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March 20, 2019

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A Bottom-Up Tax Cut:

A North Carolina Earned Income Tax Credit Boosts Local Communities, Working Families

BY ALEXANDRA FORTER SIROTA, DIRECTOR

North Carolina is missing out on a key tool used by 29 other states to strengthen hardworking families and boost local economies. A Working Family Tax Credit, based on the federal Earned Income Tax Credit (EITC), would provide a bottom-up tax cut to workers who earn low wages such as sales clerks, health care technicians and aides, military servicemembers and early childhood teachers.

Each year more than 950,000 NC families could benefit from a Working Family Tax Credit including nearly 1.2 million children (See Appendix for County Level Data).

By providing additional dollars in the household to make ends meet, a tax credit targeted to working families is an evidence-based policy that can boost children's developmental outcomes by supporting high quality early learning opportunities, as well as the health and stability of the household and their communities overall.¹

Bottom-up tax cuts work by design

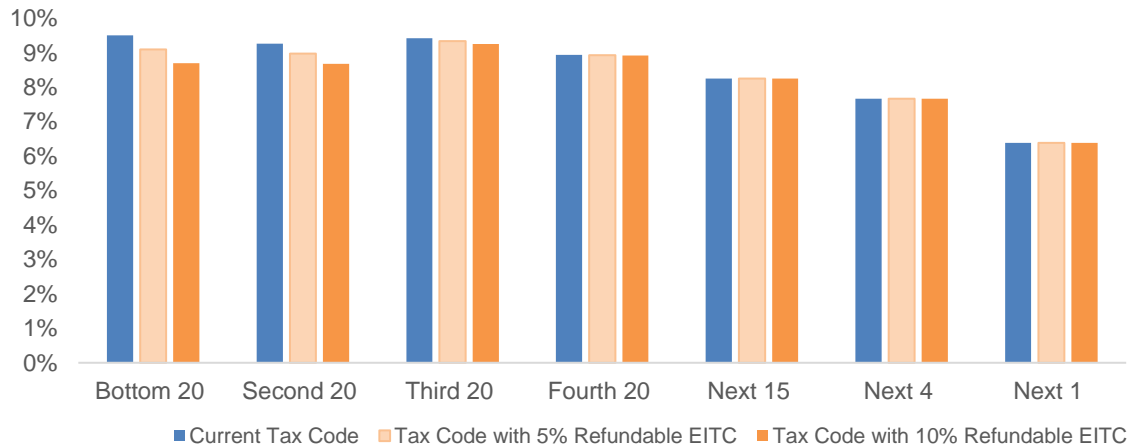
North Carolina has one of the highest rates of working poverty in the nation. One in eight North Carolina workers earns poverty-level wages which for a family of four is \$25,750; well-below what it takes to make ends meet.²

A Working Family Tax Credit in North Carolina that adopts the design of the federal EITC would allow for simplicity in administration of this tax change. It would also leverage the effective mechanisms of the federal policy that help families make ends meet, reduce poverty and keep people connected to the labor force.

There are three key design features that help achieve these goals.³ First, the federal policy upon which the state credit could be based provides those with very low earnings an increased credit to encourage working more hours. It increases to the maximum amount allowed from very low levels of earnings and then declines gradually to zero with increased earnings. Second, it recognizes that the more children a family has, the higher their expenses are, thus varying the maximum credit based on family size. Finally, a Working Family Tax Credit in North Carolina would address the state's upside-down tax code by offsetting some of the income low-income working families must dedicate to paying state and local taxes, particularly sales tax. North Carolina's lowest income households, those in the bottom three-fifths, pay at or near 9.5 percent of

their annual income in state and local taxes. The wealthiest North Carolinians -- whose incomes put them in the top 1 percent of all households -- pay under 6 percent of their income in state and local taxes.⁴

Figure 1. A Working Family Tax Credit would address the state’s upside-down tax code.
Average Total Taxes Paid as Share of Income



Source: Special Data Request to Institute on Taxation and Economic Policy, February 2018.

For the Working Family Tax Credit to effectively address the greater share of total income paid in state and local taxes by those with lower income, it is critical that the tax credit be refundable or based not just on income tax liability. Indeed, making sure that North Carolina taxpayers can receive the full value of the Working Families Tax Credit will ensure that those most in need receive the boost they need.⁵

A Working Family Tax Credit at 5 percent of the federal Earned Income Tax Credit represents a cost of \$100 million or just 2.7 percent of the total revenue loss that will occur in the next year due to tax changes since 2013. Alternately, it is the same amount as could be raised by roughly a 0.5 percentage point increase in the corporate income tax rate. A tax credit at 10 percent would provide nearly double the value and provide a greater support to working families across the state.⁶

A Working Family Tax Credit is an effective tool to advance North Carolina’s goal of promoting the health and well-being and educational success of children and the stability and mobility of families.

ENDNOTES

¹ Williams, Erica and Samantha Waxman, March 2019. States can adopt or expand Earned Income Tax Credits to build a stronger future economy. Center on Budget and Policy Priorities: Washington, DC. Accessed at: <https://www.cbpp.org/research/state-budget-and-tax/states-can-adopt-or-expand-earned-income-tax-credits-to-build-a>
² Working Poor Families Project, Indicators and Data, Conditions of Working Families in North Carolina. Accessed at:
³ Williams and Waxman, March 2019.
⁴ Institute on Taxation and Economic Policy, 2018. Who Pays? With Special Data Request for Who Pays distribution with a state EITC at 5 percent of the federal credit.
⁵ Davis, Aidan, September 2018. Rewarding Work through State EITCs in 2018. Institute on Taxation and Economic Policy, Washington, DC. Accessed at: <https://itep.org/rewarding-work-through-state-earned-income-tax-credits-in-2018/>
⁶ Author’s calculation based on Internal Revenue Service data for North Carolina for Tax Year 2015, the last year data is available at the county level.

County Level Estimates of a Working Family Tax Credit at 5 and 10 percent of the Federal EITC

County	Total Tax Returns	Number of EITC Returns	Percent of Total Returns with EITC	Federal EITC Refund Amount (in millions)	Value of 5% State EITC to Taxpayers in the County (in millions)	Value of 10% State EITC to Taxpayers in the County (in millions)
Alamance NC	70,200	16,080	23%	\$ 35,617	\$ 1,810.08	\$ 3,620.16
Alexander NC	15,280	3,270	21%	\$ 6,503	\$ 335.57	\$ 671.13
Alleghany NC	4,520	1,040	23%	\$ 1,982	\$ 105.66	\$ 211.32
Anson NC	9,620	3,370	35%	\$ 8,241	\$ 406.71	\$ 813.42
Ashe NC	10,960	2,530	23%	\$ 4,310	\$ 239.63	\$ 479.25
Avery NC	6,930	1,520	22%	\$ 2,707	\$ 150.39	\$ 300.78
Beaufort NC	20,490	5,320	26%	\$ 12,260	\$ 625.73	\$ 1,251.45
Bertie NC	8,020	2,780	35%	\$ 6,680	\$ 324.09	\$ 648.18
Bladen NC	12,620	3,870	31%	\$ 9,145	\$ 459.05	\$ 918.09
Brunswick NC	55,950	9,910	18%	\$ 19,187	\$ 1,031.67	\$ 2,063.34
Buncombe NC	124,590	23,070	19%	\$ 38,628	\$ 2,106.50	\$ 4,212.99
Burke NC	37,680	8,840	23%	\$ 17,866	\$ 919.22	\$ 1,838.43
Cabarrus NC	89,330	16,780	19%	\$ 35,596	\$ 1,860.93	\$ 3,721.86
Caldwell NC	33,670	8,620	26%	\$ 17,816	\$ 917.37	\$ 1,834.74
Camden NC	4,450	680	15%	\$ 1,256	\$ 65.93	\$ 131.85
Carteret NC	32,340	5,830	18%	\$ 10,401	\$ 560.84	\$ 1,121.67
Caswell NC	9,220	2,350	25%	\$ 5,002	\$ 255.38	\$ 510.75
Catawba NC	71,560	15,100	21%	\$ 30,953	\$ 1,586.39	\$ 3,172.77
Chatham NC	32,410	4,730	15%	\$ 9,414	\$ 490.77	\$ 981.54
Cherokee NC	11,280	2,850	25%	\$ 5,570	\$ 303.75	\$ 607.50
Chowan NC	6,370	1,620	25%	\$ 3,739	\$ 185.45	\$ 370.89
Clay NC	4,460	1,020	23%	\$ 1,863	\$ 104.13	\$ 208.26
Cleveland NC	41,570	11,310	27%	\$ 25,727	\$ 1,288.26	\$ 2,576.52
Columbus NC	21,260	6,990	33%	\$ 16,727	\$ 855.32	\$ 1,710.63
Craven NC	46,350	10,180	22%	\$ 23,007	\$ 1,143.00	\$ 2,286.00
Cumberland NC	142,110	41,760	29%	\$ 99,755	\$ 4,979.16	\$ 9,958.32
Currituck NC	11,550	1,960	17%	\$ 3,740	\$ 199.76	\$ 399.51
Dare NC	19,510	3,200	16%	\$ 5,077	\$ 292.82	\$ 585.63
Davidson NC	72,470	16,500	23%	\$ 34,154	\$ 1,774.94	\$ 3,549.87
Davie NC	18,880	3,330	18%	\$ 6,572	\$ 340.74	\$ 681.48
Duplin NC	22,320	6,590	30%	\$ 15,663	\$ 802.89	\$ 1,605.78
Durham NC	141,970	27,040	19%	\$ 58,701	\$ 2,996.82	\$ 5,993.64
Edgecombe NC	22,420	8,520	38%	\$ 21,445	\$ 1,053.41	\$ 2,106.81
Forsyth NC	167,830	36,050	21%	\$ 79,854	\$ 4,076.19	\$ 8,152.38
Franklin NC	26,150	6,030	23%	\$ 13,119	\$ 672.35	\$ 1,344.69
Gaston NC	94,720	22,260	24%	\$ 48,835	\$ 2,494.80	\$ 4,989.60
Gates NC	4,610	1,010	22%	\$ 2,216	\$ 113.63	\$ 227.25
Graham NC	3,270	920	28%	\$ 1,794	\$ 99.36	\$ 198.72
Granville NC	24,850	5,430	22%	\$ 11,558	\$ 583.16	\$ 1,166.31
Greene NC	7,680	2,360	31%	\$ 5,695	\$ 287.24	\$ 574.47
Guilford NC	236,870	54,270	23%	\$ 119,250	\$ 6,127.79	\$ 12,255.57
Halifax NC	21,620	7,650	35%	\$ 18,694	\$ 914.27	\$ 1,828.53
Harnett NC	50,410	13,540	27%	\$ 31,785	\$ 1,584.90	\$ 3,169.80

Haywood NC	27,080	5,560	21%	\$	10,335	\$	551.43	\$	1,102.86
Henderson NC	52,350	8,890	17%	\$	16,232	\$	879.39	\$	1,758.78
Hertford NC	8,460	2,890	34%	\$	7,100	\$	345.87	\$	691.74
Hoke NC	19,950	6,500	33%	\$	16,192	\$	802.31	\$	1,604.61
Hyde NC	2,050	570	28%	\$	1,159	\$	61.83	\$	123.66
Iredell NC	78,700	14,690	19%	\$	29,769	\$	1,538.78	\$	3,077.55
Jackson NC	15,610	3,210	21%	\$	5,578	\$	302.18	\$	604.35
Johnston NC	80,380	16,460	20%	\$	35,726	\$	1,864.31	\$	3,728.61
Jones NC	4,280	1,130	26%	\$	2,473	\$	125.42	\$	250.83
Lee NC	25,870	6,450	25%	\$	14,467	\$	724.32	\$	1,448.64
Lenoir NC	25,150	7,580	30%	\$	18,257	\$	909.50	\$	1,818.99
Lincoln NC	35,360	6,640	19%	\$	13,364	\$	701.19	\$	1,402.38
McDowell NC	15,270	3,160	21%	\$	5,854	\$	319.77	\$	639.54
Macon NC	8,680	2,070	24%	\$	3,737	\$	206.96	\$	413.91
Madison NC	10,240	3,030	30%	\$	7,190	\$	358.47	\$	716.94
Martin NC	18,680	4,600	25%	\$	9,291	\$	484.29	\$	968.58
Mecklenburg NC	493,970	99,730	20%	\$	216,224	\$	11,484.81	\$	22,969.62
Mitchell NC	6,130	1,360	22%	\$	2,525	\$	135.27	\$	270.54
Montgomery NC	11,020	3,020	27%	\$	7,065	\$	352.58	\$	705.15
Moore NC	42,850	7,500	18%	\$	15,446	\$	799.34	\$	1,598.67
Nash NC	43,400	11,850	27%	\$	27,726	\$	1,387.13	\$	2,774.25
New Hanover NC	102,110	17,640	17%	\$	31,351	\$	1,670.54	\$	3,341.07
Northampton NC	8,050	2,510	31%	\$	5,990	\$	295.43	\$	590.85
Onslow NC	78,560	20,500	26%	\$	47,009	\$	2,324.25	\$	4,648.50
Orange NC	61,120	7,980	13%	\$	13,997	\$	734.09	\$	1,468.17
Pamlico NC	5,500	1,210	22%	\$	2,453	\$	125.64	\$	251.28
Pasquotank NC	17,330	4,680	27%	\$	10,539	\$	536.54	\$	1,073.07
Pender NC	24,280	5,150	21%	\$	10,755	\$	564.93	\$	1,129.86
Perquimans NC	5,680	1,330	23%	\$	2,864	\$	146.39	\$	292.77
Person NC	17,060	4,130	24%	\$	8,652	\$	438.03	\$	876.06
Pitt NC	71,300	18,820	26%	\$	44,630	\$	2,234.66	\$	4,469.31
Polk NC	8,900	1,610	18%	\$	2,949	\$	164.16	\$	328.32
Randolph NC	62,180	14,680	24%	\$	31,384	\$	1,632.56	\$	3,265.11
Richmond NC	18,200	6,110	34%	\$	15,192	\$	748.67	\$	1,497.33
Robeson NC	48,760	19,030	39%	\$	47,488	\$	2,453.76	\$	4,907.52
Rockingham NC	39,320	9,630	24%	\$	20,446	\$	1,037.30	\$	2,074.59
Rowan NC	61,410	14,910	24%	\$	32,043	\$	1,654.11	\$	3,308.22
Rutherford NC	25,800	6,860	27%	\$	14,803	\$	753.44	\$	1,506.87
Sampson NC	26,960	7,650	28%	\$	17,284	\$	883.80	\$	1,767.60
Scotland NC	13,550	4,860	36%	\$	12,661	\$	628.92	\$	1,257.84
Stanly NC	25,680	5,690	22%	\$	11,763	\$	607.59	\$	1,215.18
Stokes NC	19,660	3,970	20%	\$	7,751	\$	404.91	\$	809.82
Surry NC	30,350	6,870	23%	\$	14,228	\$	744.39	\$	1,488.78
Swain NC	7,670	1,900	25%	\$	3,383	\$	183.87	\$	367.74
Transylvania NC	14,190	2,770	20%	\$	4,886	\$	276.57	\$	553.14
Tyrrell NC	1,680	610	36%	\$	1,332	\$	66.78	\$	133.56
Union NC	95,300	15,010	16%	\$	31,029	\$	1,678.28	\$	3,356.55
Vance NC	18,730	6,710	36%	\$	16,714	\$	823.10	\$	1,646.19
Wake NC	480,890	69,210	14%	\$	137,210	\$	7,275.24	\$	14,550.48

Warren NC	7,650	2,510	33%	\$ 5,753	\$ 285.03	\$ 570.06
Washington NC	5,190	1,670	32%	\$ 3,875	\$ 190.94	\$ 381.87
Watauga NC	19,530	3,070	16%	\$ 4,440	\$ 253.85	\$ 507.69
Wayne NC	52,160	14,010	27%	\$ 33,043	\$ 1,652.90	\$ 3,305.79
Wilkes NC	27,450	6,920	25%	\$ 13,979	\$ 738.32	\$ 1,476.63
Wilson NC	35,750	10,140	28%	\$ 24,315	\$ 1,208.21	\$ 2,416.41
Yadkin NC	16,270	3,400	21%	\$ 6,864	\$ 360.72	\$ 721.44
Yancey NC	7,300	1,720	24%	\$3,226	\$176.09	\$352.17
NORTH CAROLINA	4,457,370	970,440	22%	\$2,090,095	\$107,815	\$215,630

SOURCE: Internal Revenue Service Data, Tax Year 2015. Author's Calculation of State EITC value based on federal EITC total value.