



Making Work Pay

for North Carolina's
Low- and Moderate-Income Working Families

- *A State Earned Income Tax Credit for North Carolina* ●

By Meg Gray, NC BUDGET & TAX CENTER

A Project of the



NC JUSTICE CENTER

ABOUT THE JUSTICE CENTER

The Justice Center is a statewide, non-profit advocacy organization dedicated to securing economic justice for disadvantaged persons and communities. The mission of the Justice Center is to address poverty by ensuring that low-income individuals and communities have the resources and services they need to move from poverty to economic security. The work of the Justice Center is based on the belief that four objectives must be realized to enable disadvantaged individuals and communities to move from poverty to economic security. They include:

- work that is safe, pays a living wage and provides benefits that will enable a family to be self-sufficient;
- government action that supports and protects those able to work;
- a safety net of income and services that supports those unable to work;
- equal opportunity for low-income persons to achieve economic security free of discrimination.

To achieve its mission, the Justice Center works in collaboration with North Carolina's disadvantaged individuals and communities employing a multi-forum advocacy model in which the Center uses four primary strategies to fight poverty:

Litigation: Undertaking high-impact litigation to ensure that the rights of traditionally underrepresented populations are protected.

Research and Policy Development: Conducting and disseminating policy research and developing alternatives to existing policy on key issues facing traditionally disadvantaged populations.

Public Policy Advocacy: Working with traditionally underrepresented populations to define and shape the public policies that will most dramatically impact their communities.

Grassroots Empowerment/Community Capacity Building: Developing and implementing initiatives designed to enable low-income, working poor and minority individuals and community-based organizations to take the lead in solving the problems that they face.

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North Carolina Living Income Initiative
North Carolina Immigrants Legal Assistance Project
North Carolina Poverty Law Litigation Project
North Carolina Education and Law Project
North Carolina Budget and Tax Center
North Carolina Consumer Action Network
North Carolina Health Access Coalition
Grassroots and Community Empowerment Project

NORTH CAROLINA JUSTICE CENTER

224 S. Dawson Street • P.O. Box 28068 • Raleigh, NC 27611
919/856-2570 voice • 919/856-2175 fax • www.ncjustice.org • info@ncjustice.org

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INTRODUCTION

The Federal Earned Income Tax Credit (EITC), the nation's largest and most effective anti-poverty program targeted at low- and moderate-income working families with children, has played a significant role in enhancing their economic security for more than 30 years. The federal EITC makes work pay and lifts millions of working families out of poverty by increasing tax fairness and supplementing wages.

The families of one in five North Carolina tax filers benefit from the federal EITC, but many of them still struggle to make ends meet. The costs of basic expenses have risen, wages have stagnated for low-wage workers, and North Carolina's tax system has become more regressive with the lowest-paid earners paying a larger share of their income in state and local taxes than high-paid workers. A growing number of states facing the same problems as North Carolina have enacted state EITCs to further the effectiveness of the federal program.

A North Carolina state EITC modeled off the federal would further increase tax fairness and provide families with additional income to help them close the gap between what they earn and what they need to meet basic expenses. A combined federal and state EITC would make a significant difference in improving the lives of more than 800,000 low- and moderate-income working families in North Carolina.

REPORT SUMMARY:

- **The federal EITC helps low- and moderate-income workers support families, lifts millions out of poverty and increases tax fairness.**
- **One out of five North Carolina working families benefit from the federal EITC. Sixty-nine percent of North Carolina EITC claimants earn less than \$20,000 annually. These same families would benefit from a state EITC.**
- **A North Carolina state EITC would further the Federal EITC's impact. In fiscal year 2007-2008, a North Carolina EITC set at 10 percent of the federal EITC would provide close to \$134 million to North Carolina working families, with an average benefit of \$163.**
- **A state EITC would improve tax fairness by reducing the disproportionate share of income that low- and moderate-income workers pay in state and local taxes. In 2003, the bottom 20 percent of North Carolina taxpayers paid 10.9 percent of their incomes in state and local taxes while the top 1 percent of taxpayers paid only 6.3 percent.**
- **A North Carolina EITC would have very low administrative costs--less than one percent of the total cost of the program.**
- **The Internal Revenue Service has implemented several reforms to reduce fraud and error in the federal EITC, thereby reducing the risk for fraud and error in a North Carolina EITC.**

■ WORKING HARD IS NOT ALWAYS ENOUGH TO MAKE ENDS MEET

DESPITE WORKING HARD, many North Carolina low- and moderate-income working families struggle to make ends meet. The new economy is leaving many people behind. Stagnant wages for low-wage workers; rising costs of basic goods such as housing, health care and child care; and an unfair tax share keep many families below or barely above the poverty line. Consider this:

Wages Not Keeping Up with Inflation

- Wages of low-paid North Carolina workers grew by only \$.88 per hour, or 12 percent, between 1979 and 2003, while the best-paid workers saw a gain of \$8.11 per hour or 40 percent.¹

Wages Extremely Low for 1 in 5 Workers

- In 2004, 22.2 percent of all jobs in North Carolina did not pay enough to lift a 4-person family out of poverty.² This appears to be a growing trend as only one of the five fastest-growing occupations in North Carolina (registered nurses) pays a living wage.
- Even if a family makes enough income to be “out of poverty,” that doesn’t mean it can afford basic necessities of life. Families must earn an annual income of more than 200 percent of the federal poverty level, a more accurate measure of economic security, to afford basic expenses including food, health care, housing, child care, transportation, and taxes. Based on the 2007 Federal Poverty guidelines, a single-parent with one child needed to earn \$13.16 per hour and a married-couple with two children needed to earn a combined \$19.86 per hour to meet the 200-percent measure of security.

Fundamental Family Expenses Rising Faster Than Inflation

- In 2006, North Carolina’s Housing Wage (the amount workers must earn in order to pay less than 30 percent of income on housing and utilities) rose to \$12.61 from \$12.15 in 2005. Fair Market Rent for a two-bedroom apartment has increased almost 20 percent in the past five years in North Carolina. Now, 43 percent of North Carolina renters cannot afford rent on this type of unit.³
- The number of North Carolina workers insured by their employers has decreased, while out-of-pocket health insurance costs have risen sharply. For some families, health insurance or child care can cost as much or more than housing.

Low- and Moderate-Income Workers Taxed at Higher Rate

- Low-income North Carolina workers pay a greater share of their income in state and local taxes than any other group. In 2003, the bottom 20 percent of North Carolina taxpayers paid 10.9 percent of their incomes in state and local taxes while the top 1 percent of taxpayers paid only 6.3 percent.⁴

A North Carolina state Earned Income Tax Credit (EITC), based on the federal EITC, would further address the income issues of low-wage workers while at the same time increasing the fairness of the North Carolina state and local tax system. Extending the benefits of the federal EITC would make families more economically self-sufficient, creating a win-win for the state and the families of low- and moderate-income workers.

THE FEDERAL EITC: THE WORKERS' TAX CREDIT

Enacted in 1975, the Federal Earned Income Tax Credit (EITC) was created to lessen the impact of federal payroll taxes that fall disproportionately on low-wage workers, to supplement their earnings, and to ensure that more workers could bring home incomes above the poverty level. The credit was expanded several times throughout the 1980s and '90s during both the Regan and Clinton administrations, making the EITC the federal government's most effective anti-poverty tool for working families with children. President Reagan said of the federal EITC, "Giving a leg up to those struggling to move up is what America is all about."⁵

Roughly one in five North Carolina workers and their families benefit from the federal EITC each year. Because of its success, 19 states and the District of Columbia have coupled a state EITC to the federal credit. With the exception of Minnesota, the state EITCs are modeled off the federal, using the same eligibility requirements, and are set as a percentage of the federal credit. State EITCs further the goals of the federal EITC and compensate for the disproportionate share of state and local taxes paid by low- and moderate-income working families.

HOW THE FEDERAL EITC WORKS

Administered through the personal income tax, the federal EITC provides a tax credit to low- and moderate-income workers. The credit amount is based on a filer's income, filing status and number of dependents. The EITC can only be claimed by individuals who work.

The size of the EITC increases for each dollar earned up to a certain amount, maintains the maximum credit up to an additional amount of earnings, and phases out steadily at higher income levels (Figure 1). In 2007, the maximum federal EITC benefit will be \$4,716 for families with two or more children and \$2,853 for families with one child.

FIGURE 1

FEDERAL EARNED INCOME TAX CREDIT PARAMETERS: 2007					
Type of Return	Credit Percentage	Maximum Benefit	Phase-out rate	PHASE-OUT RANGE	
				Single/Head of Household	Married Filing Jointly
Families with two or more children	40% for every dollar earned up to \$11,790	\$4,716	21.06%	\$15,390-\$37,783	\$17,390-\$39,783
Families with one child	34% for every dollar earned up to \$8,390	\$2,853	15.98%	\$15,390-\$33,241	\$17,390-\$35,241
Families with no children	7.65% for every dollar earned up to \$5,590	\$428	7.65%	\$7,000-\$12,590	\$9,000-\$14,590

SOURCE: James Young, "Inflation Adjustments Affecting Individual Taxpayers in 2007," Tax Notes magazine, October 9, 2006.

The EITC phases out gradually as income rises above \$15,390 for single filers or \$17,390 for married filers. The benefit ends once income reaches \$33,231 (single filer with one child) up to \$39,783 (married filers with two children). For example, a single parent with one child earning between \$8,391 and \$15,390 would receive an EITC credit of \$2,853. Low-income workers without dependents who make less than \$12,590 are also eligible for a small credit up to \$428.

with two or more children and \$2,853 for families with one child. The EITC phases out gradually as income rises above \$15,390 for single filers or \$17,390 for married filers. The benefit ends once income reaches \$33,231 (single filer with one child) up to \$39,783 (married

THE BENEFITS OF THE FEDERAL EITC

The federal EITC is refundable, so after offsetting any federal taxes owed, the remaining credit is received as a refund. Research shows that EITC refunds enhance working families' economic security and improve their chances for economic mobility as they use the benefit to pay off debt, invest in education, pay for child care, finance transportation to work and secure decent, safe housing.⁶ The refundability is key in allowing the federal EITC to accomplish its goals:

■ Improves Tax Fairness

The Federal EITC improves tax fairness for low- and moderate-income workers. It reduces the amount of federal taxes low- and moderate-income workers owe by offsetting federal income taxes and some or all of the federal payroll tax.

IMPROVING TAX FAIRNESS: *EXAMPLES*

● ● **FAMILY 1:** A single parent with one child, working full-time throughout the year at a wage of \$10.50 per hour, earns \$21,840 per year.⁷ This worker owes \$1,136 in federal income taxes and \$1,671 in payroll taxes. In 2007, the family would qualify for a federal EITC of \$1,822. The EITC allows the family to get back the \$1,136 it paid in federal income taxes and to receive an additional refund of \$686. The EITC refund helps to offset some of the federal payroll taxes paid throughout the year.⁸

● ● ● ● **FAMILY 2:** A married couple with two children, working full-time throughout the year, both making \$7 per hour, earns \$29,120 per year. This family owes \$562 in federal income taxes and \$2,228 in payroll taxes. In 2007, the family would qualify for a federal EITC of \$2,246. The EITC allows the family to get back the \$562 it paid in federal income taxes and to receive an additional refund of \$1,684. The EITC refund helps to offset some of the federal payroll taxes paid throughout the year.

■ Supplements Wages

The EITC can only be claimed by individuals who work. For many families, especially for very low-wage earners, the EITC goes beyond offsetting taxes and increasing tax fairness. Refunds act as wage supplements, effectively increasing families' take-home earnings and ability to pay for basic necessities. The EITC is an effective tool for raising workers' wages without unduly burdening employers. Additionally, countless studies have shown that the EITC wage

supplement has motivated hundreds of thousands of welfare recipients, especially single parents, to join the workforce.

The EITC continues to be a strong work incentive even for workers who earn incomes above the amount that qualifies them for the maximum EITC credit because it gradually decreases as income increases. For example, a single-parent with one child who earns \$15,389, just under the cut-off to receive the maximum credit, receives an EITC of \$2,853. After offsetting federal and state personal income taxes owed, the worker's take home earnings would be \$16,270. If the single parent increased his earnings to \$16,000 annually, his EITC credit would drop by \$97 to \$2,756; however, his take home earnings would be \$16,639, \$369 more than he earned at a lower wage.

FIGURE 2

INCOME NEEDED TO EARN 200% OF 2007 FEDERAL POVERTY GUIDELINE		
	SINGLE PARENT WITH ONE CHILD	MARRIED COUPLE WITH 2 CHILDREN
2007 Federal Poverty Guideline	\$13,690	\$20,650
200% of poverty guideline- Annual Living Income Standard	\$27,380	\$41,300
Monthly Living Income Standard	\$2,282	\$3,442
Hourly Wage Needed	\$13.16	\$19.86 or \$9.93 per parent

Source: Federal Register, Vol. 72, No. 15, January 24, 2007, pp. 3147-3148

While the families illustrated in Examples 1 through 4 all earn incomes above the 2007 federal poverty line (FPL), all fall below 200 percent of the FPL, a more realistic measure of economic security (Figure 2). The 200 percent measure accounts

for families' ability to pay for basic fixed expenses including food, housing, health care, child care, transportation, taxes, and miscellaneous expenses. Both measures do not adequately capture cost-of-living differences between geographic areas. It should be assumed that families living in metropolitan areas need to earn even more than the 200-percent measure in order to meet basic expenses. By offsetting federal taxes owed and supplementing wages, the federal EITC increases the ability for low- and moderate-income workers to support their families.

■ **Lifts Families Out of Poverty**

The Federal EITC also effectively targets families living below the federal poverty line. In 2004, it lifted more than 4.4 million people in low-income working families nationwide out of poverty.⁹ It moves more children out of poverty than any other government program.¹⁰

■ **Boosts Local Economies**

The refundability of the EITC increases the purchasing power of its recipients, thereby boosting their local economies where the refund dollars get spent and cycled. In 2003, the EITC brought \$1.35 billion into North Carolina that was spent throughout the state's 100 counties.

SUPPLEMENTS WAGES EXAMPLES

● ● **FAMILY 3:** A single parent with one child, working full-time throughout the year at a wage of \$7.50 per hour, earns \$15,600 per year. This worker owes \$385 in federal income taxes. In 2007, the family would qualify for a federal EITC of \$2,819. The federal EITC allows the family to get back the \$385 it paid in federal taxes and receive a refund of \$2,434. The family owed \$1,193 in payroll taxes, so the EITC refund offsets those taxes and provides an additional \$1,241, effectively supplementing their wages. The family's new take-home earnings (not including payment of North Carolina state and local taxes) is \$16,841.

● ● ● ● **FAMILY 4:** A married couple with two children, one parent working full-time throughout the year making a wage of \$7 per hour and the other working part-time making a wage of \$6.15 per hour, earns \$20,956 per year. This family owes \$0 in federal income taxes. In 2007, the family would qualify for a federal EITC of \$3,965. The family owed \$1,603 in payroll taxes, so the EITC refund offsets those taxes and provides an additional \$2,362, effectively supplementing their wages. The family's new take-home earnings (not including payment of North Carolina state and local taxes) is \$23,318.

THE FEDERAL EITC IN NC

In 2003, 733,465 low- and moderate-income North Carolina working families received an average of \$1,842 from the federal EITC, bringing more than \$1.35 billion into the state's economy.¹¹ Appendix 1 shows county-level data from tax year 2003, including the number of claimants, percentage of tax filers claiming the EITC, amount of federal dollars and average benefit by county. As the data illustrates, there are a significant number of claimants and percentage of taxpayers in every county who benefit from the federal EITC.

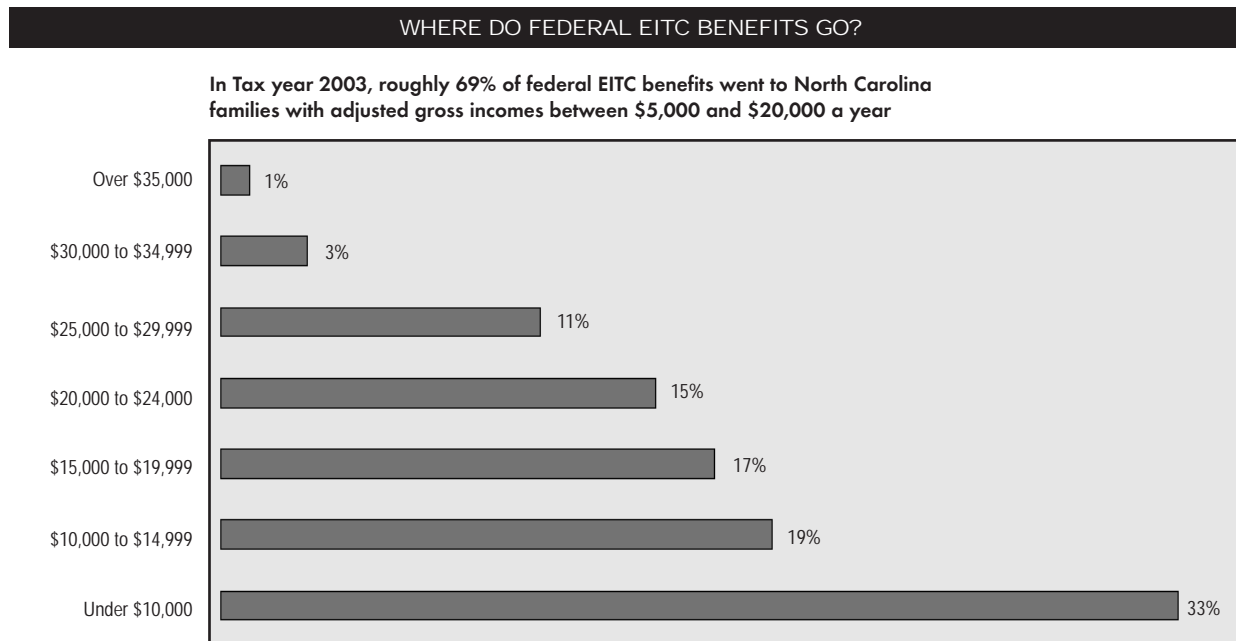
Sixty-nine percent of the EITC benefits in North Carolina go to working families making less than \$20,000, but many families with moderate incomes also benefit from the EITC (**Figure 3**). That the federal EITC reaches families with moderate incomes is an important policy component, considering the rising costs of basic necessities and growing income inequality between the wealthy and middle-income families.

LIFTS FAMILIES OUT OF POVERTY EXAMPLES

● ● **FAMILY 5:** A single parent with one child, working full-time throughout the year at the new North Carolina minimum wage of \$6.15 per hour, earns \$12,792 per year, or 93 percent of the 2007 federal poverty line (\$13,690). The worker qualifies for an EITC of \$2,853, which, after offsetting federal income and payroll taxes owed, leaves the family with \$14,562 (before state and local taxes). Now, the family's annual income is 106 percent of the federal poverty line.

● ● ● ● **Family 6:** A married couple with two children, one parent working full-time throughout the year making a wage of \$6.15 and the other working part-time making the same wage, earns \$19,188 per year, or 93 percent of the federal poverty line (\$20,650). The family qualifies for an EITC of \$4,337, which, after offsetting federal income and payroll taxes owed, leaves the family with \$22,057 (before state and local taxes). Now, the family's annual income is 107 percent of the federal poverty line.

FIGURE 3



■ LOW- AND MODERATE-INCOME FAMILIES IN ALL 100 NORTH CAROLINA COUNTIES BENEFIT FROM THE FEDERAL EITC

BASED ON AN ANALYSIS OF FAMILIES CLAIMING THE FEDERAL EITC, low- and moderate-income working families reside in all 100 North Carolina counties. In 2003, the percentage of tax filers claiming the EITC ranged from 10 percent in Orange County to 42 percent in Robeson County. The statewide average was just over 20 percent. Appendix 1 lists the percentage of EITC claimants in each county. A higher proportion of filers residing in North Carolina's rural counties (23.8 percent) claimed the EITC than residents of urban counties (17.5 percent).¹²

A closer look at the data on the zip-code level reveals pockets of extreme working poverty (defined as areas with 40 percent or more of its filers claiming the EITC) in North Carolina's urban and rural counties. On the aggregate, North Carolina's urban areas exhibit fairly low levels of working poverty compared to rural areas, however five urban counties (Wake, Mecklenburg, Rowan, Guilford and Cumberland) contain at least one extreme working-poverty neighborhood. For example, 13 percent of Mecklenburg County's EITC claimants live in one of its extreme working-poverty neighborhoods.

Twenty-five rural counties, the vast majority of which are in eastern North Carolina, have pockets of extreme working poverty. Not only do these areas have a higher percentage of EITC claimants, but the average federal EITC benefit is also higher, reflecting the lower wages earned by the working recipients. The federal EITC is especially invaluable in compensating for the lower wages and disproportionate share of state and local taxes faced by workers in these areas.

Figure 4 illustrates the dispersion of low- and moderate-income working families claiming the federal EITC across North Carolina and highlights the extreme working-poverty areas within counties.

The dispersion of low- and moderate-income working families and areas of extreme working poverty across the state reinforces the importance of a policy such as a state EITC that supports working families regardless of their place of residence. A North Carolina state EITC would effectively target and bring additional benefits and relief to low- and moderate-income working families from Murphy to Manteo.

A STATE EARNED INCOME TAX CREDIT FOR NORTH CAROLINA:

EXTENDING THE BENEFITS OF THE FEDERAL EITC

While the federal EITC is a successful and effective program, a North Carolina state Earned Income Tax Credit would increase the impact of the federal EITC, further supplementing wages and improving tax fairness for low- and moderate-income working families. High costs of basics necessities, stagnant wages, and a regressive state and local tax system underscore the need for extending the federal EITC benefits to help low- and moderate-income North Carolina families make ends meet.

HOW A STATE EITC WORKS

Due to the Federal EITC's overwhelming success, 19 states and the District of Columbia have enacted state EITCs. With the exception of Minnesota, the state EITCs are modeled off the federal, using the same eligibility requirements, and are set as a percentage of the federal credit (**Figure 5**). Currently, at least 12 additional states, including North Carolina, have active state EITC initiatives, and three states with a state EITC are looking to expand the benefit. Like the federal EITC, only families with at least one worker benefit from the state programs.

Three factors should be considered in determining the size of a state EITC:¹³

■ Level of needed improvement of tax fairness

Currently, low- and moderate-income working families pay a higher percentage of their income in state and local taxes than wealthy families. The higher a state EITC is set as a percentage of the federal EITC, the further it will go in offsetting the regressivity of North Carolina's state and local tax system.

■ Size of the desired income boost for low- and moderate-income working families

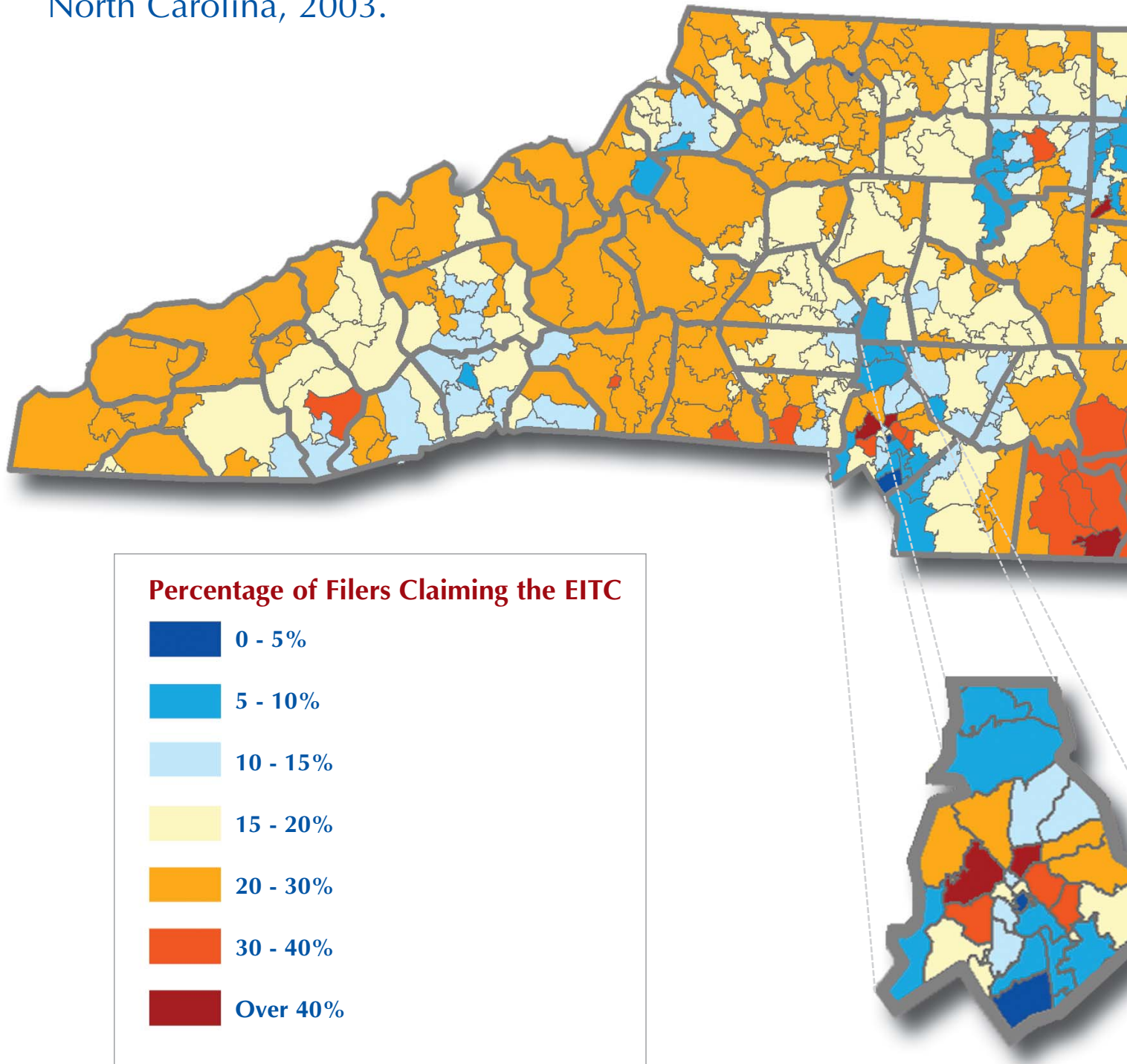
The higher a state EITC is set as a percentage of the federal EITC, the greater the benefit will be to low- and moderate-income working families. **Figure 6** illustrates the benefit of a state EITC to families with a range of incomes at different percentages of the federal EITC.

For example, in fiscal year 2007-2008, a North Carolina refundable state EITC set at 10-percent of the federal credit would give close to an additional \$134 million to an estimated 824,62614 low- and moderate-income working families, boosting their incomes by an average of \$163 (**Figure 7**)¹⁵. The maximum benefit would be \$472 for families with two or more children and \$285 for families with one child. A five-percent state EITC would benefit the average eligible family by about \$81 and would give close to an additional \$67 million to low- and moderate-income working families. The maximum benefit of a five-percent EITC would be \$236 for families with two or more children and \$143 for families with one child.

FIGURE 4

Making Work Pay

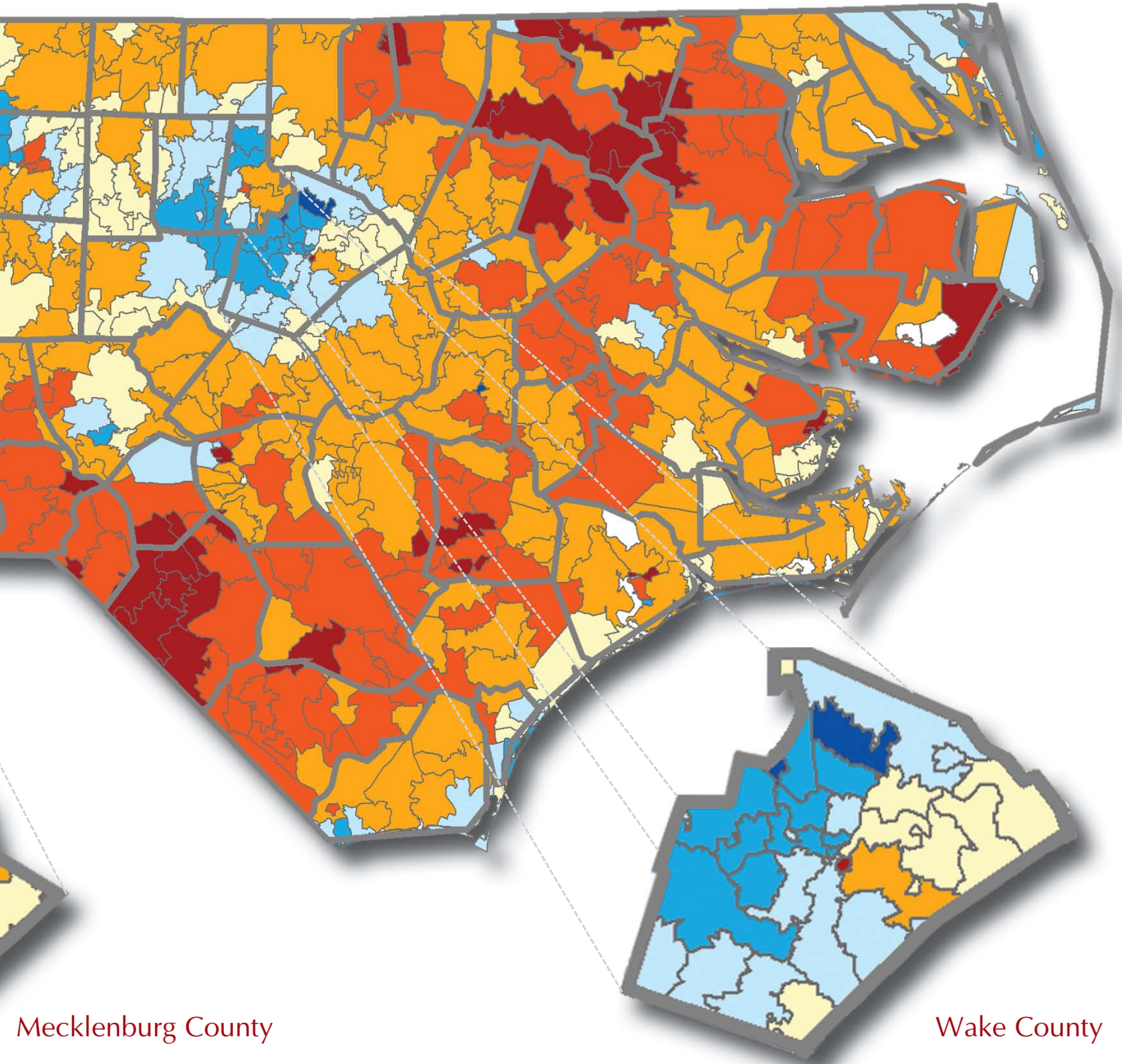
Dispersion of low- and moderate-income working families claiming the federal EITC across North Carolina, 2003.





NC Justice Center

Opportunity and Prosperity for All



Mecklenburg County

Wake County

FIGURE 5

STATE EARNED INCOME TAX CREDITS BASED ON THE FEDERAL EITC			
STATE	PERCENTAGE OF FEDERAL CREDIT (TAX YEAR 2006 EXCEPT AS NOTED)	REFUNDABLE	WORKERS WITHOUT QUALIFYING CHILDREN ELIGIBLE?
Delaware	20%	No	Yes
District of Columbia	35%	Yes	Yes
Indiana ^a	6%	Yes	Yes
Illinois	5%	Yes	Yes
Iowa	6.50%	No	Yes
Kansas	15%	Yes	Yes
Maine	5%	No	Yes
Maryland ^b	20%	Yes	No
Massachusetts	15%	Yes	Yes
Michigan	10% (effective in 2008; to 20% in 2009)	Yes	Yes
Minnesota ^c	Average 33%	Yes	Yes
Nebraska	8%	Yes	Yes
New Jersey ^d	20%	Yes	No
New York ^{e, f}	30%	Yes	Yes
Oklahoma	5%	Yes	Yes
Oregon	5% (to 6% in 2008)	Yes	Yes
Rhode Island	25%	Partially ^g	Yes
Vermont	32%	Yes	Yes
Virginia	20%	No	Yes
Wisconsin	4% - one child	4% - one child	No
	14% - two children	14% - two children	
	43% - three children	43% - three children	

SOURCE: Johnson, Nicholas and Ifie Okwuje. "A Rising Number of State Earned Income Credits are Helping Working Families Escape Poverty." Center on Budget and Policy Priorities, October 2006

NOTES: From 1999 to 2001, Colorado offered a 10% refundable EITC financed from required rebates under the state's "TABOR" amendment. Those rebates, and hence the EITC, were suspended beginning in 2002 due to lack of funds and again in 2005 as a result of a voter-approved five-year suspension of TABOR. Under current law, the EITC is projected to resume in 2010.

- a Presently scheduled to expire in TY 2011.
- b Maryland also offers a non-refundable EITC set at 50 percent of the federal credit. Taxpayers in effect may claim either the refundable credit or the non-refundable credit, but not both.
- c Minnesota's credit for families with children, unlike the other credits shown in this table, is not expressly structured as a percentage of the federal credit. Depending on income level, the credit for families with children may range from 25 percent to 45 percent of the federal credit; taxpayers without children may receive a 25 percent credit.
- d The New Jersey credit is available only to families with incomes below \$20,000.
- e The New York credit would be reduced automatically to the 1999 level of 20 percent should the federal government reduce New York's share of the TANF block grant.
- f Beginning in 2006, New York also allows certain non-custodial parents who are making child support payments to claim an EITC that is the greater of 20 percent of the federal EITC that they would be eligible for with one qualifying child as a custodial parent or 250 percent of the federal EITC for taxpayers without qualifying children.
- g Rhode Island made a very small portion of its EITC refundable effective in TY 2003. In 2006, the refundable portion was increased from 10 percent to 15 percent of the nonrefundable credit (i.e. 3.75 percent of the federal EITC).

FIGURE 6

STATE EARNED INCOME TAX CREDIT AMOUNTS BY FAMILY INCOME AND TYPE, 2007					
	ANNUAL EARNINGS	FEDERAL EITC	5% STATE EITC	10% STATE EITC	15% STATE EITC
Single-parent with one child					
Half-time NC minimum wage earner	\$6,396	\$2,175	\$109	\$218	\$326
Full-time NC minimum wage earner	\$12,792	\$2,853	\$143	\$285	\$428
Wages equal to 2007 federal poverty guideline	\$13,690	\$2,853	\$143	\$285	\$428
Wages equal to 150% of poverty guideline	\$20,535	\$2,031	\$102	\$203	\$305
Wages equal to 200% of poverty guideline	\$27,380	\$937	\$47	\$94	\$141
Married Couple with 2 children					
One full-time minimum wage earner	\$12,792	\$4,716	\$236	\$472	\$707
Two full-time minimum wage earners	\$25,584	\$2,990	\$150	\$299	\$449
Total Wages equal to 2007 federal poverty guideline	\$20,650	\$4,029	\$201	\$403	\$604
Total Wages equal to 150% of poverty guideline	\$30,975	\$1,855	\$93	\$186	\$278
Total Wages equal to 200% of poverty guideline	\$41,300	\$0	\$0	\$0	\$0

*PT min wage workers assume 20hrs per week for 52weeks
 *FT min wage workers assume 40hrs per week for 52 weeks

FIGURE 7

HOW MUCH WOULD A STATE EITC PROVIDE TO NORTH CAROLINA'S WORKING POOR FAMILIES?								
FISCAL YEAR	ESTIMATED FEDERAL EITC TO NC	ESTIMATED # OF EITC CLAIMANTS	NC EITC SET AT 5% OF FEDERAL	AVERAGE STATE EITC PAYMENT AT 5%	NC STATE EITC SET AT 10% OF FEDERAL	AVERAGE STATE EITC PAYMENT AT 10%	NC STATE EITC SET AT 15% OF FEDERAL	AVERAGE STATE EITC PAYMENT AT 15%
2007-2008	\$1,488,960,000	824,626	\$67,003,200	\$81	\$134,006,400	\$163	\$201,009,600	\$244
2008-2009	\$1,531,200,000	845,150	\$68,904,000	\$82	\$137,808,000	\$163	\$206,712,000	\$245
2009-2010	\$1,545,280,000	866,185	\$69,537,600	\$80	\$139,075,200	\$161	\$208,612,800	\$241

Source: CBO Federal EITC Projections + IRS Master File Data 2004
 State EITC estimates based on assumption that 90% of filers who claim Federal EITC will claim state EITC
 Number of Federal EITC Claimants grows by average of 2.5% per year

Appendix 1 illustrates how each county's EITC claimants would benefit from a state EITC set at five percent, 10 percent, or 15 percent of the federal EITC.

■ **Cost to the state treasury**

The cost of a state EITC is minimal. If North Carolina had a 10-percent state EITC in place for 2007-2008, it would cost less than one percent of the current budget. Furthermore, piggybacking on the federal system minimizes the administrative cost of implementing a state EITC. Costs associated with processing and administering state EITC claims and changing tax forms to include a space for the state EITC would increase the overall cost of the credit by less than one percent.¹⁶

STATE EITC BENEFITS

A state Earned Income Tax Credit would further the federal EITC's goals--in particular, increasing tax fairness on the state level and supplementing the wages of many low- and moderate-income workers. A state EITC would also assist the many families with incomes above the poverty line who still struggle to make ends meet. In order to be effective, a North Carolina EITC should be refundable.

■ Improves North Carolina Tax Fairness

Improving tax fairness is the primary benefit of a state EITC. North Carolina's state and local tax structure is regressive, requiring low- and moderate-income taxpayers to pay more of their incomes in taxes than wealthier taxpayers. In 2003, the bottom 20 percent of North Carolina taxpayers paid 10.9 percent of their incomes in state and local taxes while the top 1 percent of taxpayers paid only 6.3 percent (**Figure 8**).¹⁷ This trend has worsened over time. North Carolina's poorest households experienced a net tax-liability increase between 1989 and 2002, the only income group to see an increase.

A refundable state EITC would be an effective targeted policy to increase fairness in the current state and local tax system and ensure the state's tax system does not push low- and moderate-income working families closer to or deeper into poverty. Taxpayers in the bottom 20 percent of income on average pay 10.6 percent of their income in taxes. A 10-percent state EITC would drop their share of taxes paid by .5 percentage points to 10.4 percent.

■ Supplements North Carolina Workers' Wages

In addition to decreasing the disproportionate share of state and local taxes paid by low- and moderate-income working families, a state EITC would also further supplement workers' wages. The number of workers receiving a refund, however, is dependent on the size of the state EITC. The higher a state EITC is set as a percentage of the federal EITC, the more families that will benefit. For example, a 10-percent state EITC would both offset state income taxes owed and provide a refund only to single parents with one child earning \$12,800 or less and married couples with two children earning less than \$24,500. The state credit would help families with higher incomes offset state personal income taxes owed.

Either way, a state EITC would increase families' abilities to afford basic necessities by offsetting all or part of North Carolina's regressive state and local taxes and providing a wage supplement to many families at the bottom of the earnings scale. Even as wages have stagnated over recent years, expenses such as child care, housing and health care have risen dramatically.

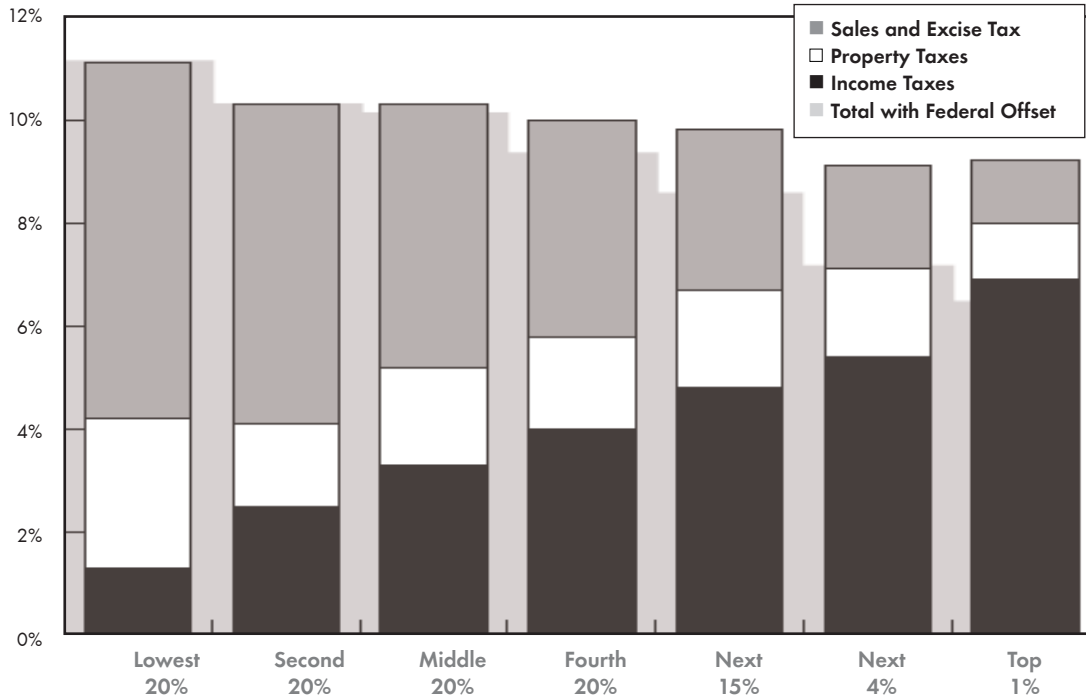
■ Complements the North Carolina Minimum-Wage Increase

On January 1, 2007, the North Carolina minimum wage was raised by \$1 from \$5.15 to \$6.15. North Carolina took a major step to improve wages with this increase; however, a state EITC would make the increase even more significant. Because income is an important factor in determining the value of the federal EITC and by extension the state EITC, an increase in annual earnings for many minimum-wage earners will also boost the value of their EITCs. A state EITC is a strong complement to the minimum-wage

FIGURE 8

NORTH CAROLINA STATE & LOCAL TAXES IN 2003

Shares of Family Income for Non-Elderly Taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
	Next 15%	Next 4%	TOP 1%				
Income Range	Less than \$15,000	\$15,000 – \$25,000	\$25,000 – \$39,000	\$39,000 – \$64,000	\$64,000 – \$124,000	\$124,000 – \$333,000	\$333,000 or more
Average Income in Group	\$9,100	\$19,700	\$31,300	\$50,100	\$84,800	\$176,800	\$813,800
Sales & Excise Taxes	6.9%	6.2%	5.1%	4.2%	3.1%	2.0%	1.2%
General Sales—Individuals	3.8%	3.5%	3.0%	2.6%	2.0%	1.3%	0.8%
Other Sales & Excise—Ind.	1.4%	1.2%	0.9%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.7%	1.5%	1.1%	0.9%	0.7%	0.4%	0.3%
Property Taxes	2.9%	1.6%	1.9%	1.8%	1.9%	1.7%	1.1%
Property Taxes on Families	2.8%	1.6%	1.9%	1.7%	1.8%	1.5%	0.7%
Other Property Taxes	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.4%
Income Taxes	1.3%	2.5%	3.3%	4.0%	4.8%	5.4%	6.9%
Personal Income Tax	1.2%	2.5%	3.2%	4.0%	4.7%	5.4%	6.6%
Corporate Income Tax	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.3%
TOTAL TAXES	11.0%	10.3%	10.4%	10.0%	9.8%	9.1%	9.2%
Federal Deduction Offset	-0.0%	-0.0%	-0.2%	-0.6%	-1.4%	-2.0%	-2.9%
TOTAL AFTER OFFSET	10.9%	10.3%	10.1%	9.4%	8.4%	7.2%	6.3%

NOTE: Table shows 2003 tax law at 2000 income levels; Source: Institute for Taxation & Economic Policy

increase because it shares the cost of fairly compensating hard-working families between the public and private sectors.

■ Lifts More North Carolina Families Out of Poverty

In cases when the federal EITC gets families very close to the federal poverty line, but not quite over it, a 10-percent EITC would be enough to lift those families out of poverty. In 2001, the National Center for Children in Poverty found that refundable state EITCs were effective in narrowing the poverty gap (the gap between income and poverty line) by 1.4 percent to 9 percent for children under the age of 18 living in families with at least one working parent.¹⁸ According to US Census data released in 2006, 18.8 percent of North Carolina's children (residents under age 18) lived in poverty in 2005, the same as in 2001. A North Carolina state EITC has the potential to lower the percentage of children living in poverty in this state.

EITC IS EFFECTIVE AND WELL-REGULATED

A frequently cited Internal Revenue Service study of EITC overpayments for tax year 1999 estimated that between 27 percent and 32 percent of the claims should not have been paid.¹⁹ Today, most researchers agree that the 1999 error rates were dramatically overstated. Additionally, the IRS has taken numerous measures over the past several years to ensure proper compliance, thus the current error rate is believed to be much lower than the 1999 estimate. Furthermore, fraud by our lowest-wage workers is not as problematic nor does it result in a significant loss of revenue compared to other credits and tax-evasion practices.

IRS STUDY LIKELY OVERSTATED 1999 ERROR RATE

The error rate was overstated for many reasons. First, it was a static number and did not take into account claims that had been denied but were reconsidered and honored after taxpayers challenged the initial ruling. A 2004 study found that 43 percent of taxpayers who challenged denials ultimately received the EITC at an average of 94 percent of the original claim amount.

Second, that 2004 study concluded that the number of challenges to the IRS is low given that EITC taxpayers may be too intimidated to challenge the IRS or may not even know that they can pursue their claims.²⁰ This suggests that a substantial portion of the EITC claims considered erroneous in 1999 were likely valid claims. Reporting to Congress in 2003, Nina Olson, the IRS Taxpayer Advocate, said she believes the 1999 study "overstates the overclaim rate."²¹ Olson has also stated that most of the error in the EITC is due to individuals mistakenly claiming the credit.

IRS HAS INITIATED NUMEROUS INITIATIVES TO REDUCE THE EITC ERROR RATE

The IRS has initiated a five-point initiative to improve EITC administration, expand public outreach programs, strengthen enforcement activities and enhance research efforts to reduce EITC overclaims and erroneous filings. Beginning in FY 2004, the IRS began testing three of the main concepts contained in its long-term vision for improving the EITC Program: certification of qualifying-child residency requirements, verification of filing status, and verification of income. A "pre-certification" initiative asks filers to provide documents prior to filing verifying many elements of their returns including the relationship to and

residency status of the qualifying child claimed, marriage status and income. A 2005 report prepared by the Deputy Inspector General of Audit found the IRS income-verification tests to be effective in reducing erroneous EITC payments.²² Earlier changes to simplifying the EITC enacted in 2001 are estimated to have reduced overpayments by approximately \$2 billion a year.²³

EITC ERROR IN THE CONTEXT OF OVERALL FEDERAL INCOME TAX ADMINISTRATION

When analyzed in the context of overall federal income tax administration, EITC error rates are very low. For example, in 1998, EITC errors amounted to one half of one percent of federal revenues and only 2.8 percent of the \$232 billion total amount of uncollected federal taxes.²⁴ This figure appears consistent for later years. Underpayment of taxes by individuals and corporations make up the overwhelming majority of tax revenue lost to fraud or error.²⁵

As recently as the summer of 2006, the National Taxpayer Advocate told the US Senate that the real emphasis on improving tax compliance, particularly with the federal EITC, should be on providing better tax services to help taxpayers navigate the tax code, rather than heavy enforcement. She calls for simpler tax laws and procedures and increased education and outreach. She acknowledged that the vast majority of misreporting is attributed to inadvertent error rather than intentional noncompliance.²⁶

LOW POTENTIAL FOR FRAUD AND ERROR FOR NORTH CAROLINA STATE EITC

If North Carolina adopts a state EITC, the revenue loss due to state EITC overclaims would be negligible. The state has automated processing equipment that can catch fraud such as multiple claims at the same address or duplicate Social Security numbers. Also, state EITC claims will be verified against federal claims, therefore the programs the IRS has implemented to reduce fraud and error would further reduce the amount of state EITC overpayments.

CONCLUSION

The federal EITC is an overwhelmingly successful program that helps hundreds of thousands of low- and moderate- income North Carolina families each year. A North Carolina state Earned Income Tax Credit would increase the impact of the federal EITC, enhancing economic security and providing workers with more income to pay for basic expenses. In particular, a state EITC is an effective tool to improve fairness in North Carolina's tax system, reducing the high proportional share of state and local taxes shouldered by the lowest- paid workers. A combined federal and state EITC would make a significant difference in improving the lives of more than 800,000 low- and moderate-income workers and their families in North Carolina.

The Internal Revenue Service has implemented effective procedures to detect error, and the program is now in line with other tax measures. Since a North Carolina EITC would simply be calculated as a percentage of the federal credit owed to a household, the administrative costs to the state would be negligible, while the benefit to hundreds of thousands of North Carolina working families would be significant.

APPENDIX 1

TY 03 FEDERAL EITC IN NORTH CAROLINA'S COUNTIES

HOW MUCH WOULD A STATE EITC PROVIDE TO NC'S WORKING FAMILIES IN FY 07-08?

County	# of EITC Claimants	% of Total Filers Claiming EITC	Total \$ Federal EITC Claims FY 2003	Average Federal EITC Benefit	Estimated Federal EITC to NC	Estimated # of 2007 EITC Claimants	Average Federal Benefit	NC State EITC Set at 5% of Federal	Average State EITC benefit at 5%	NC State EITC Set at 10% of Federal	Average State EITC benefit at 10%	NC State EITC Set at 15% of Federal	Average State EITC benefit at 15%
Alamance	11,956	20%	\$21,202,816	\$1,773	\$23,368,515	13,442	\$1,738	\$964,036	\$72	\$1,928,072	\$143	\$2,892,108	\$215
Alexander	2,692	19%	\$4,545,294	\$1,688	\$5,009,560	3,027	\$1,655	\$229,617	\$76	\$459,234	\$152	\$688,852	\$228
Alleghany	952	21%	\$1,582,201	\$1,662	\$1,743,810	1,070	\$1,629	\$79,929	\$75	\$159,858	\$149	\$239,787	\$224
Anson	3,603	36%	\$7,305,500	\$2,028	\$8,051,699	4,051	\$1,988	\$369,056	\$91	\$738,112	\$182	\$1,107,168	\$273
Ashe	2,243	21%	\$3,634,428	\$1,620	\$4,005,656	2,522	\$1,588	\$183,602	\$73	\$367,205	\$146	\$550,807	\$218
Avery	1,534	20%	\$2,526,968	\$1,647	\$2,785,078	1,725	\$1,615	\$127,656	\$74	\$255,313	\$148	\$382,969	\$222
Beaufort	5,511	28%	\$10,984,261	\$1,993	\$12,106,216	6,196	\$1,954	\$554,898	\$90	\$1,109,796	\$179	\$1,664,694	\$269
Bertie	3,349	40%	\$6,955,774	\$2,077	\$7,666,251	3,765	\$2,036	\$351,389	\$93	\$702,777	\$187	\$1,054,166	\$280
Bladen	3,783	35%	\$7,695,631	\$2,034	\$8,481,678	4,253	\$1,994	\$388,765	\$91	\$777,529	\$183	\$1,166,294	\$274
Brunswick	7,050	20%	\$12,745,309	\$1,808	\$14,047,141	7,926	\$1,772	\$643,862	\$81	\$1,287,724	\$162	\$1,931,586	\$244
Buncombe	17,056	18%	\$27,723,376	\$1,625	\$30,555,098	19,176	\$1,593	\$1,400,517	\$73	\$2,801,035	\$146	\$4,201,552	\$219
Burke	7,246	22%	\$12,660,763	\$1,747	\$13,953,959	8,147	\$1,713	\$639,591	\$79	\$1,279,182	\$157	\$1,918,773	\$236
Cabarrus	10,964	17%	\$19,809,341	\$1,807	\$21,832,707	12,327	\$1,771	\$1,000,720	\$81	\$2,001,439	\$162	\$3,002,159	\$244
Caldwell	7,444	23%	\$13,011,814	\$1,748	\$14,340,867	8,369	\$1,714	\$657,325	\$79	\$1,314,650	\$157	\$1,971,975	\$236
Camden	542	15%	\$889,472	\$1,641	\$980,324	609	\$1,609	\$44,934	\$74	\$89,868	\$147	\$134,802	\$221
Carteret	4,674	18%	\$7,998,281	\$1,711	\$8,815,242	5,255	\$1,678	\$404,054	\$77	\$808,107	\$154	\$1,212,161	\$231
Caswell	1,658	25%	\$3,025,211	\$1,825	\$3,334,212	1,864	\$1,789	\$152,826	\$82	\$305,653	\$164	\$458,479	\$246
Catawba	12,150	18%	\$20,963,390	\$1,725	\$23,104,633	13,660	\$1,691	\$1,059,019	\$78	\$2,118,039	\$155	\$3,177,058	\$233
Chatham	3,062	18%	\$5,419,997	\$1,770	\$5,973,607	3,443	\$1,735	\$273,805	\$80	\$547,610	\$159	\$821,415	\$239
Cherokee	2,382	24%	\$4,412,162	\$1,852	\$4,862,829	2,678	\$1,816	\$222,892	\$83	\$445,783	\$166	\$668,675	\$250
Chowan	1,557	26%	\$3,045,171	\$1,956	\$3,356,211	1,751	\$1,917	\$153,835	\$88	\$307,669	\$176	\$461,504	\$264
Clay	780	20%	\$1,342,283	\$1,721	\$1,479,387	877	\$1,687	\$67,809	\$77	\$135,618	\$155	\$203,427	\$232
Cleveland	10,272	25%	\$19,215,125	\$1,871	\$21,171,797	11,549	\$1,834	\$970,701	\$84	\$1,941,403	\$168	\$2,912,104	\$252
Columbus	6,915	33%	\$14,027,305	\$2,029	\$15,460,082	7,774	\$1,989	\$708,625	\$91	\$1,417,251	\$182	\$2,125,876	\$273
Craven	9,114	21%	\$17,253,578	\$1,893	\$19,015,894	10,247	\$1,856	\$871,609	\$85	\$1,743,217	\$170	\$2,614,826	\$255
Cumberland	36,497	28%	\$72,070,176	\$1,975	\$79,431,570	41,033	\$1,936	\$3,640,810	\$89	\$7,281,619	\$177	\$10,922,429	\$266
Currituck	1,439	16%	\$2,497,345	\$1,735	\$2,752,429	1,618	\$1,701	\$126,160	\$78	\$252,320	\$156	\$378,479	\$234
Dare	2,265	14%	\$3,495,176	\$1,543	\$3,852,180	2,547	\$1,513	\$176,568	\$69	\$353,136	\$139	\$529,703	\$208
Davidson	12,301	22%	\$22,053,216	\$1,793	\$24,305,776	13,830	\$1,757	\$1,114,075	\$81	\$2,228,149	\$161	\$3,342,224	\$242
Davie	2,352	15%	\$3,884,910	\$1,652	\$4,281,723	2,644	\$1,619	\$196,256	\$74	\$392,512	\$148	\$588,769	\$223
Duplin	5,804	33%	\$12,033,041	\$2,073	\$13,262,120	6,525	\$2,032	\$607,880	\$93	\$1,215,760	\$186	\$1,823,640	\$279
Durham	18,290	18%	\$33,201,527	\$1,815	\$36,592,798	20,563	\$1,780	\$1,677,260	\$82	\$3,354,520	\$163	\$5,031,781	\$245
Edgecombe	8,657	38%	\$18,104,079	\$2,091	\$19,953,266	9,733	\$2,050	\$914,574	\$94	\$1,829,148	\$188	\$2,743,722	\$282
Forsythe	25,484	17%	\$45,746,662	\$1,795	\$50,419,319	28,651	\$1,760	\$2,311,010	\$81	\$4,622,020	\$161	\$6,933,030	\$242
Franklin	4,001	22%	\$7,407,891	\$1,852	\$8,164,548	4,498	\$1,815	\$374,229	\$83	\$748,457	\$166	\$1,122,686	\$250
Gaston	16,623	21%	\$29,872,639	\$1,797	\$32,923,891	18,689	\$1,762	\$1,509,093	\$81	\$3,018,186	\$161	\$4,527,279	\$242
Gates	1,018	24%	\$1,957,862	\$1,923	\$2,157,842	1,145	\$1,885	\$98,906	\$86	\$197,813	\$173	\$296,719	\$259
Graham	847	27%	\$1,651,653	\$1,950	\$1,820,356	952	\$1,912	\$83,437	\$88	\$166,875	\$175	\$250,312	\$263
Granville	4,197	23%	\$7,599,560	\$1,811	\$8,375,795	4,719	\$1,775	\$383,911	\$81	\$767,822	\$163	\$1,151,734	\$244

Greene	1,894	32%	\$3,801,868	\$2,007	\$4,190,199	2,129	\$1,968	\$192,061	\$90	\$384,122	\$180	\$576,183	\$271
Guilford	38,310	19%	\$68,916,999	\$1,799	\$75,956,321	43,072	\$1,763	\$3,481,519	\$81	\$6,963,038	\$162	\$10,444,556	\$242
Halifax	8,248	37%	\$16,790,914	\$2,036	\$18,505,972	9,273	\$1,996	\$848,236	\$91	\$1,696,472	\$183	\$2,544,708	\$274
Harnett	8,061	25%	\$15,138,563	\$1,878	\$16,684,847	9,063	\$1,841	\$764,763	\$84	\$1,529,527	\$169	\$2,294,290	\$253
Haywood	4,475	19%	\$7,603,708	\$1,699	\$8,380,366	5,031	\$1,666	\$384,121	\$76	\$768,242	\$153	\$1,152,362	\$229
Henderson	6,277	15%	\$10,582,051	\$1,686	\$11,662,923	7,057	\$1,653	\$534,579	\$76	\$1,069,159	\$151	\$1,603,738	\$227
Hertford	3,100	37%	\$6,326,240	\$2,041	\$6,972,415	3,485	\$2,001	\$319,586	\$92	\$639,172	\$183	\$958,759	\$275
Hoke	3,984	37%	\$8,188,414	\$2,055	\$9,024,795	4,479	\$2,015	\$413,659	\$92	\$827,317	\$185	\$1,240,976	\$277
Hyde	620	31%	\$1,189,685	\$1,919	\$1,311,202	697	\$1,881	\$60,100	\$86	\$120,200	\$172	\$180,300	\$259
Iredell	9,971	17%	\$17,194,422	\$1,724	\$18,950,695	11,210	\$1,690	\$868,620	\$77	\$1,737,241	\$155	\$2,605,861	\$232
Jackson	2,385	18%	\$3,916,093	\$1,642	\$4,316,091	2,681	\$1,610	\$197,831	\$74	\$395,663	\$148	\$593,494	\$221
Johnston	9,313	20%	\$17,347,112	\$1,863	\$19,118,981	10,471	\$1,826	\$876,334	\$84	\$1,752,668	\$167	\$2,629,001	\$251
Jones	1,266	29%	\$2,406,077	\$1,901	\$2,651,839	1,423	\$1,863	\$121,549	\$85	\$243,098	\$171	\$364,647	\$256
Lee	5,865	23%	\$11,236,597	\$1,916	\$12,384,326	6,594	\$1,878	\$567,645	\$86	\$1,135,291	\$172	\$1,702,936	\$258
Lenoir	7,702	29%	\$14,759,924	\$1,916	\$16,267,533	8,659	\$1,879	\$745,635	\$86	\$1,491,271	\$172	\$2,236,906	\$258
Lincoln	5,168	18%	\$8,915,632	\$1,725	\$9,826,293	5,810	\$1,691	\$450,396	\$78	\$900,792	\$155	\$1,351,188	\$233
Macon	2,345	17%	\$3,972,419	\$1,694	\$4,378,170	2,636	\$1,661	\$200,677	\$76	\$401,354	\$152	\$602,031	\$228
Madison	1,636	21%	\$2,743,342	\$1,677	\$3,023,553	1,839	\$1,644	\$138,587	\$75	\$277,174	\$151	\$415,761	\$226
Martin	3,231	31%	\$6,599,874	\$2,043	\$7,273,999	3,633	\$2,002	\$333,410	\$92	\$666,819	\$184	\$1,000,229	\$275
McDowell	3,968	23%	\$6,844,124	\$1,725	\$7,543,197	4,461	\$1,691	\$345,748	\$78	\$691,497	\$155	\$1,037,245	\$233
Mecklenburg	58,491	17%	\$107,132,160	\$1,832	\$118,074,857	65,761	\$1,796	\$5,412,056	\$82	\$10,824,111	\$165	\$16,236,167	\$247
Mitchell	1,273	20%	\$2,125,386	\$1,670	\$2,342,477	1,431	\$1,637	\$107,369	\$75	\$214,739	\$150	\$322,108	\$225
Montgomery	2,847	29%	\$5,662,608	\$1,989	\$6,240,998	3,201	\$1,950	\$286,061	\$89	\$572,122	\$179	\$858,183	\$268
Moore	5,949	18%	\$11,038,171	\$1,855	\$12,165,632	6,688	\$1,819	\$557,621	\$83	\$1,115,243	\$167	\$1,672,864	\$250
Nash	10,342	26%	\$20,582,903	\$1,990	\$22,685,283	11,627	\$1,951	\$1,039,798	\$89	\$2,079,596	\$179	\$3,119,394	\$268
New Hanover	12,541	16%	\$20,991,311	\$1,674	\$23,135,406	14,100	\$1,641	\$1,060,430	\$75	\$2,120,860	\$150	\$3,181,290	\$226
Northampton	3,010	36%	\$6,081,865	\$2,021	\$6,703,079	3,384	\$1,981	\$307,241	\$91	\$614,482	\$182	\$921,723	\$272
Onslow	15,380	23%	\$29,805,529	\$1,938	\$32,849,926	17,292	\$1,900	\$1,505,703	\$87	\$3,011,405	\$174	\$4,517,108	\$261
Orange	5,237	10%	\$7,835,202	\$1,496	\$8,635,505	5,888	\$1,467	\$395,815	\$67	\$791,631	\$134	\$1,187,446	\$202
Pamlico	1,105	25%	\$2,064,607	\$1,868	\$2,275,490	1,242	\$1,832	\$104,299	\$84	\$208,598	\$168	\$312,897	\$252
Pasquotank	3,880	26%	\$7,572,302	\$1,952	\$8,345,752	4,362	\$1,913	\$382,534	\$88	\$765,068	\$175	\$1,147,603	\$263
Pender	3,987	24%	\$7,603,012	\$1,907	\$8,379,599	4,483	\$1,869	\$384,086	\$86	\$768,171	\$171	\$1,152,257	\$257
Perquimans	1,082	22%	\$2,113,727	\$1,954	\$2,329,627	1,216	\$1,915	\$106,780	\$88	\$213,561	\$176	\$320,341	\$263
Person	3,364	22%	\$5,851,308	\$1,739	\$6,448,972	3,782	\$1,705	\$295,594	\$78	\$591,188	\$156	\$886,781	\$234
Pitt	14,236	25%	\$27,635,704	\$1,941	\$30,458,471	16,005	\$1,903	\$1,396,088	\$87	\$2,792,177	\$174	\$4,188,265	\$262
Polk	1,327	16%	\$2,353,490	\$1,774	\$2,593,880	1,492	\$1,739	\$118,893	\$80	\$237,785	\$159	\$356,678	\$239
Randolph	9,826	20%	\$17,648,889	\$1,796	\$19,451,582	11,047	\$1,761	\$891,579	\$81	\$1,783,158	\$161	\$2,674,737	\$242
Richmond	6,079	34%	\$12,198,850	\$2,007	\$13,444,865	6,835	\$1,967	\$616,256	\$90	\$1,232,512	\$180	\$1,848,769	\$271
Robeson	20,328	42%	\$43,243,216	\$2,127	\$47,660,166	22,855	\$2,085	\$2,184,542	\$96	\$4,369,084	\$191	\$6,553,626	\$287
Rockingham	8,547	23%	\$14,817,099	\$1,734	\$16,330,548	9,609	\$1,699	\$748,524	\$78	\$1,497,047	\$156	\$2,245,571	\$234
Rowan	9,868	20%	\$17,482,867	\$1,772	\$19,268,603	11,094	\$1,737	\$883,192	\$80	\$1,766,384	\$159	\$2,649,575	\$239
Rutherford	5,956	24%	\$10,819,892	\$1,817	\$11,925,058	6,696	\$1,781	\$546,595	\$82	\$1,093,189	\$163	\$1,639,784	\$245
Sampson	6,416	29%	\$12,812,056	\$1,997	\$14,120,705	7,213	\$1,958	\$647,234	\$90	\$1,294,468	\$179	\$1,941,702	\$269
Scotland	4,879	36%	\$10,276,935	\$2,106	\$11,326,642	5,485	\$2,065	\$519,166	\$95	\$1,038,331	\$189	\$1,557,497	\$284
Stanly	4,711	19%	\$8,469,304	\$1,798	\$9,334,376	5,297	\$1,762	\$427,849	\$81	\$855,697	\$162	\$1,283,546	\$242
Stokes	3,200	17%	\$5,510,930	\$1,722	\$6,073,828	3,598	\$1,688	\$278,399	\$77	\$556,798	\$155	\$835,196	\$232
Surry	6,644	22%	\$11,679,832	\$1,758	\$12,872,834	7,470	\$1,723	\$590,037	\$79	\$1,180,073	\$158	\$1,770,110	\$237
Swain	1,939	27%	\$3,193,486	\$1,647	\$3,519,675	2,180	\$1,615	\$161,327	\$74	\$322,654	\$148	\$483,981	\$222

(cont.)

APPENDIX 1 (CONTINUED)

TY 03 FEDERAL EITC IN NORTH CAROLINA'S COUNTIES										HOW MUCH WOULD A STATE EITC PROVIDE TO NC'S WORKING FAMILIES IN FY 07-08?									
County	# of EITC Claimants	% of Total Filers Claiming EITC	Total \$ Federal EITC Claims FY 2003	Average Federal EITC Benefit	Estimated Federal EITC to NC	Estimated # of 2007 EITC Claimants	Average Federal Benefit	NC State EITC Set at 5% of Federal	Average State EITC benefit at 5%	NC State EITC Set at 10% of Federal	Average State EITC benefit at 10%	NC State EITC Set at 15% of Federal	Average State EITC benefit at 15%						
Transylvania	2,006	16%	\$3,351,449	\$1,671	\$3,693,773	2,255	\$1,638	\$169,307	\$75	\$338,614	\$150	\$507,921	\$225						
Tyrell	594	39%	\$1,244,931	\$2,096	\$1,372,091	668	\$2,055	\$62,891	\$94	\$125,782	\$188	\$188,673	\$283						
Union	9,111	15%	\$16,669,690	\$1,830	\$18,372,366	10,243	\$1,794	\$842,112	\$82	\$1,684,224	\$164	\$2,526,336	\$247						
Vance	6,847	35%	\$13,745,406	\$2,008	\$15,149,390	7,698	\$1,968	\$694,384	\$90	\$1,388,769	\$180	\$2,083,153	\$271						
Wake	39,461	12%	\$67,240,989	\$1,704	\$74,109,120	44,366	\$1,670	\$3,396,851	\$77	\$6,793,702	\$153	\$10,190,553	\$230						
Warren	2,027	37%	\$4,007,911	\$1,977	\$4,417,287	2,279	\$1,938	\$202,470	\$89	\$404,940	\$178	\$607,410	\$267						
Washington	1,798	34%	\$3,635,009	\$2,022	\$4,006,296	2,021	\$1,982	\$183,632	\$91	\$367,264	\$182	\$550,895	\$273						
Watauga	2,267	14%	\$2,949,622	\$1,301	\$3,250,902	2,549	\$1,275	\$149,008	\$58	\$298,015	\$117	\$447,023	\$175						
Wayne	11,950	26%	\$22,733,397	\$1,902	\$25,055,432	13,435	\$1,865	\$1,148,436	\$85	\$2,296,872	\$171	\$3,445,307	\$256						
Wilkes	5,691	22%	\$9,889,564	\$1,738	\$10,899,704	6,398	\$1,704	\$499,597	\$78	\$999,193	\$156	\$1,498,790	\$234						
Wilson	8,748	28%	\$17,457,873	\$1,996	\$19,241,056	9,835	\$1,956	\$881,929	\$90	\$1,763,858	\$179	\$2,645,788	\$269						
Yadkin	2,852	18%	\$4,899,221	\$1,718	\$5,399,637	3,206	\$1,684	\$247,497	\$77	\$494,993	\$154	\$742,490	\$232						
Yancey	1,516	22%	\$2,516,305	\$1,660	\$2,773,326	1,704	\$1,627	\$127,118	\$75	\$254,235	\$149	\$381,353	\$224						

ENDNOTES

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- 7 References to full-time assumes a 40 hour work week for 52 weeks per year. References to part-time or half-time assumes a 20 hour work week for 52 weeks per year.
- 8 Calculations do not include North Carolina state and local taxes or other federal credits and assume the taxpayer takes the standard deduction.
- 9 Holt, Steve. "The Earned Income Tax Credit at Age 30: What We Know." Brookings Institution, February 2006.
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- 11 Data obtained from the Brookings Institute Zip Code Level Data derived from the Electronic Tax Administration- Tax Year 2003. Data based on number of tax filers who claimed the EITC for tax year 2003.
- 12 Analysis based on definitions of "rural" and "urban" counties taken from NC Rural Economic Development Center and applied to the Brookings Institute Zip Code Level Data derived from the Electronic Tax Administration- Tax Year 2003.
- 13 Nagle, Ami and Nicholas Johnson. "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2006." Center on Budget and Policy Priorities, March 2006.
- 14 Projection based on analysis of total federal EITC claimants in North Carolina for tax years 2000-2003. The number of claimants increased, on average, by 2.5% annually. The average increase was used to calculate the projection for the number of filers who are estimated to claim the federal EITC in 2008. In 2003, 733,465 filers claimed the EITC. Applying the average increase in claimants, by 2008, 845,150 filers are estimated to claim the credit. One explanation for the increase in claimants is that while the federal EITC is adjusted annually for inflation, wages for low-paid workers are growing slower than inflation. This results in an increase in filers who are eligible for the credit each year.
- 15 The cost of a North Carolina state EITC for 2008, 2009 and 2010 was estimated by first calculating the 2004 share of Federal EITC payments that went to North Carolina (3.52%). This percentage was then multiplied by 2005 Congressional Budget Office (CBO) projections of the future costs of the federal EITC (2007-2008: \$42.3 billion, 2008-2009: \$43.5 billion, and 2009-2010: \$43.9 billion) to find the estimated amount of federal claim dollars North Carolina will receive in future years. If everyone eligible for the federal EITC claimed the state EITC, the next step would be to simply multiply the estimated federal EITC for North Carolina by the various percentages by which the state EITC could be set (5%, 10%, 15%, etc). However, research suggests that in practice a fair portion of taxpayers who claim the federal EITC do not also claim the state EITC. Therefore, the state EITC cost estimates were reduced by 10% assuming a 90% participation rate in the state EITC by federal EITC participants. This explains why the state EITC cost estimates are not a direct percentage of the future year federal EITC projections. The average benefit is based on 2007 EITC parameters. Sources: IRS Master File, posted to IRS website-Statistics of Income Bulletins; Center on Budget and Policy Priorities "How Much Would a State EITC Cost?" and Congressional Budget Office Factsheet: "Earned Income Tax Credit and Child Credit Outlays: March 2006 Baseline"
- 16 Levitis, Jason A. "How Much Would a State Earned Income Tax Credit Cost?" Center on Budget and Policy Priorities, February 2006.
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NORTH CAROLINA JUSTICE CENTER

Opportunity and Prosperity for All

224 S. Dawson Street • P.O. Box 28068 • Raleigh, NC 27611
919/856-2570 voice • 919/856-2175 fax • www.ncjustice.org • info@ncjustice.org

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