

Since the state began recovering from the recession in 2009, North Carolina has primarily added low-wage jobs that make it hard for people to afford even the most basic necessities. More than 80 percent of jobs created pay below what it takes one worker with one child to make ends meet. 60 percent of new jobs pay less than the federal poverty line, which means workers make less than \$23,550 per year.

The lack of good paying, quality jobs is made worse by North Carolina's tax code. After tax changes passed in 2013, middle- and low- income taxpayers are asked to pay even more in taxes than the state's richest taxpayers as a share of their annual income. With the cost for basic goods and services rising, the increased need to save for children's education, and the imperative to plan for retirement, working families are struggling to climb the ladder into the middle class, despite working full-time.

There are two critical policy tools that can help put low-wage workers on the path to economic security: the minimum wage and the Earned Income Tax Credit (EITC). Together these policies ensure that working families can maximize their take-home pay to help make ends meet.

Minimum Wage

The federal minimum wage, currently at \$7.25 per hour, has not kept up with inflation and would leave a family with a parent working full-time year round, in poverty.¹ While some states have increased their minimum wage requirements above this, North Carolina's minimum wage remains at \$7.25.² If the minimum wage kept up with inflation since 1968, it would be \$10.86 per hour.³

Earned Income Tax Credit

The federal Earned Income Tax Credit goes only to working people with modest income. It puts some extra money in their pockets to pay for necessities and help offset the federal payroll taxes like those for Social Security and Medicare. Many states have their own version of the credit to reduce the substantial state and local taxes low-income workers pay, particularly the sales tax which hits lowest income households hardest. North Carolina lawmakers chose to let the state EITC expire at the end of 2013, which shifted taxes from others onto low-income families.⁴

Strong EITC and Minimum Wage Policies Go Hand-in-Hand

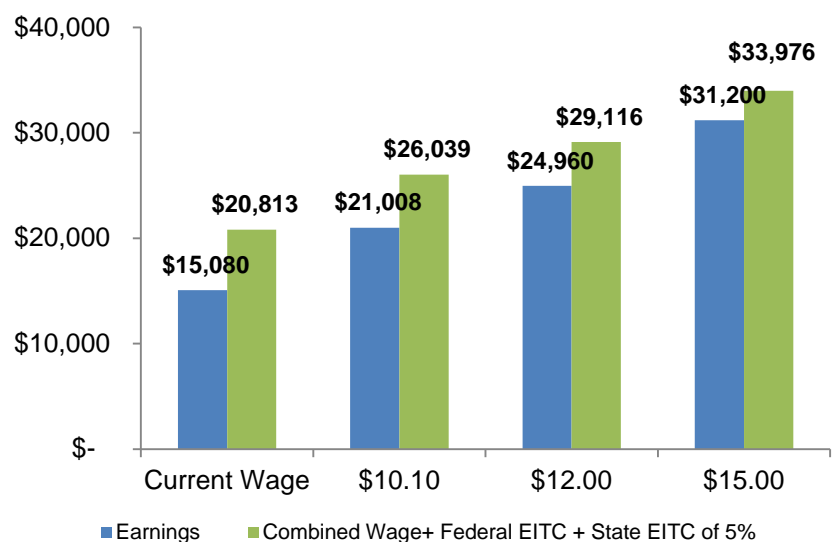
Here's why North Carolina needs a stronger minimum wage and the restoration of the state Earned Income Tax Credit.⁵

A higher minimum wage increases the value of the EITC.

A parent with two children in North Carolina who works full-time at the current minimum wage and receives the federal EITC would be 78 percent below the poverty level, which is \$19,530 for a family of three. An increase of the minimum wage to \$10.10 would move that same family above the federal poverty line. A working family that benefits from both the minimum wage increase and a state EITC could see their earnings increase by more than \$5,000 total, bringing them much closer to what it actually takes to make ends meet and delivering a powerful boost to their child's development.⁶

State EITCs and Minimum Wages Make Work Pay

Income for a Full-Time Minimum-Wage Worker with 2 Children

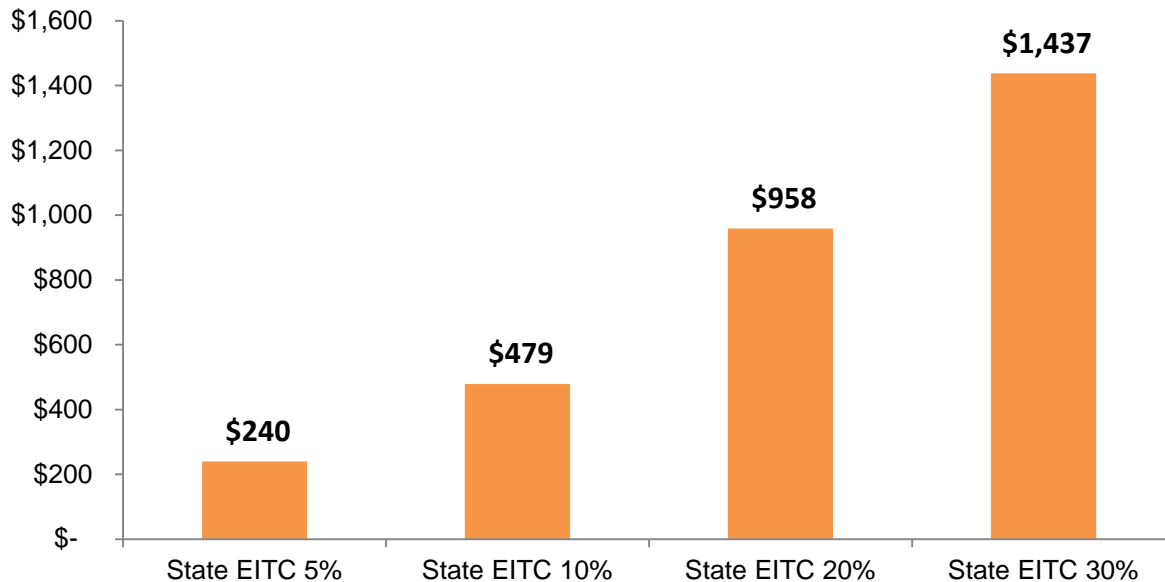


Source: Special Data Request to Institute on Taxation and Economic Policy, May 2014.

In North Carolina, reinstating a more robust state Earned Income Tax Credit alongside an increase in the minimum wage to \$10.10 would provide an additional boost to working families that is roughly equivalent to the upper-end of one-month's rent. The following figure shows just how much the value of the state EITC can increase if North Carolina strengthens the tax credit. If the state sets the EITC at 30 percent of the federal EITC, working families would have an extra \$1,437 in their pockets – about enough for one month of child care for two children or almost four months of food.

Reinstating a More Robust State Earned Income Tax Credits is Critical

Dollar Value of the State EITC with \$10.10 Minimum Wage for a Head of Household with 2 Children



Source: Special Data Request to Institute on Taxation and Economic Policy, May 2014. The highest value of state EITC was set at 5%.

The policies benefit workers at different times in the year and also reach workers with different family situations. The minimum wage increases take home pay throughout the year, and the EITC provides a much needed boost to families during tax time. Oftentimes, the EITC is used for major but necessary expenses like auto repairs or replacing washers and dryers or other durable household goods as well as paying down debt that has built up throughout the year. Because a higher minimum wage would result in increased take-home pay throughout the year, it can help with regular expenses like rent, groceries and utility bills. An EITC best targets working families with children and actually varies based on family size while the minimum wage provides the same wage floor to all workers regardless of their family situation.

Together, these policies can deliver significant returns from both public and private sector investment. Employers and consumers will primarily pay for a minimum wage increase while the state EITC is paid for by taxpayers. For both policies, the investment has been found to generate savings by reducing childhood poverty and improving employee retention and broader labor force participation, particularly for women.

These policies together help address two pressing issues for North Carolina workers: too many low-wage jobs and a growing shift of the tax load onto low-income taxpayers. In so doing, these policies can support greater economic security and the strengthening of the state's middle class at a critical time for the economic recovery.

¹ Cooper, David. "Raising the Federal Minimum Wage to \$10.10 would Lift Wages for Millions and Provide a Modest Economic Boost." Economic Policy Institute, December 19, 2013, Briefing Paper #371.

² United States Department of Labor. Wage and Hour Division. Minimum Wage Laws in the States, January 1, 2014. <http://www.dol.gov/whd/minwage/america.htm#NorthCarolina>

³ Madland, David & Walter, Karla. "Top 6 Policies to Help the Middle Class that Won't Cost Taxpayers a Penny." Center for American Progress, April 24, 2013. <http://www.americanprogress.org/issues/labor/news/2013/04/24/61295/top-6-policies-to-help-the-middle-class-that-wont-cost-taxpayers-a-penny/>

⁴ Johnson, Cedric. "Final Tax Plan Falls Short of True Tax Reform." NC Budget and Tax Center, 2013. <http://www.ncjustice.org/?q=budget-and-tax/btc-reports-final-tax-plan-falls-far-short-true-tax-reform>

⁵ Williams, Erica and Chris Mai. "State Earned Income Tax Credits and Minimum Wages Work Best Together." Center on Budget and Policy Priorities, September 2014. <http://www.cbpp.org/cms/index.cfm?fa=view&id=369>

⁶ Special Data Request to Institute on Taxation and Economic Policy, May 2014.