

EITC Refundability Would Offset Regressive Taxes for Lower Earning Missourians

A state Earned Income Tax Credit (EITC) could benefit as many as 488,000 working families with modest wages, providing hardworking Missouri families the ability to achieve a better future and a pathway to the middle class. By making the credit refundable, like the federal EITC and most other state credits, Missouri can maximize its benefit. By offsetting taxes paid by working families with low wages, a Missouri EITC can help families afford the basics giving all Missouri families the opportunity to live up to their full potential.

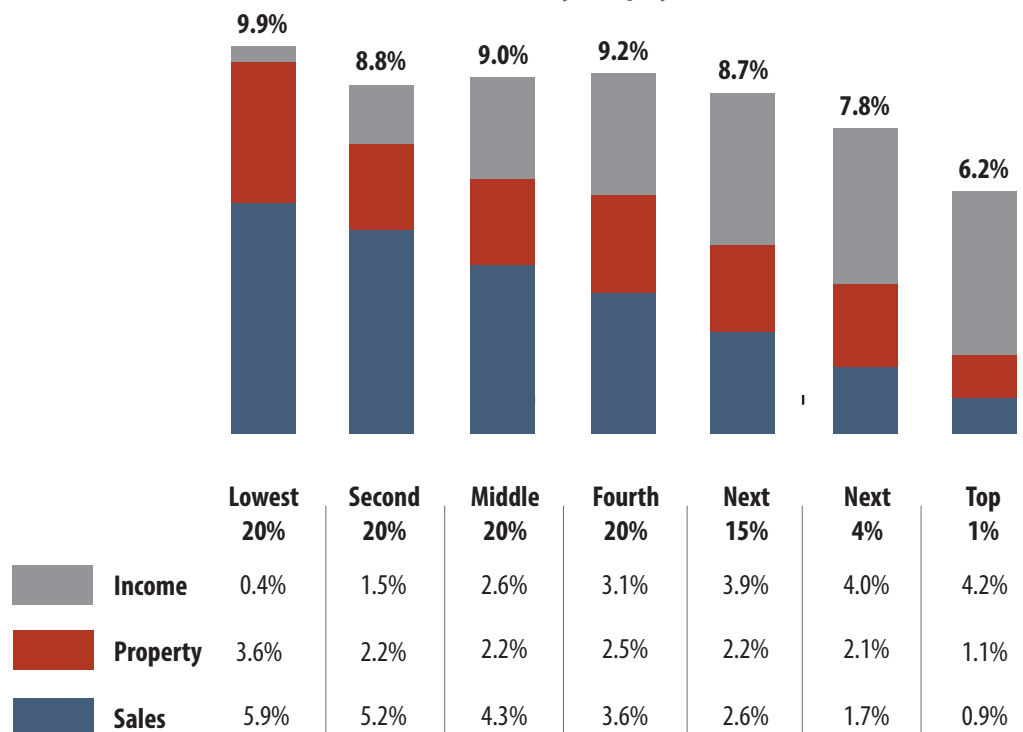
Many Missouri families struggle to get by on low wages. This is exacerbated by the regressive nature of Missouri's tax system, meaning that low-wage workers in Missouri pay a higher share of their incomes toward state and local taxes than wealthy Missourians.

This is because in addition to income taxes, Missourians pay other state and local taxes, such as property and sales/excise taxes.

These "other" taxes account for a much larger share of low-wage earner incomes compared to higher income earners. For low wage earners, these "other" taxes constitute the bulk of taxes paid.

As a result, Missourians who earn less than \$22,000 per year are paying a full 9.9% of their income in state and local taxes, while the wealthiest Missourians contribute just 6.2% of their incomes in state and local tax.

Percent of Family Income Paid toward State & Local Taxes in 2018 (non-elderly taxpayers)



Source: Institute on Taxation & Economic Policy, "Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States (Sixth Edition), 2018

Refundable EITCs Make Taxes Fairer

Several states help working families make ends meet through a state Earned Income Tax Credit (EITC), a bottom up tax cut for low and moderate income families that encourages work and boosts local economies. These credits are tied directly to the Federal EITC, a bi-partisan program with decades of demonstrated

success. The federal EITC, and most other state credits, are refundable (meaning that families can receive the full credit, regardless of the amount they pay in income taxes) in recognition that working families contribute a significant share of their income toward taxes, the bulk of which are not paid through the income tax system. Under a nonrefundable credit, a working family could make too little to pay state income tax and not receive the credit, despite contributing a significant portion of their income toward sales and other taxes.

The following table compares the impact of a 5% refundable EITC to a 20% non-refundable EITC.

- As shown, each credit requires a similar investment by the state.
- Yet, the refundable credit is much more straightforward to administer (given that it is a simple percentage of the federal credit) and reaches more of the families who need it the most.
- A refundable EITC equal to 5% of the federal credit would reach 488,000 working families in Missouri or nearly twice the number reached by a non-refundable credit. Further, a refundable credit would reach over 1 in 3 working Missouri families in the bottom 20% of incomes (who on average make \$13,000 annually).
- **The refundable EITC maximizes impact by targeting those families who are just gaining a toehold in the workforce. By contrast, a non-refundable credit would reach only 5% of families in the same income bracket.**

Refundable EITC at 5% of Federal Credit

Number of Eligible Returns: 488,000				
Share of Taxpayers Eligible: 17%				
Cost: \$63 million				
2019 Income	<\$22,000	\$22,000-\$39,000	\$39,000-\$62,000	\$62,000-\$101,000
Average Income in Group	\$13,000	\$29,000	\$49,000	\$80,000
% with Income Tax Cut	35%	29%	15%	3%
Avg. Tax Cut for Those w/ Cut (\$)	-99	-185	-110	-82

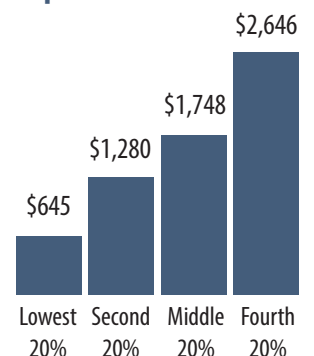
Nonrefundable EITC at 20% of Federal Credit

Number of Eligible Taxpayers 256,000				
Share of Taxpayers Eligible: 9%				
Cost: \$50 million				
2019 Income	<\$22,000	\$22,000-\$39,000	\$39,000-\$62,000	\$62,000-\$101,000
Average Income in Group	\$13,000	\$29,000	\$49,000	\$80,000
% with Income Tax Cut	5%	23%	13%	3%
Avg. Tax Cut for Those w/ Cut (\$)	-26	-194	-266	-230

Each year, Missouri EITC Recipients pay from \$650 to \$2,600 on average in state and local sales taxes. A refundable EITC would partially offset this cost for Missouri's lowest wage families, putting on average nearly \$100 back in the pockets of families – a modest benefit that could help keep families working by stretching their budget to afford a much-needed oil change, a bus pass, or a new winter coat.

A refundable state EITC is a simple and cost effective way to level the playing field for low and moderate income Missouri families because the refundable EITC helps to offset all taxes paid by working families (including sales & property taxes)– not just income taxes.

Estimated State & Local Sales Taxes Paid by EITC Recipients



Source: Institute on Taxation & Economic, March 2019; Estimated State and Local Sales Taxes Paid by EITC Recipients