Establish a State EITC

House Bill 394 and Senate Bill 40 would create a Missouri EITC equal to 20 percent of the value of the federal credit.⁵ The same **510,427 families that are eligible for the federal EITC** would be eligible for the new Missouri EITC if HB 394 or SB 40 is approved.

President Ronald Reagan called the Earned Income Tax Credit a "sweeping victory for fairness" and "perhaps the biggest antipoverty program in our history."

Benefits of the EITC

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.
- 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

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 Ibid 1

⁴ Ibid 1

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

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>.

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

State EITC Would Benefit More Than 500,000 Missouri Families

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 394 and SB 40. **Missourians in the bottom three income quintiles would receive average tax reductions ranging from \$88 - \$206 per year depending on family size and income.**

“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*

State Earned Income Tax Credit Would Benefit Hardworking Missouri Families

Impact of an EITC in Missouri, Based on 2014 Incomes

2014 Income	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less than \$19,000	\$19,000 - \$36,000	\$36,000 - \$58,000	\$58,000 - \$92,000	\$92,000 - \$173,000	\$173,000 - \$430,000	\$430,000 or More
Average Income in Group	\$12,000	\$27,000	\$46,000	\$74,000	\$120,000	\$247,000	\$1,149,000
Tax Change as % of Income	-0.9%	-0.7%	-0.1%	-	-	-	-
Average Tax Change	-\$113	-\$194	-\$68	\$0	\$0	\$0	\$0

Source: Institute on Taxation and Economic Policy, February 2015

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

State Earned Income Tax Credit Would Benefit More than 500,000 Missouri Families
Estimate of Missouri Earned Income Tax Credits by County

County	# EITC Tax Returns
Adair	1,852
Andrew	1,317
Atchison	368
Audrain	2,266
Barry	3,541
Barton	1,177
Bates	1,402
Benton	1,644
Bollinger	1,163
Boone	11,820
Buchanan	8,415
Butler	4,815
Caldwell	751
Callaway	3,785
Camden	3,821
Cape Girardeau	6,220
Carroll	781
Carter	691
Cass	6,635
Cedar	1,285
Chariton	574
Christian	6,465
Clark	612
Clay	15,275
Clinton	1,435
Cole	5,935
Cooper	1,444
Crawford	2,622
Dade	682
Dallas	1,464
Daviess	696
DeKalb	766
Dent	1,460
Douglas	1,336
Dunklin	3,681
Franklin	8,151
Gasconade	1,226
Gentry	578

Greene	24,827
Grundy	924
Harrison	916
Henry	1,998
Hickory	689
Holt	386
Howard	852
Howell	4,394
Iron	1,064
Jackson	62,138
Jasper	11,857
Jefferson	15,803
Johnson	4,040
Knox	349
Laclede	3,979
Lafayette	2,551
Lawrence	3,548
Lewis	785
Lincoln	4,271
Linn	1,062
Livingston	1,216
McDonald	2,736
Macon	1,343
Madison	1,236
Maries	710
Marion	2,776
Mercer	265
Miller	2,522
Mississippi	1,626
Moniteau	1,217
Monroe	624
Montgomery	1,057
Morgan	1,897
New Madrid	2,253
Newton	5,785
Nodaway	1,341
Oregon	1,149
Osage	903
Ozark	904
Pemiscot	2,449

Perry	1,525
Pettis	4,110
Phelps	3,669
Pike	1,549
Platte	4,933
Polk	2,764
Pulaski	4,693
Putnam	440
Ralls	811
Randolph	2,399
Ray	1,749
Reynolds	730
Ripley	1,788
St. Charles	18,288
St. Clair	712
Ste. Genevieve	1,359
St. Francois	6,155
St. Louis County	76,191
Saline	2,118
Schuyler	455
Scotland	381
Scott	4,131
Shannon	868
Shelby	600
Stoddard	2,990
Stone	2,908
Sullivan	711
Taney	5,710
Texas	2,674
Vernon	2,074
Warren	2,534
Washington	2,683
Wayne	1,457
Webster	3,032
Worth	176
Wright	1,942
St. Louis City	40,530

Source: Brookings Institute, Data from Tax Year 2012