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One year ago, North Carolina's working families claimed a state 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. While families can still claim the EITC at the federal level, North Carolina lawmakers put an end to the state tax credit in 2013 and subsequently pursued deep income tax cuts that primarily benefited the wealthy and profitable businesses.¹

North Carolina's EITC could only be claimed by people who earned income through work.

- Individuals had to work to receive the EITC, and for those with very low pay, the credit increased 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 2013, with an average state credit of about \$109.² This amount helped boost a generous federal EITC with an average of \$2,462.³ While the state credit was a modest investment at 4.5% of the federal credit, it made a big difference by helping working families pay for the basics—like a monthly utility bill, a week's worth of groceries, or two months' worth of diapers—despite low wages.

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

- The federal EITC is the nation's most effective tool for reducing poverty among children. The federal EITC kept 268,000 North Carolinians—half of whom were kids—above the poverty line in 2011-2013.⁴ North Carolina's EITC built upon that success before it was eliminated.
- 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.⁵
- 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.⁶

The state EITC supported local businesses

- The EITC has enjoyed support from the business community because it helped low-wage employees afford things that make it possible for parents to work, like transportation and child care.
- It also allowed 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 claimed the credit, and it was especially helpful in areas where family finances and stability have been most stalled by recession.
- The credit also was especially important in struggling rural areas of our state, where local businesses depend on working families in the community as both workers and customers.⁷

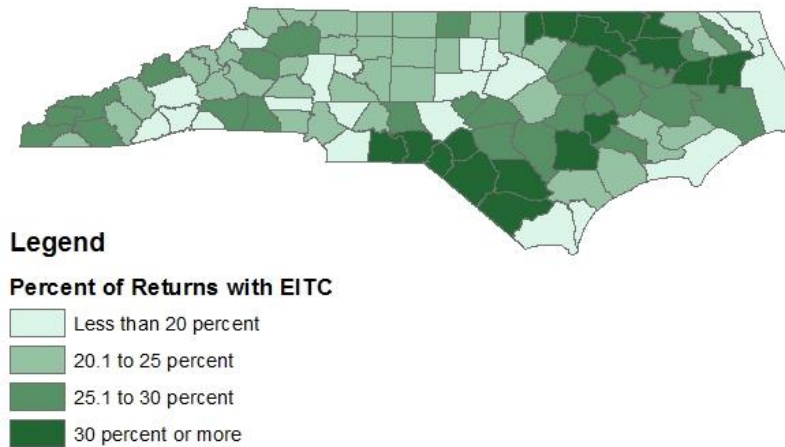
The end of the state EITC is part of a tax shift that gave big tax breaks to the wealthy while asking more of North Carolina's lowest-paid workers. State lawmakers should restore this vital but modest tax credit.

- 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.
- The EITC was better targeted to families who most need the income boost compared to a zero tax bracket, which reduces taxes for everyone, not just low-income people. As such, it is more costly and ineffective at fixing the disparity between the tax responsibilities of the rich and poor.
- Eliminating the state EITC will do nothing to reduce North Carolina's child poverty rate, which is the 12th 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. Because of the state EITC’s proven track record and because economic struggle in any community hurts us all, lawmakers should quickly reinstate this tax credit. They should also consider implementing the state credit at a higher percent of the federal credit so that it can better help families make ends meet as they continue to suffer ripple effects from a recession and a low-wage economy.

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 map below).
- This cost is small: \$100.8 million is less than the package of corporate tax breaks that lawmakers are currently considering.
- It is in the state’s rural areas where the most EITC recipients live as a share of all tax filers, particularly in the eastern parts of the state that have traditionally suffered from economic hardship and lack of opportunity.



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 NC Budget and Tax Center’s analysis of North Carolina Department of Revenue’s preliminary run of 2013 Individual Income Tax Extract. Provided April 2015.

³ National Conference of State Legislatures. “Tax Credits for Working Families: Earned Income Tax Credit.” February 2015.

⁴ 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 2011-2013 data.

⁵ 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.

⁶ Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil. “Early-Childhood Poverty and Adult Attainment, Behavior, and Health.” *Child Development*. January/February 2010.

⁷ Center on Budget and Policy Priorities. “The Earned Income Tax Credit and Refundable Child Tax Credit in Rural America.” April 2013.