

March 2014

Unless lawmakers reverse course, close to one million working families in North Carolina will claim the state Earned Income Tax Credit (EITC) for the last time this tax season, bringing pain to individual families and the state's economy. Last year, North Carolina lawmakers put an end to the tax credit and subsequently pursued deep tax cuts that primarily benefit the wealthy and profitable businesses.¹ The result is a tax shift from high to low-income North Carolinians that is neither true tax reform nor good for the state economy.

The EITC goes to families that work but struggle to get by on low wages. It helps them pay for basic necessities, significantly reduces child poverty, and improves kids' chances of success as adults.

North Carolina's EITC can only be claimed by people who earn income through work.

- Individuals must work to receive the EITC, and for those with very low pay, the credit increases with earnings to encourage them to work more hours.
- The credit allowed nearly one million working households in North Carolina to keep more of what they earned in 2012, with an average credit of about \$119.² It is a small investment that can make a big difference by helping working families pay for the basics and make ends meet, despite low wages.

The EITC is a highly effective anti-poverty tool and has lasting, positive effects on children.

- The EITC is the nation's most effective tool for reducing poverty among children. The federal EITC kept 298,000 North Carolinians—half of whom were kids—above the poverty line in 2010-2012.³ North Carolina's EITC builds on that success.
- The EITC is largely a temporary support. Most people claim the credit only one to two years at a time before moving on to better-paying jobs or getting back on their feet after hard times. It is a good way to help families while they are getting a toehold in the workforce and it keeps those who have experienced temporary job loss, reduced hours, or reduced pay from falling through the cracks.⁴
- That temporary help can have a lasting effect. Children in families with additional income from programs like the EITC do better and go further in school, and they also work more and earn more as adults.⁵

The state EITC supports local businesses.

- The EITC has enjoyed support from the business community because it helps low-wage employees afford things that make it possible for parents to work, like transportation and child care.
- It also allows families all across the state to help their local economy by spending the tax credit at local businesses. Working families in all 100 of North Carolina's counties claim the credit, and it's especially helpful in areas where family finances and stability have been most stalled by recession.
- The credit also is especially important in struggling rural areas of our state, where local businesses depend on working families in the community as both workers and customers.⁶

The end of the EITC is part of a tax shift that gave big tax breaks to the wealthy while asking more of North Carolina's lowest-paid workers. Lawmakers should reinstate the state EITC during the Short Session to avoid harming these workers and their children.

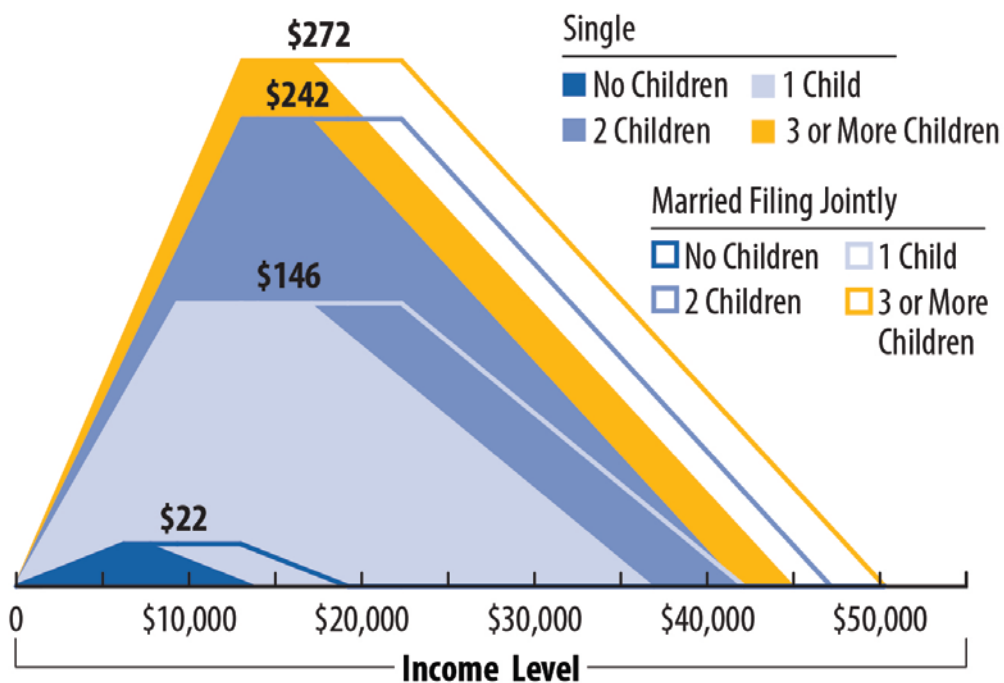
- Even before the loss of the state EITC, our state already asked its lowest-paid workers to pay more as a share of their income in state and local taxes than its highest earners. Without the EITC, the tax code will take even more out of the pockets of families doing their best to work and support their children.
- Eliminating the state EITC may increase poverty in North Carolina, which already is 10th highest in the nation. More than 1 in 4 of the state's children live in poverty.
- There were problems with North Carolina's tax code, but this tax credit for low-wage workers was not one of them. It's not too late reverse course. State lawmakers can reinstate this proven policy tool during the Short Session that begins in May and avoid interruption of this vital support.

Who is Eligible for the Last Round of the North Carolina EITC and for How Much?

North Carolina's EITC only goes to those who work and primarily benefits families with children. Depending on marital status and number of children, working families earning up to about \$38,000 to \$52,000 can qualify. But the largest benefits are targeted to families with incomes between about \$10,000 and \$22,000. Workers without children can also qualify for the credit, but only if their income is below about \$14,000 (\$19,000 for a married couple), and the benefit is very small.

As the figure below shows, workers receive the credit beginning with their first dollar of earned income; the amount of the credit rises with earned income until it reaches a maximum level and then begins to phase out at higher income levels. This encourages workers to work more hours or seek better paying jobs, but then phases out as their need for assistance decreases.

Value of North Carolina Earned Income Tax Credit, 2013



SOURCE: Preliminary estimate of 2013 EITC income limits, maximum credit amounts.
 Special thanks to Center on Budget and Policy Priorities (cbpp.org) for creation of the chart.

¹ Johnson, Cedric. "Final Tax Plan Falls Short of True Tax Reform." NC Budget and Tax Center. 2013. Available here:

<http://www.ncjustice.org/?q=budget-and-tax/btc-reports-final-tax-plan-falls-far-short-true-tax-reform>

² Mitchell, Tazra. "TITLE OF NEW REPORT. March 2014.

³ Similar data for the state EITC is not available due to data limitations. Brookings Institution's analysis of Supplemental Poverty Measure Public Use Data. Three-year average of 2010-2012 data.

⁴ Tim Dowd and John B. Horowitz. "Income Mobility and the Earned Income Tax Credit: Short-Term Safety Net or Long-Term Income Support." *Public Finance Review*. September 2011.

⁵ Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil. "Early-Childhood Poverty and Adult Attainment, Behavior, and Health." *Child Development*. January/February 2010.

⁶ Center on Budget and Policy Priorities. "The Earned Income Tax Credit and Refundable Child Tax Credit in Rural America." April 2013.