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TAX CREDITS FOR WORKING FAMILIES DELIVER BROAD BENEFITS TO THE STATE:

North Carolina's Earned Income Tax Credit Reached 1 Million Taxpayers, 1.2 Million Children in Its Last Year

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One year ago, North Carolina's working families claimed a tax credit for the last time that helped them make ends meet in an off-kilter economy. The state Earned Income Tax Credit (EITC) went to parents who worked but earned low wages, and it helped them keep more of what they earned so that they could stay in the workforce, support their children, and avoid poverty and public assistance. Lawmakers put an end to the tax credit in 2013 and subsequently pursued deep income tax cuts that primarily benefited the wealthy and profitable businesses.¹

The North Carolina EITC was a vital facet of the state's tax system, building off of the federal tax credit—one of the nation's most powerful anti-poverty tools for children. The benefits of the state EITC extended to the broader economy by promoting work and helping families afford things that make it possible to work, such as gas and child care. The tax credit also helped to correct a fundamental imbalance in the state's tax system—that the lowest-paid workers pay a greater share of their incomes in state and local taxes than the highest earners do. Without the state EITC, North Carolina's tax system now asks nearly 1.75 times more from the bottom 20 percent of taxpayers as it does from the top 1 percent.²

State EITC is an Essential Tool during this Low-Wage Recovery

Lawmakers established the state EITC in 2007, between the two economic downturns that occurred during the 2000s. That was a lost decade for families in North Carolina who faced substantial job loss, spikes in poverty, and prolonged deterioration in household income.³

Now as working families struggle to pay the bills during a recovery marked by flat wage growth and a boom in low-wage occupations, the state EITC could play a critical role in providing a tax reduction to low-income workers.⁴ Given the strong evidence of this policy's impact on strengthening labor force participation—especially among single mothers—reauthorizing this tax credit would benefit North Carolina's economy as the state continues to see declines in labor force participation despite the recovery.⁵

The state EITC provided a modest boost to the wages of low- and moderate-income workers.⁶ Preliminary estimates for tax year 2013 show that 927,029 North Carolinians claimed the state EITC, benefiting more than 1.2 million children.⁷ It encouraged and supported workers, and it was only available to people who worked and earned income from wages, salaries, or self-employment.⁸

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The state EITC was a refundable credit, which meant that a taxpayer could reduce their income tax liability to zero and receive a refund based on the additional value of the credit. This refund helped to offset the disproportionate share of income that low-wage workers paid in total state and local taxes—not just income taxes—compared to their wealthy counterparts. The state EITC would serve as an important equity tool—and it may become even more important as policymakers consider restructuring the sales tax, which could once again increase the tax load of low-wage workers.

The tax credit is also better targeted to families who most need the income boost compared to a zero tax bracket, despite remarks from state lawmakers claiming otherwise.⁹ A zero percent tax bracket reduces taxes for everyone, not just low-income people, so it is more costly and ineffective at fixing the disparity between the tax responsibilities of the rich and poor. For example, a zero percent tax bracket on the first \$15,000 of income, applies to the first \$15,000 of income earned for everyone, even millionaires.

The average credit was \$109 for tax year 2013. This is roughly equivalent to two tanks of gas to get to work, one week of groceries or one month of utility bills.¹⁰ In combination with the federal EITC, the state EITC provided significant support to allow families to meet basic needs, make emergency purchases, and pay down debt.¹¹

The EITC is a Proven Anti-poverty Tool and Has Lasting, Positive Effects on Children

The EITC is widely recognized as one of the most effective anti-poverty tools nationwide, especially for children. The federal EITC lifted approximately 298,000 North Carolinians—half of whom were children—above the federal poverty line between 2010 and 2012.¹³ The state EITC built upon the success of the federal credit, and its loss did nothing to reduce poverty.¹⁴

The federal EITC is mostly used as a temporary support. Three out of five recipients claim this tax credit for short periods—only one or two years at a time.¹⁵ As such, this tax credit is an effective way to help families stay on their feet by offsetting short-term struggles resulting from job loss, reduced hours, or reduced pay. The benefits of the EITC are long-lasting and positive too: low-income children in families that get additional income through tax policies like the EITC perform better in school, are more likely to attend college, and earn more as adults on average.¹⁶

Loss of State EITC is a Losing Strategy for North Carolina and Its 100 Counties

Working families in each of the state's 100 counties benefitted from the state EITC, which was valued at nearly \$100.8 million in tax year 2013 (see the Appendix). This cost is small: \$100.8 million is less than the package of corporate tax breaks that lawmakers are currently considering.

In addition to helping working families, this credit helps small businesses directly. Small business owners who file taxes as individuals can claim the EITC to help support their families, educate

VALUE OF STATE EITC VARIED DURING ITS SHORT LIFE

Within a six-year period, lawmakers established, strengthened, reduced, and eliminated the North Carolina EITC. In 2007, lawmakers set the original value of the North Carolina at 3.5 percent of the federal Earned Income Tax Credit. During the Great Recession, lawmakers boosted the credit to 5 percent of the federal credit to help stabilize struggling families and ease hardship. In 2013, lawmakers reduced the value of the credit to 4.5 percent of the federal credit and allowed the EITC to expire thereafter. The data presented here reflects the reduced value of the state credit to 4.5 percent of federal credit for tax year 2013.

Whereas other states are maintaining and expanding their EITCs, North Carolina is the only state in the nation with a state EITC to eliminate this proven tax credit in nearly 30 years.¹²

themselves, and keep their businesses alive and growing: 23 percent of microbusinesses claimed the EITC nationwide.¹⁷ In addition, working families tend to use their EITC dollars locally to meet immediate needs, make purchases of durable goods such as refrigerators or stoves, or repair their cars.¹⁸

The state EITC was a small investment that helped local economies and ensured that hard-working North Carolinians were able to meet basic needs and avoid raising their children in poverty, despite low wages. Today, with low-income working families facing unparalleled economic challenges, the state EITC could play a particularly vital role. Because of the EITC's proven track record and because economic struggle in any community hurts us all, lawmakers should quickly reinstate the state EITC.

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APPENDIX: Every County in North Carolina Benefits from the State EITC

One in Five Returns Received the State EITC

Nearly Four in Five EITC Returns Go to Families with at least One Child

County	Total EITC Reported		
	Number of Returns*	Number of Qualifying Children	Total Credit Value (\$)
Alamance	14,955	19,609	1,668,976
Alexander	3,312	4,257	342,295
Alleghany	979	1,195	99,178
Anson	3,151	4,268	384,994
Ashe	2,436	2,775	234,592
Avery	1,450	1,641	140,146
Beaufort	4,982	6,719	599,038
Bertie	2,645	3,556	316,426
Bladen	3,692	5,084	433,809
Brunswick	8,828	10,786	926,168
Buncombe	20,903	23,314	1,966,101
Burke	7,966	10,254	837,166
Cabarrus	14,986	20,309	1,655,221
Caldwell	8,264	10,434	883,720
Camden	598	769	61,230
Carteret	5,331	6,018	522,258
Caswell	2,311	2,990	252,279
Catawba	15,136	19,565	1,603,674
Chatham	4,210	5,290	437,015
Cherokee	2,478	3,116	269,305
Chowan	1,530	2,025	183,375
Clay	952	1,155	99,058
Cleveland	10,492	14,208	1,199,303
Columbus	6,455	8,945	772,864
Craven	8,542	11,304	943,479
Cumberland	32,031	43,569	3,740,181
Currituck	1,594	2,064	168,860
Dare	2,783	3,125	253,248
Davidson	15,515	20,122	1,679,694
Davie	3,124	4,022	321,034
Duplin	6,249	8,757	737,022
Durham	24,864	31,861	2,750,656
Edgecombe	8,012	10,885	1,006,374
Forsyth	32,162	41,194	3,581,321
Franklin	5,290	7,275	596,809
Gaston	20,051	26,298	2,230,389
Gates	864	1,189	97,177
Graham	835	1,147	94,254
Granville	4,957	6,566	531,038
Greene	1,999	2,768	238,352
Guilford	49,282	62,825	5,516,007
Halifax	7,443	9,973	890,719
Harnett	10,326	14,326	1,169,631
Haywood	5,163	6,002	523,677
Henderson	8,281	10,061	838,588
Hertford	2,638	3,613	319,601
Hoke	5,094	7,310	624,901
Hyde	519	655	57,099
Iredell	13,186	16,958	1,379,699
Jackson	2,798	3,271	269,128
Johnston	14,583	20,417	1,640,006

County	Total EITC Reported		
	Number of Returns*	Number of Qualifying Children	Total Credit Value (\$)
Jones	924	1,232	104,390
Lee	6,069	8,310	691,362
Lenoir	7,372	9,997	870,929
Lincoln	5,899	7,480	616,010
Macon	2,911	3,498	294,141
Madison	1,976	2,306	199,069
Martin	2,515	3,274	288,208
McDowell	4,312	5,555	455,632
Mecklenburg	87,368	115,430	10,100,871
Mitchell	1,365	1,610	133,357
Montgomery	2,715	3,685	319,452
Moore	6,838	8,622	723,290
Nash	11,134	14,895	1,296,146
New Hanover	15,486	17,261	1,482,417
Northampton	2,318	3,104	276,781
Onslow	13,532	18,043	1,447,207
Orange	6,919	7,752	643,040
Pamlico	1,134	1,383	123,025
Pasquotank	3,974	5,220	455,325
Pender	4,542	6,020	503,131
Perquimans	1,111	1,506	134,120
Person	3,824	4,788	406,717
Pitt	16,875	22,295	1,998,014
Polk	1,458	1,808	150,955
Randolph	13,551	17,917	1,483,768
Richmond	6,082	8,404	784,151
Robeson	18,066	25,364	2,299,629
Rockingham	9,107	11,410	959,166
Rowan	13,788	18,375	1,555,178
Rutherford	6,443	8,548	716,590
Sampson	7,176	9,968	834,472
Scotland	4,951	7,112	632,360
Stanly	5,407	7,037	575,983
Stokes	3,704	4,718	383,560
Surry	6,587	8,468	711,295
Swain	1,880	2,433	184,435
Transylvania	2,439	2,952	248,207
Tyrrell	517	617	54,638
Union	13,873	19,657	1,542,936
Vance	6,245	8,353	733,996
Wake	61,584	78,489	6,474,649
Warren	2,167	2,829	242,488
Washington	1,580	2,066	183,434
Watauga	2,913	2,882	236,308
Wayne	12,233	16,804	1,411,260
Wilkes	6,914	8,809	747,305
Wilson	10,113	13,616	1,204,162
Yadkin	3,335	4,254	351,468
Yancey	1,607	1,921	159,967
TOTAL	927,029	1,204,039	100,761,405

SOURCE: North Carolina Department of Revenue. Preliminary Run of 2013 Individual Income Tax Extract. April 2015. *Total includes tax filing not assigned to a county.