BTC Brief
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NO PROTECTION FOR WORKING FAMILIES:

Senate and House Tax Plans fail to support low-wage working North Carolina families by letting the state Earned Income Tax Credit expire

BY CEDRIC D. JOHNSON, POLICY ANALYST

Both the Senate and House tax plans would give huge tax cuts to the wealthy and profitable businesses while failing to address the state's flawed tax system, which requires low- and moderate-income taxpayers to pay a larger share of their income in state and local taxes than wealthy taxpayers.

The current tax system's Earned Income Tax Credit (EITC) is a modest but vital support that helps over 900,000 workers earning low wages keep more of what they earn.

Unfortunately, at the beginning of the legislative session, policymakers chose to reduce this highly targeted and cost effective state tax credit for 2013 and let it expire at the end of the year. The elimination of the state EITC means low-income workers will pay higher taxes next year, making it even harder for them to afford basic necessities that are essential to their ability to keep working, like transportation and child care.

North Carolina's EITC Helps Low-Wage Workers Meet Basic Needs and Support their Children

The state EITC can only be claimed by people who earn income through work and most EITC dollars go to people with children to support. It helps ensure some measure of financial stability for struggling working families at a time when good-paying jobs are still hard to come by. For tax year 2011 over 900,000 North Carolinians, from every county in the state, claimed the state EITC.[1]

The tax credit helps families keep more of what they earn by offsetting the large share of income that they pay in state and local taxes, including the sales and property taxes and other fees. North Carolina's current tax system asks low- and moderate-income taxpayers to pay a larger share of their income in state and local taxes than wealthy taxpayers (Figure 1), and the state EITC has helped to address that disparity.

If lawmakers end the legislative session allowing the state EITC to expire – along with other provisions within the Senate and House tax plans that favor the wealthy over the middle-class and low-income people – they will make the state's upside-down tax system even worse.

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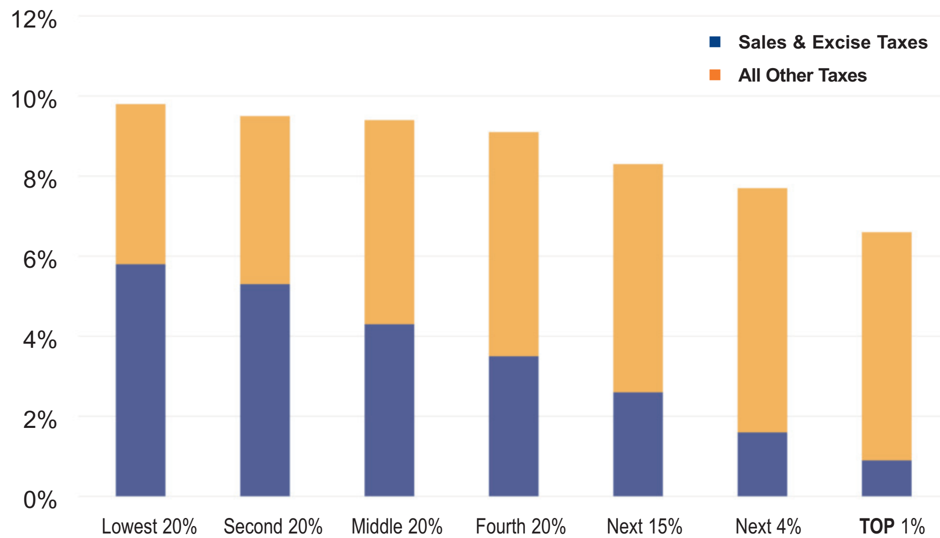
FIGURE 1: **North Carolina State and Local Taxes**

Share of Family Income for Non-Elderly Taxpayers, 2013



SOURCE: Institute on Taxation and Economic Policy.

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

The benefits of the EITC go far beyond offsetting taxes and helping working families make ends meet. It has proven to be an effective anti-poverty tool with long-term, positive effects on children. Research shows that the EITC is in fact the nation's most powerful tool for reducing poverty among children.[2] In 2011, the federal credit kept over 6 million people including 3 million children above the poverty line.[3] And the boost in income from the EITC has been shown to help young children from low-income families do better and go further in school, and even earn more as adults. North Carolina's EITC helps to build on that success, lifting additional people and children above the poverty line and providing an additional boost to family income and children's outcomes. Allowing the state EITC to expire would not only be a tax hike on low-paid workers, but could also cause some of these workers and their children to slip into poverty. North Carolina already has the 13th highest poverty rate in the nation, with more than 1 in 4 children living below the federal poverty line.[4]

The state EITC is a modest investment with a real payoff for the state, especially compared to the expensive tax cuts proposed for the wealthiest taxpayers. Last year, the state EITC cost only $105 million,[5] while the House and Senate tax plans spend $342 million and $1.3 billion respectively on the state's wealthiest estates and profitable corporations.[6]

Eliminating the State EITC Is Part of the Reason Low-income Families Fare Worse Under the Senate and House Tax Plans

Proponents of both the House and Senate tax plans are incorrect when they claim that their plans are more generous to low- and middle-income taxpayers in North Carolina

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than our current system. Low-income families actually fare better under current tax law, which includes a 4.5 percent state EITC, compared to the two plans currently being debated. As noted, the state EITC will expire at the end of the year unless policymakers extend the credit. Both the Senate and the House tax plans do not include the state EITC and respective fiscal notes provided with the tax plans assumes the tax credit is eliminated in 2014. When accounting for the loss of the state EITC, these taxpayers would fare even worse under both plans.

The Senate's plan would put in place a zero percent income tax bracket—a poorly targeted and very costly policy. It would zero out income taxes on the first $15,000 of income for everyone, including millionaires, doing nothing to reduce disparities between the rich and poor. And because it goes to everyone regardless of need, the zero percent tax bracket would cost $1.1 billion.[7] The EITC, on the other hand, goes only to families that work but earn low wages, costs just $105 million, and has the additional benefit of supporting work, reducing child poverty, and improving children's educational outcomes.

When compared with current tax law – which includes a standard deduction, personal exemption, and a 4.5 percent state EITC – low-income taxpayers would pay their first dollar in income tax sooner under the Senate bill (see Appendix). The state EITC is a much more effective tool for protecting low-wage working families from an upside-down tax system and promoting economic opportunity through work.

The House plan doubles the standard deduction and increases the value of the child tax credit. As with the Senate plan, the House plan eliminates the personal exemption and allows the state EITC to expire. Here too, compared to current tax law, low-income taxpayers would pay their first dollar of income tax sooner (see Appendix) and reap none of the benefits of an EITC.

Conclusion

The tax plans currently under consideration do nothing to fix the state's upside-down tax system, which asks more of low-income people than the wealthy. In fact, both plans spend far more and do far less for working families. Continuing the state EITC is the best tool for addressing disparities in our tax system and is a proven way to help working families meet basic needs and improve the life chances of low-income children.

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1 Special data request to the North Carolina Department of Revenue. February 2013.

2 Brookings Institution's analysis of Supplemental Poverty Measure Public Use Data. Three-year average of 2009-2011 data.

3 The Earned Income Tax Credit, Policy Basics, Center on Budget and Policy Priorities, February 2013

4 Tazra Mitchell, "North Carolina's Earned Income Tax Credit: A Modest but Vital Boost to Low-Paid Workers across the State," BTC Brief, NC Budget and Tax Center, February 2013.

5 See endnote 1

6 The $345 million tax cut figure for the House tax plan results from the reduction of the corporate income tax and the franchise tax rates. The $1.3 billion tax cut figure for the Senate tax plan results from elimination of the corporate income tax and the estate tax. Both figure represents annual revenue lost upon full implementation of the tax plans.

7 Based on fiscal note provided with Senate tax plan; estimate is for tax FY 2017-18, the initial year in which the tax plan would be fully implemented.

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APPENDIX

CURRENT TAX LAW COMPARED TO HOUSE TAX PLAN

Threshold at which income is subject to state personal income tax (state-level)

2011 State Income Tax Thresholds Single-Parent Family of Three			Proposed House Tax Plan Single-Parent Family of Three			2011 State Income Tax Thresholds Two-Parent Family of Four			Proposed House Plan Two-Parent Family of Four		
Rank	State	Threshold	Rank	State	Threshold	Rank	State	Threshold	Rank	State	Threshold
1	Alabama	$9,800	1	Alabama	$9,800	1	Montana	$12,500	1	Alabama	$12,500
2	Illinois	$10,000	2	Illinois	$10,000	2	Alabama	$12,600	2	Illinois	$12,600
3	Montana	$10,300	3	Montana	$10,300	3	Illinois	$13,100	3	Montana	$13,100
4	Georgia	$12,700	4	Georgia	$12,700	4	Georgia	$15,900	4	Georgia	$15,900
5	Hawaii	$13,800	5	Hawaii	$13,800	5	Ohio	$16,600	5	Hawaii	$16,600
6	Mississippi	$14,400	6	Mississippi	$14,400	6	Hawaii	$17,800	6	Mississippi	$17,800
7	Missouri	$14,500	7	Missouri	$14,500	7	Missouri	$18,300	7	Missouri	$18,300
8	Ohio	$15,000	8	Ohio	$15,000	8	Iowa	$19,300	8	Ohio	$19,300
9	Lousiana	$16,800	9	Lousiana	$16,800	9	Mississippi	$19,600	9	Lousiana	$19,600
10	Oregon	$17,000	10	Oregon	$17,000	10	Oregon	$20,200	10	Oregon	$20,200
11	West Virginia	$18,500	**11**	**North Carolina**	**$18,100**	11	Indiana	$20,500	**11**	**North Carolina**	**$20,500**
12	Indiana	$18,500	12	West Virginia	$18,500	12	Louisiana	$21,300	12	West Virginia	$20,500
13	Kentucky	$18,500	13	Indiana	$18,500	13	Arkansas	$22,200	13	Indiana	$21,300
14	Arkansas	$18,500	14	Kentucky	$18,500	14	West Virginia	$22,400	14	Kentucky	$22,200
15	Iowa	$18,900	15	Arkansas	$18,500	15	Kentucky	$22,400	15	Arkansas	$22,400
16	**North Carolina**	**$19,100**	16	Iowa	$18,900	**16**	**North Carolina**	**$23,400**	16	Iowa	$22,400
17	North Dakota	$19,600	17	North Dakota	$19,600	17	Arizona	$23,600	17	North Dakota	$23,600
18	Colorado	$19,600	18	Colorado	$19,600	18	North Dakota	$26,400	18	Colorado	$26,400
19	Idaho	$19,700	19	Idaho	$19,700	19	Colorado	$26,400	19	Idaho	$26,400
20	Utah	$20,000	20	Utah	$20,000	20	Idaho	$26,500	20	Utah	$26,500
21	Arizona	$20,100	21	Arizona	$20,100	21	Utah	$26,900	21	Arizona	$26,900
22	Wisconsin	$22,000	22	Wisconsin	$22,000	22	Wisconsin	$27,500	22	Wisconsin	$27,500
23	Virginia	$23,300	23	Virginia	$23,300	23	Virginia	$27,700	23	Virginia	$27,700
24	Oklahoma	$24,200	24	Oklahoma	$24,200	24	Oklahoma	$28,400	24	Oklahoma	$28,400
25	Maine	$25,000	25	Maine	$25,000	25	Massachusetts	$29,500	25	Maine	$29,500
26	Pennsylvania	$25,500	26	Pennsylvania	$25,500	26	Maine	$29,700	26	Pennsylvania	$29,700
27	South Carolina	$26,100	27	South Carolina	$26,100	27	Michigan	$30,800	27	South Carolina	$30,800
28	Massachusetts	$26,300	28	Massachusetts	$26,300	28	Kansas	$31,200	28	Massachusetts	$31,200
29	Michigan	$26,400	29	Michigan	$26,400	29	Pennsylvania	$32,000	29	Michigan	$32,000
30	Delaware	$26,800	30	Delaware	$26,800	30	Delaware	$32,100	30	Delaware	$32,100
31	Nebraska	$27,700	31	Nebraska	$27,700	31	District of Columbia	$32,800	31	Nebraska	$32,800
32	Kansas	$27,800	32	Kansas	$27,800	32	South Carolina	$32,900	32	Kansas	$32,900
33	District of Columbia	$29,800	33	District of Columbia	$29,800	33	Nebraska	$33,700	33	District of Columbia	$33,700
34	New Jersey	$31,300	34	New Jersey	$31,300	34	New Jersey	$35,200	34	New Jersey	$35,200
35	Maryland	$32,800	35	Maryland	$32,800	35	Maryland	$37,300	35	Maryland	$37,300
36	Rhode Island	$33,000	36	Rhode Island	$33,000	36	Rhode Island	$39,000	36	Rhode Island	$39,000
37	Vermont	$33,600	37	Vermont	$33,600	37	Minnesota	$39,300	37	Vermont	$39,300
38	Minnesota	$33,600	38	Minnesota	$33,600	38	Vermont	$39,300	38	Minnesota	$39,300
39	New Mexico	$34,200	39	New Mexico	$34,200	39	New Mexico	$40,000	39	New Mexico	$40,000
40	New York	$34,900	40	New York	$34,900	40	Connecticut	$40,500	40	New York	$40,500
41	Connecticut	$35,000	41	Connecticut	$35,000	41	New York	$40,700	41	Connecticut	$40,700
42	California	$46,900	42	California	$46,900	42	California	$49,400	42	California	$49,400
	Average Threshold	**$23,131**		**Average Threshold**	**$23,107**		**Average Threshold**	**$27,545**		**Average Threshold**	**$27,476**

NOTE: A threshold is the lowest income level at which a family has state income tax liability. In this table thresholds are rounded to the nearest $100. The threshold calculations include earned income tax credits, other general tax credits, exemptions, and standard deductions. Credits that are intended to offset the effects of taxes other than the income tax or that are not available to all low-income families are not taken into account.

The tax year 2011 thresholds for North Carolina include a state EITC equal to 5 percent of the federal credit amount, only accounts for non-elderly households, and does not include the impact of the business deduction. Threshold estimate for North Carolina under the House tax plan provided by the Institute on Taxation and Economic Policy and accounts for a typical non-elderly, low-income household.

SOURCE: Center on Budget and Policy Priorities and Institute on Taxation and Economic Policy.

APPENDIX (cont.)

CURRENT TAX LAW COMPARED TO SENATE TAX PLAN

Threshold at which income is subject to state personal income tax (state-level)

2011 State Income Tax Thresholds Single-Parent Family of Three			Proposed Senate Tax Plan Single-Parent Family of Three			2011 State Income Tax Thresholds Two-Parent Family of Four			Proposed Senate Tax Plan Two-Parent Family of Four		
Rank	State	Threshold	Rank	State	Threshold	Rank	State	Threshold	Rank	State	Threshold
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3	Montana	$10,300	3	Montana	$10,300	3	Illinois	$13,100	3	Illinois	$13,100
4	Georgia	$12,700	4	Georgia	$12,700	4	Georgia	$15,900	4	Georgia	$15,900
5	Hawaii	$13,800	5	Hawaii	$13,800	5	Ohio	$16,600	5	Ohio	$16,600
6	Mississippi	$14,400	6	Mississippi	$14,400	6	Hawaii	$17,800	6	Hawaii	$17,800
7	Missouri	$14,500	7	Missouri	$14,500	7	Missouri	$18,300	7	Missouri	$18,300
8	Ohio	$15,000	8	Ohio	$15,000	8	Iowa	$19,300	**8**	**North Carolina**	**$18,810**
9	Lousiana	$16,800	**9**	**North Carolina**	**$15,810**	9	Mississippi	$19,600	9	Iowa	$19,300
10	Oregon	$17,000	10	Lousiana	$16,800	10	Oregon	$20,200	10	Mississippi	$19,600
11	West Virginia	$18,500	11	Oregon	$17,000	11	Indiana	$20,500	11	Oregon	$20,200
12	Indiana	$18,500	12	West Virginia	$18,500	12	Louisiana	$21,300	12	Indiana	$20,500
13	Kentucky	$18,500	13	Indiana	$18,500	13	Arkansas	$22,200	13	Louisiana	$21,300
14	Arkansas	$18,500	14	Kentucky	$18,500	14	West Virginia	$22,400	14	Arkansas	$22,200
15	Iowa	$18,900	15	Arkansas	$18,500	15	Kentucky	$22,400	15	West Virginia	$22,400
16	**North Carolina**	**$19,100**	16	Iowa	$18,900	**16**	**North Carolina**	**$23,400**	16	Kentucky	$22,400
17	North Dakota	$19,600	17	North Dakota	$19,600	17	Arizona	$23,600	17	Arizona	$23,600
18	Colorado	$19,600	18	Colorado	$19,600	18	North Dakota	$26,400	18	North Dakota	$26,400
19	Idaho	$19,700	19	Idaho	$19,700	19	Colorado	$26,400	19	Colorado	$26,400
20	Utah	$20,000	20	Utah	$20,000	20	Idaho	$26,500	20	Idaho	$26,500
21	Arizona	$20,100	21	Arizona	$20,100	21	Utah	$26,900	21	Utah	$26,900
22	Wisconsin	$22,000	22	Wisconsin	$22,000	22	Wisconsin	$27,500	22	Wisconsin	$27,500
23	Virginia	$23,300	23	Virginia	$23,300	23	Virginia	$27,700	23	Virginia	$27,700
24	Oklahoma	$24,200	24	Oklahoma	$24,200	24	Oklahoma	$28,400	24	Oklahoma	$28,400
25	Maine	$25,000	25	Maine	$25,000	25	Massachusetts	$29,500	25	Massachusetts	$29,500
26	Pennsylvania	$25,500	26	Pennsylvania	$25,500	26	Maine	$29,700	26	Maine	$29,700
27	South Carolina	$26,100	27	South Carolina	$26,100	27	Michigan	$30,800	27	Michigan	$30,800
28	Massachusetts	$26,300	28	Massachusetts	$26,300	28	Kansas	$31,200	28	Kansas	$31,200
29	Michigan	$26,400	29	Michigan	$26,400	29	Pennsylvania	$32,000	29	Pennsylvania	$32,000
30	Delaware	$26,800	30	Delaware	$26,800	30	Delaware	$32,100	30	Delaware	$32,100
31	Nebraska	$27,700	31	Nebraska	$27,700	31	District of Columbia	$32,800	31	District of Columbia	$32,800
32	Kansas	$27,800	32	Kansas	$27,800	32	South Carolina	$32,900	32	South Carolina	$32,900
33	District of Columbia	$29,800	33	District of Columbia	$29,800	33	Nebraska	$33,700	33	Nebraska	$33,700
34	New Jersey	$31,300	34	New Jersey	$31,300	34	New Jersey	$35,200	34	New Jersey	$35,200
35	Maryland	$32,800	35	Maryland	$32,800	35	Maryland	$37,300	35	Maryland	$37,300
36	Rhode Island	$33,000	36	Rhode Island	$33,000	36	Rhode Island	$39,000	36	Rhode Island	$39,000
37	Vermont	$33,600	37	Vermont	$33,600	37	Minnesota	$39,300	37	Minnesota	$39,300
38	Minnesota	$33,600	38	Minnesota	$33,600	38	Vermont	$39,300	38	Vermont	$39,300
39	New Mexico	$34,200	39	New Mexico	$34,200	39	New Mexico	$40,000	39	New Mexico	$40,000
40	New York	$34,900	40	New York	$34,900	40	Connecticut	$40,500	40	Connecticut	$40,500
41	Connecticut	$35,000	41	Connecticut	$35,000	41	New York	$40,700	41	New York	$40,700
42	California	$46,900	42	California	$46,900	42	California	$49,400	42	California	$49,400
	Average Threshold	**$23,131**		**Average Threshold**	**$23,053**		**Average Threshold**	**$27,545**		**Average Threshold**	**$27,436**

The $345 million tax cut figure for the House tax plan results from the reduction of the corporate income tax and the franchise tax rates. The $1.3 billion tax cut figure for the Senate tax plan results from elimination of the corporate income tax and the estate tax. Both figure represents annual revenue lost upon full implementation of the tax plans.