

**July, 2013**

The Senate tax plan (HB 998, Fifth edition), like all tax plans under consideration, allows the state Earned Income Tax Credit (EITC) to expire, raising taxes on thousands of low-income soldiers, veterans, and their families. The EITC has proven to be an effective tool at supporting low-income military families and lifting them out of poverty while their loved ones serve in harm's way. For the sake of these military families and the additional more than 800,000 North Carolinians who work and receive this important support, the state should ensure the state EITC remains a part of our state's tax system.

Here are key reasons why maintaining the state EITC is important for North Carolina's soldiers, veterans, and their families:

### **Almost 64,000 military families benefit from the EITC.**

For nearly 64,000 low-income military families in 2011, the EITC ensures that enlisted men and women can meet the basic needs of their families. If the EITC is allowed to expire, these families will see their taxes increase by as much as \$272 a year—enough to pay rent or buy groceries for a month.<sup>1</sup> For many military families, the combined federal and state EITC is reducing the severity of working poverty and keeping many more out of poverty.

### **The EITC is a highly effective anti-poverty tool and has lasting, positive effects on children**

The children of military families face unique hardships that the EITC can help address. Research shows that the EITC can significantly increase opportunity for school children in military families by helping improve long-term academic performance—including better test scores. And in turn, this has helped increase employment and earnings when children reach adulthood.<sup>2</sup>

### **Low-income families fare worse under current tax plans because of the lack of a state EITC**

While tax plans currently under consideration have greater standard deductions and even larger child tax credit, they also eliminate the personal exemption and allow the state EITC to expire. This means that low-income taxpayers actually see their first dollar of income taxed sooner. The state's current tax law is therefore more effective at addressing the upside down tax system and reducing the greater contributions by low- and moderate-income taxpayers as a share of their income in total state and local taxes than the wealthiest taxpayers.

### **The cost of the state EITC for these military families is small compared to the huge tax cuts for a few wealthy and profitable corporations in the Senate tax plan**

The total annual cost of the state EITC for tax year 2011 was \$105.2 million. This cost is particularly small compared to the \$1 billion in corporate income tax cuts in the Senate tax plan. Eliminating the corporate income tax will largely benefit profitable, multi-state corporations who will no longer be required to help pay for many of the public investments that help their businesses to thrive.

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<sup>1</sup> Unpublished analysis by the Center on Budget and Policy Priorities. (2013). According to the American Community Survey and the Internal Revenue Service, military families account for 8.7% of the 731,000 North Carolinians who have children and incomes low enough to qualify for the Federal EITC. This equals 63,597 military families in North Carolina who qualify for the federal credit. Because those who qualify for the federal credit also qualify for the state credit, 63,597 also represents the number of military families that qualify for the state credit.

<sup>2</sup> Sherman, Arloc. (2013). Working-Family Tax Credits Help Over 1 Million Military Families Credits Keep More Than 140,000 Veteran and Active-Duty Families. Center on Budget and Policy Priorities.