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A Matter of Fairness:

It's Time for NC to Enact Earned Income Tax Credit

IN BRIEF

To increase tax fairness in the North Carolina tax code and to reward hard-working families struggling to make ends meet, the General Assembly should pass a state earned income tax credit.

This week nearly everyone is thinking about taxes – hoping for a refund, writing checks for money owed, or filing for an extension. It is the perfect time to consider the merits of providing tax relief to North Carolina's low-income working families. Members of the General Assembly have an opportunity this session to enact a tax policy that benefits families all across North Carolina who are working hard but struggling to make ends meet - a state Earned Income Tax Credit (EITC).

This tax season, one out of five NC taxpayers will claim the federal EITC. Of these filers, 69 percent earn less than \$20,000 a year – and all of them work for a living.

The federal EITC is a tax credit available to many working people with earned income of less than \$39,783. The size of the credit depends on a tax filer's earnings and marital or dependent status. The maximum credit in 2007 is \$4,716 for a married couple with two children, or \$428 for a single person or couple without children.

To ensure that every family receives the full benefit earned, the federal credit is refundable. This means the filer receives a check if the credit is more than taxes owed.

The federal EITC rewards work, improves tax fairness, and lifts more families and

children out of poverty than any other program. North Carolina should add to the benefits of the federal EITC by enacting a state EITC that would offset the state and local taxes these families pay.

North Carolina's tax policies take a greater share of the income of lower-income households than of those with the means to pay. North Carolina's lowest-earning workers pay nearly 11 percent of their income to state and local taxes, while the highest earning one percent of workers pays only 6.3 percent in state and local taxes. Currently, the wealthiest North Carolinians claim the largest share of tax breaks and incentives, but the EITC is targeted to low- and moderate-income working families.

Refundable credits are key to helping the lowest-income working households. A refundable state EITC would reach those low-income working families who do not owe state income taxes, but pay a disproportionate share of their incomes in sales, excise and property taxes. The impact of the sales tax on low-income families is five times greater than the impact on the wealthiest one percent.

On Tuesday, at a noon press conference in

Editor: Jim Buie
jim@ncjustice.org
919-856-2183

NC JUSTICE CENTER
PO Box 28068
224 S. Dawson Street
Raleigh, NC 27611

www.ncjustice.org

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Raleigh, dozens of North Carolina organizations will announce their support for a refundable state EITC that is at least 10 percent of the federal credit. These groups assert that North Carolina should join the 20 states (including our neighbor Virginia) that have already enacted a state EITC for working families.

A 10 percent refundable state earned income tax credit would generate \$134 million in benefits to North Carolina taxpayers and their families in 2008. For many families who live on the edge, it could mean the difference between spiraling deeper into debt, repairing a vehicle they depend on to get to work, or paying a bill that has been sitting for months.

On the national level, the EITC has long received bipartisan support. It was originally enacted under President Ford in 1975, and expanded under Presidents Reagan, Bush and Clinton. The EITC has garnered overwhelming bi-partisan support because it rewards work and is extremely efficient to administer. A state EITC helps workers without requiring any additional bureaucracy or complicated reimbursement formula. An addition of one line to the state income tax form is all that is needed.

Members of the General Assembly who are concerned about tax fairness and helping people who are working hard to help themselves would do well to sign on to at least one of the state EITC bills listed below.

- Senate Bill 7, introduced by Senator David Hoyle: State EITC at 5% of the Federal

<http://www.ncleg.net/Sessions/2007/Bills/Senate/HTML/S7v1.html>

- Senate Bill 955, introduced by Senator Dan Clodfelter: State EITC at 10% of the Federal

<http://www.ncleg.net/Sessions/2007/Bills/Senate/HTML/S955v1.html>

- House Bill 6, introduced by Rep. William Wainwright and others: State EITC at 5% of the Federal

<http://www.ncleg.net/Sessions/2007/Bills/House/HTML/H6v1.html>

- House Bill 51, introduced by Rep. Jennifer Weiss and others: State EITC at 10% of the Federal

<http://www.ncleg.net/Sessions/2007/Bills/House/HTML/H51v1.html>

Drill Deeper:

- *Making Work Pay for North Carolina's Low- and Moderate-Income Working Families: A State EITC for North Carolina*

http://www.ncjustice.org/media/library/873_making-workpay.pdf

- *A State EITC: A Hand Up, Not A Hand Out (BTC Brief)*

http://www.ncjustice.org/media/library/884_btcbriefe-itcfeb1907.pdf

- *Strategies for Helping Low Income Taxpayers: Comparing a No Tax Floor to a State Earned Income Tax Credit*

http://www.ncjustice.org/media/library/898_btcrptmar607.pdf