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BTC Brief

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STATE EARNED INCOME TAX CREDIT IN NORTH CAROLINA: Implemented in the Nick of Time

*Timely, accessible,
and credible
analysis of
state and local
budget and tax
issues*

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KEY FINDINGS:

- **Recently available data from the N.C. Department of Revenue show that in 2008, the first year North Carolina's state Earned Income Tax credit was in place, more than 800,000 North Carolinians claimed the credit.**
- **The state EITC was worth 3.5 percent of the federal EITC to a family claiming the credit in 2008. In that year, the state EITC put \$59 million into the pockets of low-income working families, and it boosted the total combined value of the state and federal credits to \$1.8 billion.**
- **In addition to providing additional resources to help low-income working families meet their basic needs, the state EITC stimulates local economies because these dollars are likely to be spent quickly and close to home.**

OVERVIEW

In 2007, North Carolina's policymakers put in place a state Earned Income Tax Credit to provide a modest boost to the wages of low-income working families. Just six months later, in December 2007, the Great Recession officially began. The state EITC has not only provided working families with additional income during this difficult economic period, it has also stimulated struggling local economies by putting more money into the pockets of families most likely to spend it quickly.

In 2008, the first year the credit was in place and the only year for which data is available, more than 800,000 North Carolinians claimed the state Earned Income Tax Credit. At just 3.5 percent of the federal EITC, the state EITC was valued at \$59 million. Together, refunds from the state and federal credits provided \$1.8 billion to low-income working families in North Carolina.¹

The Role of the EITC in an Economic Downturn

High unemployment and declining wages have increased the number of working poor families in recent years. In the 2001 recession, eligibility for the federal EITC increased by 11 percent, and available 2009 data from the Internal Revenue Service suggest that an increase during this recession is also likely.²

The EITC has proven a powerful anti-poverty tool by boosting the income of these working families. In 2009, the Center on Budget and Policy Priorities estimated that the federal EITC lifted 6.5 million people out of poverty.³ The tax credit works by boosting income and promoting work because only those who earned income—wages, salaries, net earnings from self-employment and certain benefits received before retirement—can claim it. Because the tax credit is refundable, a household can reduce their income tax liability to zero and receive a refund based on the additional value of the credit. As such, the EITC serves to lessen the disproportionate amount of other taxes, such as sales taxes, that low-wage workers pay relative to higher-income workers.⁴ In an economic downturn, these policy outcomes are even more essential as working families struggle to make ends meet.

Perhaps most important in an economic downturn, however, is the community-wide benefit of the EITC. The

Earned Income Tax Credit provides low-income working families with additional resources to meet their basic needs, and they are likely to spend these dollars quickly. Additionally, national analysis finds that two-thirds of EITC dollars are spent locally while the remaining third is most often used to retire debt or increase savings.⁵ Several local analyses of the economic multiplier effect of the federal EITC—in San Antonio, Texas, Baltimore, Maryland and statewide for Michigan—suggest that for every EITC dollar provided to a community, an additional \$1.50 to \$2.00 is generated in economic activity.⁶ Further local analysis is needed to determine the full range of economic and employment effects in the state.

Many more North Carolinians could have benefited from the credit. Evidence from the Internal Revenue Service suggests that an additional 58,000 North Carolinians could have been eligible for the state EITC in 2008 because they received the federal EITC.⁷

The county data on the value of the federal and state EITC demonstrate that communities throughout North Carolina have benefited from this tax credit for low-income working families.

FIGURE 1

EVERY COUNTY IN NORTH CAROLINA BENEFITS FROM THE FEDERAL AND STATE EITC

COUNTY	NUMBER OF RETURNS	FEDERAL EITC (\$)	STATE EITC (\$)	AVERAGE VALUE OF EITC COMBINED	UNEMPLOYMENT RATE (2008)	POVERTY RATE (2008)
Alamance	13,035	28,430,523	990,114	2,257	6.5	15.8
Alexander	2,939	5,951,982	207,330	2,096	7.1	12.7
Alleghany	925	1,860,295	64,998	2,081	7.5	18.5
Anson	3,400	8,433,919	294,683	2,567	8.9	23.4
Ashe	2,198	4,325,138	150,973	2,036	6.8	15.8
Avery	1,189	2,426,897	84,147	2,112	5.8	17.6
Beaufort	4,977	11,464,523	400,238	2,384	7.2	19.1
Bertie	2,833	6,723,229	235,502	2,456	7.7	23.3
Bladen	3,818	8,948,590	312,252	2,426	7.8	24.0
Brunswick	7,551	15,572,309	540,692	2,134	6.4	11.9
Buncombe	17,606	33,796,594	1,171,569	1,986	4.7	13.9
Burke	7,500	15,583,432	542,783	2,150	8.2	15.5
Cabarrus	11,634	25,260,984	876,416	2,247	5.8	9.9
Caldwell	7,810	16,618,663	579,431	2,202	7.8	15.4
Camden	531	1,064,350	36,841	2,074	5.5	8.7
Carteret	4,796	9,496,209	328,748	2,049	5.4	11.8
Caswell	2,068	4,524,199	156,550	2,263	8.1	18.9
Catawba	13,431	28,025,637	974,306	2,159	7.2	13.8
Chatham	3,601	7,466,466	259,860	2,146	5.0	10.3
Cherokee	2,285	5,040,782	174,924	2,283	9.2	17.9
Chowan	1,437	3,272,625	113,893	2,357	8.7	18.5
Clay	779	1,575,125	54,221	2,092	6.5	15.2
Cleveland	10,181	22,760,256	792,266	2,313	8.3	17.5
Columbus	6,439	15,132,829	527,819	2,432	7.8	21.9
Craven	7,843	17,231,562	593,939	2,273	6.0	14.9
Cumberland	29,030	66,582,012	2,288,141	2,372	6.2	15.8
Currituck	1,283	2,607,470	90,123	2,103	4.4	9.7
Dare	2,316	4,331,619	150,052	1,935	6.4	9.3
Davidson	13,752	29,042,445	1,011,099	2,185	7.2	14.5
Davie	2,704	5,371,207	187,086	2,056	6.1	10.8
Duplin	5,942	14,408,102	502,291	2,509	5.8	20.5
Durham	19,543	42,006,751	1,460,129	2,224	4.8	13.8
Edgecombe	7,981	19,785,008	690,982	2,566	10.2	22.6
Forsyth	26,834	57,876,043	2,013,757	2,232	5.7	14.9
Franklin	4,568	9,964,231	346,530	2,257	6.3	14.1
Gaston	17,658	38,184,266	1,329,359	2,238	7.6	15.1
Gates	848	1,885,493	65,592	2,301	5.4	15.7
Graham	831	1,815,170	63,203	2,260	10.7	17.7
Granville	4,401	9,241,902	321,955	2,173	6.8	13.7
Greene	1,928	4,579,945	159,849	2,458	6.7	21.7
Guilford	40,433	86,822,824	3,020,949	2,222	6.1	13.6
Halifax	7,531	17,694,462	617,280	2,432	9.0	23.7
Harnett	8,944	20,219,821	699,844	2,339	6.7	15.2
Haywood	4,432	8,982,583	311,723	2,097	5.6	14.5
Henderson	6,547	13,262,549	459,931	2,096	4.8	12.7
Hertford	2,598	5,954,485	207,937	2,372	6.7	22.7
Hoke	4,468	10,449,480	359,605	2,419	5.7	19.6
Hyde	485	1,053,798	36,736	2,249	6.9	22.4
Iredell	11,225	23,205,272	804,054	2,139	6.4	11.6
Jackson	2,292	4,414,553	152,889	1,993	5.1	16.9

(cont.)

EVERY COUNTY IN NORTH CAROLINA BENEFITS FROM THE FEDERAL AND STATE EITC (cont.)

COUNTY	NUMBER OF RETURNS	FEDERAL EITC (\$)	STATE EITC (\$)	AVERAGE VALUE OF EITC COMBINED	UNEMPLOYMENT RATE (2008)	POVERTY RATE (2008)
Johnston	11,870	25,766,427	895,667	2,246	5.7	12.7
Jones	984	2,159,997	75,107	2,271	6.5	18.0
Lee	5,342	11,886,880	413,834	2,303	7.6	13.9
Lenoir	6,980	15,755,353	549,675	2,336	7.3	23.5
Lincoln	5,153	10,598,144	368,457	2,128	7.3	12.4
Macon	2,455	4,825,811	167,148	2,034	6.0	14.6
Madison	1,621	3,254,906	112,734	2,078	5.7	13.8
Martin	2,621	5,896,561	205,977	2,328	6.5	17.7
McDowell	4,009	8,355,400	291,424	2,157	8.2	23.4
Mecklenburg	70,661	158,736,589	5,495,312	2,324	6.0	10.9
Mitchell	1,235	2,414,120	83,846	2,023	8.1	17.2
Montgomery	2,543	5,817,798	203,573	2,368	8.3	19.6
Moore	6,212	13,188,427	458,798	2,197	6.2	11.6
Nash	10,408	24,530,539	854,812	2,439	7.5	15.5
New Hanover	12,867	24,471,452	849,171	1,968	5.2	14.0
Northampton	2,508	5,761,736	200,965	2,377	7.8	26.6
Onslow	11,268	24,644,035	825,185	2,260	5.7	14.8
Orange	5,542	10,264,673	355,941	1,916	4.1	13.9
Pamlico	1,058	2,332,227	81,491	2,281	6.0	16.3
Pasquotank	3,542	8,021,433	278,254	2,343	6.9	17.3
Pender	4,079	8,682,551	301,455	2,203	6.1	14.8
Perquimans	1,040	2,392,602	83,437	2,381	6.8	18.1
Person	3,331	6,846,761	239,107	2,127	7.3	13.7
Pitt	14,909	34,254,480	1,192,814	2,378	6.5	22.0
Polk	1,332	2,831,194	98,564	2,200	4.9	12.3
Randolph	11,717	25,353,726	882,535	2,239	6.4	14.1
Richmond	5,846	13,808,407	480,991	2,444	9.3	23.7
Robeson	18,137	45,104,346	1,574,908	2,574	8.0	30.4
Rockingham	8,380	17,495,075	609,609	2,160	7.5	16.2
Rowan	12,078	26,191,296	911,125	2,244	6.8	15.6
Rutherford	6,213	13,117,130	457,148	2,185	8.1	16.8
Sampson	6,700	15,605,093	544,007	2,410	5.4	22.1
Scotland	5,088	12,665,513	441,643	2,576	11.1	27.6
Stanly	4,823	10,140,496	352,857	2,176	6.6	12.7
Stokes	3,429	6,968,886	242,831	2,103	5.9	14.9
Surry	5,818	12,335,620	429,007	2,194	7.8	15.9
Swain	1,714	3,325,499	115,737	2,008	7.8	16.1
Transylvania	2,137	4,247,901	147,678	2,057	5.2	12.4
Tyrrell	527	1,190,074	41,441	2,337	7.1	26.9
Union	11,214	24,578,226	853,913	2,268	5.5	8.6
Vance	5,956	13,877,102	483,797	2,411	8.9	25.7
Wake	47,311	97,848,846	3,383,674	2,140	4.6	9.2
Warren	2,132	4,902,924	170,957	2,380	8.5	24.4
Washington	1,675	3,984,694	139,151	2,462	7.7	23.2
Watauga	2,233	3,687,358	127,923	1,709	4.8	18.9
Wayne	10,995	24,728,518	857,510	2,327	5.8	18.3
Wilkes	6,444	13,415,448	467,837	2,154	7.6	20.9
Wilson	9,470	21,964,194	766,989	2,400	7.8	21.0
Yadkin	2,994	6,125,277	213,823	2,117	5.7	13.8
Yancey	1,455	2,833,632	98,619	2,015	7.7	18.4
Totals	806,233	1,752,260,512	59,990,526	2,248	6.4%	13.1%

SOURCE: Special Data Request to the N.C. Department of Revenue, August 12, 2010. The unemployment rate is the annual average for 2008 by county from the Employment Security Commission North Carolina. The poverty rate is taken from the Small Area Income and Poverty Estimates for 2008 from the U.S. Census Bureau.

DATA SOURCES:

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- 6 Texas Perspectives, Inc. November 23, 2004. 2004 Update: Increased Participation in the Earned Income Tax Credit in San Antonio.; The Jacob France Institute, June 2004. *The Importance of the Earned Income Tax Credit and its Economic Effects in Baltimore City*. University of Baltimore, MD; Texas Perspectives, Inc. November 23, 2004. 2004 Update: Increased Participation in the Earned Income Tax Credit in San Antonio.; Sallee, Caroline M. August 13, 2009. *Economic Benefits of the Earned Income Tax Credit in Michigan*. Michigan Association of United Ways and Community Economic Development Association of Michigan.
- 7 Internal Revenue Service, SOI Bulletin, Tax Year 2008. Table 2. Accessed at: <http://www.irs.gov/taxstats/article/0,,id=171535,00.html>

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