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North Carolina's Earned Income Tax Credit:

A Modest but Vital Boost to Low-Paid Workers
across the State

BY TAZRA MITCHELL

KEY FINDINGS

- As policymakers consider changes to the state's tax code, it is critical to maintain proven policy tools that reverse the upside-down nature of the system. The state EITC provides workers earning low wages with a credit to offset their total state and local tax contributions.
- The state EITC continues to be a critical support for low-paid workers during the weak economic recovery. Nearly 907,000 North Carolinians claimed the credit in 2011, with claimants living in each of the state's 100 counties. (See page 3 for county-level data.)
- Research shows that the EITC is the nation's most powerful tool to help lift families out of poverty. A cut in the state EITC would not only be a tax hike on low-paid workers, but could also push some of these workers and their children into poverty.

Amidst the tax reform debate in North Carolina, it is critical to assess how the tax system would impact families across the income spectrum. The state Earned Income Tax Credit (EITC) is a vital facet of the tax system for hardworking families by providing them with a modest, yet important support. Even with this tax credit—which helps low-paid workers make ends meet by offsetting their total state and local tax contributions—moderate- and low-income working families still pay a greater share of their income in state and local taxes compared to the upper-middle class and wealthy.¹

Despite the tax system's upside-down structure, legislators are considering a reduction in the state EITC from 5 percent to 4.5 percent of the federal credit for tax year 2013. Legislators have also stated that they will not extend the tax credit, which sunsets in December 2013. Cuts to this tax credit or its outright elimination would shift the tax load to the state's lowest-earning workers. Worst yet, it could push more North Carolinians into poverty by eliminating one of the state's most powerful anti-poverty tools at a time when North Carolina has the 13th highest poverty rate in the nation, and more than 1 in 4 of its children live below the federal poverty line.²

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The State EITC is an Essential Tool during Hard Times

During the 2000s, North Carolina experienced two economic downturns and a range of challenges, including the acceleration of low-wage work, persistently high unemployment, and rising poverty. The state EITC—which was established in 2007 just before the Great Recession—played a critical role during the late 2000s by providing a tax reduction to low-income workers. Preliminary estimates show that nearly 907,000 North Carolinians claimed the state EITC for tax year 2011.³

Lawmakers established the state EITC to provide a modest boost to the wages of low- and moderate-income workers.⁴ It encourages and supports workers, and is only available to people who work and earn income such as wages, salaries, and net earnings from self-employment.⁵ The state EITC is also a refundable credit, which means that a taxpayer can reduce their income tax liability to zero and receive a refund based on the additional value of the credit. By design, the state EITC offsets the disproportionate share of income that low-wage workers pay in total state and local taxes—not just income taxes—compared to their wealthy counterparts.

The EITC is widely recognized as one of the most effective anti-poverty tools nationwide, especially for children. The federal EITC lifted approximately 293,400 North Carolinians—half of whom were children—above the federal poverty line between 2009 and 2011.⁶ Similar data is not available on the state EITC, but, like the federal credit, the state credit helps low-wage workers pay for basic needs such as shelter, food, and utilities, as well as work-related costs such as transportation and child care.

The EITC is mostly used as a temporary support. Research shows that three out of five recipients claim this tax credit for short periods—only one or two years.⁷ 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 State EITC Reaches Families in Every County

As illustrated in the table on the next page, families in each of the state's 100 counties benefit from the state EITC which was valued at \$105.2 million in tax year 2011. This tax credit helps small businesses that pay low wages, particularly in the areas that house high concentrations of EITC recipients.

Conclusion

The state EITC is a small investment that helps ensure that hard-working North Carolinians are able to meet basic needs and avoid raising their children in poverty. Today, with low-income working families battered by unparalleled economic challenges, the state EITC plays a particularly vital role. Now is precisely the wrong time to further shift the tax load on the North Carolina's lowest-paid workers—especially those with children to support—by cutting or eliminating the state EITC.

- 1 Institute on Taxation and Economic Policy. "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States." January 2013.
- 2 Author's analysis of the United States Bureau of the Census' 2011 American Community Survey.
- 3 Special data request to the North Carolina Department of Revenue. February 2013.
- 4 To qualify for the EITC in 2011, workers must have earned less than \$13,660 to \$49,078, depending on the worker's marital status and number of dependent children.
- 5 Nada Eissa and Hilary Hoynes. "Behavioral Responses to Taxes: Lessons from the EITC and Labor Supply." *Tax Policy and the Economy*. October 2006.
- 6 Brookings Institution's analysis of Supplemental Poverty Measure Public Use Data. Three-year average of 2009-2011 data.
- 7 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.

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Every County in North Carolina Benefits from the State EITC

COUNTY	TOTAL EITC REPORTED	
	NUMBER OF RETURNS*	TOTAL CREDIT VALUE REPORTED (\$)
Alamance	14,518	1,704,671
Alexander	3,211	360,007
Alleghany	1,015	107,533
Anson	3,259	436,143
Ashe	2,465	257,066
Avery	1,428	149,141
Beaufort	5,143	650,239
Bertie	2,765	353,054
Bladen	3,820	493,640
Brunswick	8,515	958,310
Buncombe	20,550	2,079,998
Burke	7,947	897,727
Cabarrus	14,229	1,678,875
Caldwell	8,142	937,765
Camden	610	64,473
Carteret	5,370	560,288
Caswell	2,323	261,547
Catawba	15,043	1,685,113
Chatham	4,178	467,238
Cherokee	2,586	299,575
Chowan	1,590	192,812
Clay	972	105,088
Cleveland	10,702	1,300,967
Columbus	6,774	882,027
Craven	8,484	1,001,261
Cumberland	31,435	3,873,412
Currituck	1,566	167,151
Dare	2,771	270,172
Davidson	15,254	1,739,196
Davie	2,990	331,410
Duplin	6,375	819,997
Durham	23,413	2,740,415
Edgecombe	8,398	1,167,470
Forsyth	30,243	3,511,733
Franklin	5,161	609,820
Gaston	19,723	2,328,799
Gates	908	108,363
Graham	823	99,079
Granville	4,851	559,753
Greene	1,985	259,892
Guilford	46,532	5,454,536
Halifax	7,608	983,414
Harnett	10,250	1,244,596
Haywood	5,024	547,179
Henderson	7,777	846,715
Hertford	2,717	349,678
Hoke	4,985	651,343
Hyde	510	61,037
Iredell	12,862	1,429,668
Jackson	2,759	283,169
Johnston	13,964	1,660,538

COUNTY	TOTAL EITC REPORTED	
	NUMBER OF RETURNS*	TOTAL CREDIT VALUE REPORTED (\$)
Jones	1,026	116,932
Lee	5,919	729,068
Lenoir	7,771	998,432
Lincoln	5,789	654,046
Macon	2,879	305,366
Madison	1,802	196,593
Martin	2,617	326,974
McDowell	4,238	485,774
Mecklenburg	83,873	10,307,661
Mitchell	1,278	135,453
Montgomery	2,712	347,270
Moore	6,893	787,106
Nash	11,546	1,479,334
New Hanover	14,960	1,512,231
Northampton	2,527	319,734
Onslow	12,544	1,435,301
Orange	6,742	661,678
Pamlico	1,092	125,632
Pasquotank	3,927	481,107
Pender	4,416	513,602
Perquimans	1,159	140,054
Person	3,784	431,231
Pitt	17,030	2,145,870
Polk	1,494	163,232
Randolph	13,243	1,544,964
Richmond	6,057	818,126
Robeson	19,207	2,612,442
Rockingham	8,930	1,007,253
Rowan	13,257	1,589,411
Rutherford	6,421	740,132
Sampson	7,163	896,664
Scotland	5,203	701,568
Stanly	5,362	609,994
Stokes	3,729	409,835
Surry	6,677	767,212
Swain	1,888	197,461
Transylvania	2,482	272,586
Tyrrell	515	63,626
Union	13,387	1,628,361
Vance	6,173	784,671
Wake	58,435	6,519,930
Warren	2,187	267,572
Washington	1,643	203,166
Watauga	2,824	243,004
Wayne	12,139	1,501,887
Wilkes	6,859	779,992
Wilson	10,490	1,320,356
Yadkin	3,267	368,972
Yancey	1,512	161,796
TOTAL	906,946	105,192,004

SOURCE: North Carolina Department of Revenue. Preliminary Run of 2011 Individual Income Tax Extract. February 2013. *Total includes tax filing not assigned to a county.