

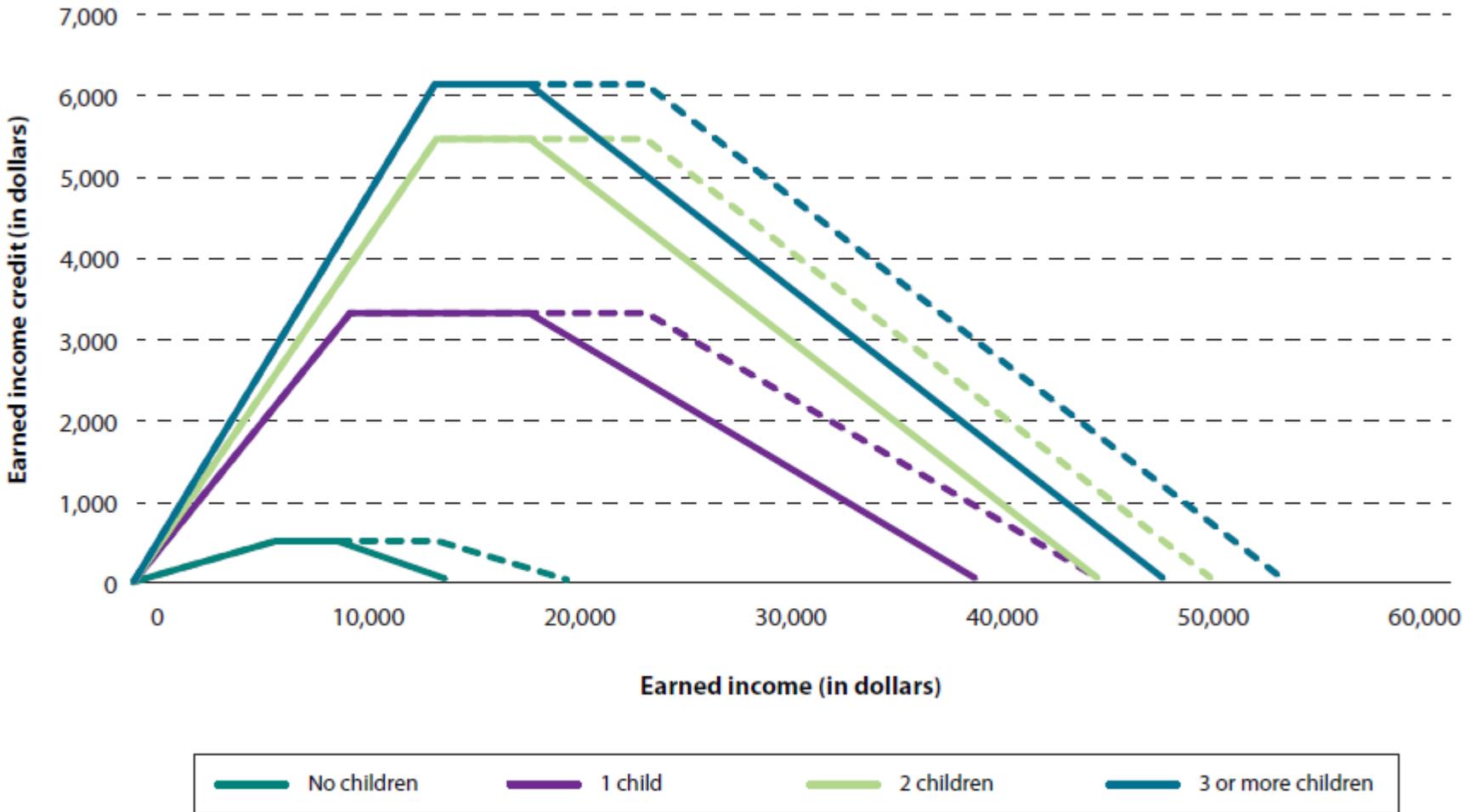
EITC and South Carolina

Jessica Hennessey
Assistant Professor of Economics
Furman University
May 21, 2015

**REVIEW:
EARNED INCOMETAX CREDIT
(EITC)**

FIGURE 11-1.

Earned Income Tax Credit Amount by Earnings Level and Number of Children, 2014



Source: Urban-Brookings Tax Policy Center 2014.

Source: Hoynes, *Building on the Success of the Earned Income Tax Credit*, The Hamilton Project, 2014.

Impact of EITC – Labor Supply

- Labor Supply
 - Income effect: earn more income, work less
 - Substitution effect: work is more valuable: work more
- Evidence
 - Labor force participation
 - Increases for single mothers (Meyer and Rosenbaum 2001, Eissa and Liebman 1996)
 - Single mothers wind up experiencing long term income growth; they were not just taking dead end jobs (Dahl et al, 2009)
 - Slight decrease for married women (Eissa and Hoynes 2004)
 - Hours of work: no effect
 - EITC expansion in 1990s moved an estimated 500,000 families from cash welfare assistance to work (Dikert 1995)

Impact of EITC - family

- Health
 - Improved mental health for mothers with a high school degree or lower who had two or more children. Also, increased probability of mothers reporting excellent or very good health status overall. (Evans and Garthwaite, 2014)
 - Increased EITC income reduces the incidence of low birth weight and increases mean birth weight. For single mothers with 12 years of education or less, an increase of \$1000 in EITC was associated with a 7% reduction in low birth weight rate. (Hoynes et al, 2012).
- Education
 - \$1,000 increase in income raises combined math and reading test scores by 6 percent of a standard deviation. These effects are 2-3 times as large for children of non-white, unmarried, and less educated mothers. (Dahl and Lochner, 2012).
 - \$1,000 increase in tax credits raises students' test scores by 6% of a standard deviation leading to an increased probability of college attendance, higher earnings, reduction in teen birth rates, and improving the quality of neighborhood the kids live as adults. The results suggest that a substantial fraction of the cost of tax credits may be offset by earnings gains in the long run. (Chetty et al, 2011)
- Long term outcomes on kids
 - \$3000 increase in household income as a child is associated with 19% higher earnings as an adult and 135 hour increase in adult work hours (Duncan et al, 2010)

Impact of EITC – Poverty

- Brookings Institution analysis of Supplemental Poverty Measure Public Use Data
 - EITC kept 6.3 million (3.2 mil children) out of poverty in 2012
 - In SC, 96,000 (56,000 children)
 - In 2013, overall, lowered poverty rate by 2.9 percentage points...lowered child poverty rate by 6.4 percentage points
- Neumark and Wascher (2001) show that state EITCs increase transition out of poverty
- Gunderson and Ziliak (2004) suggest that the expansions in the federal Earned Income Tax Credit of the 1990s accounts for upwards of 50 percent of the reduction in after-tax income deprivation
- EITC contributed as much to decline in receipt of cash welfare among female headed families as did time limits and other welfare forms (Grogger, 2003)
- Many EITC recipients claim the credit for short periods and mostly to offset the temporary costs of a child's birth or spouses' loss of income. (Dowd and Horowitz, 2011)
- Uses of EITC are divided into those that improve economic and social mobility (car, tuition, move) and those that primarily help make ends meet (bills, food). (Smeeding et al 2000).

Multiplier Effect

- Refundable tax credit
 - Often constitutes largest payment households receive all year
 - Marginal propensity to consume is high
 - Significant spending on kids, durable goods (appliances), housing, and transportation (Romich and Weisner 2000)
- As summarized by Noble (2012), every \$1 of EITC realized generates economic activity of
 - \$1.07 in Nashville
 - \$1.40 in Fresno
 - \$1.58 in San Antonio
 - \$1.67 in Michigan

STATE EITC

Structure

- Model off of federal EITC
 - Shown to be successful
 - Lowers administrative burden
- Three dimensions on which it can vary:
 - % of federal
 - Refundable or not
 - Eligible family structures
- How cost of program is determined
 - # of families claiming federal EITC
 - % of federal credit
 - Refundable/non-refundable
 - Degree of information dissemination

Table 1
State Earned Income Tax Credits

State	Percentage of Federal Credit (Tax Year 2014 Except as Noted)	Refundable?
Colorado ^a	10%	Yes
Connecticut ^b	27.5%	Yes
Delaware	20%	No
District of Columbia	40%	Yes
Illinois	10%	Yes
Indiana ^c	9%	Yes
Iowa	15%	Yes
Kansas	17%	Yes
Louisiana	3.5%	Yes
Maine	5%	No
Maryland ^d	25%	Yes
Massachusetts	15%	Yes
Michigan	6%	Yes
Minnesota ^e	Average 33%	Yes
Nebraska	10%	Yes
New Jersey	20%	Yes
New Mexico	10%	Yes
New York	30%	Yes
Ohio ^f	5%	No
Oklahoma	5%	Yes
Oregon ^g	8%	Yes
Rhode Island ^h	25%	Partially
Vermont	32%	Yes
Virginia	20%	No
Washington ⁱ	Scheduled to be 10% when implemented	Yes
Wisconsin	4% – one child 11% – two children 34% – three children No credit for childless workers	Yes

^a Colorado's EITC will take effect when the state's revenues surpass the state's revenue limit known as TABOR.
^b Connecticut's EITC was cut back to 25 percent from 30 percent due to revenue shortfalls. However, the value of the credit is scheduled to increase back to 30 percent by tax year 2015.
^c Indiana decoupled from federal provisions allowing for a larger credit for families with three or more children and a higher income phaseout for married couples.
^d 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.
^e 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.
^f Ohio's EITC is limited to half of income taxes owed on income above \$20,000.
^g Oregon's EITC is set to expire at the end of tax year 2019.
^h Just 15 percent of Rhode Island's EITC is refundable (i.e., 3.75 percent of the federal EITC).
ⁱ Washington's EITC will likely be worth 10 percent of the federal credit or \$50, whichever is greater.

NC experience

- The state EITC was originally created during the 2007 legislative session and was set at 3.5 percent of the federal credit.
- The North Carolina legislature increased the state EITC to 5 percent during the 2008 legislative session.
- In 2009, it also introduced a bill to further expand the state EITC to 6.5 percent of the federal credit, but it did not pass.
- In February 2011, bills were introduced to eliminate the refundable portion of the state's EITC. After extensive debate in committee, during which members from both sides of the aisle indicated concerns with this proposal, the vote was postponed and the legislature never moved forward with this effort.
- In June 2012 the House and Senate passed a bill that has been signed by the Governor that extends the EITC for one year.
- In 2013, North Carolina passed legislation to reduce the state EITC from 5 percent to 4.5 percent of the federal credit for tax year 2013 and allowed it to expire after. It is the only state to eliminate a state EITC.

Impact of State EITC?

- Effect on poverty
 - Cannot observe the effect of state EITCs on poverty
 - The Supplemental Poverty Measure only measures the federal EITC not any state EITCs
- Multiplier effect
 - Local spending increases
 - Job creation
 - Berube (2006) cites one new permanent job for every \$37,000 increased in EITC realization

SOUTH CAROLINA EITC

Link to data visualizations

County level data

<http://tinyurl.com/SCEITCcounty>

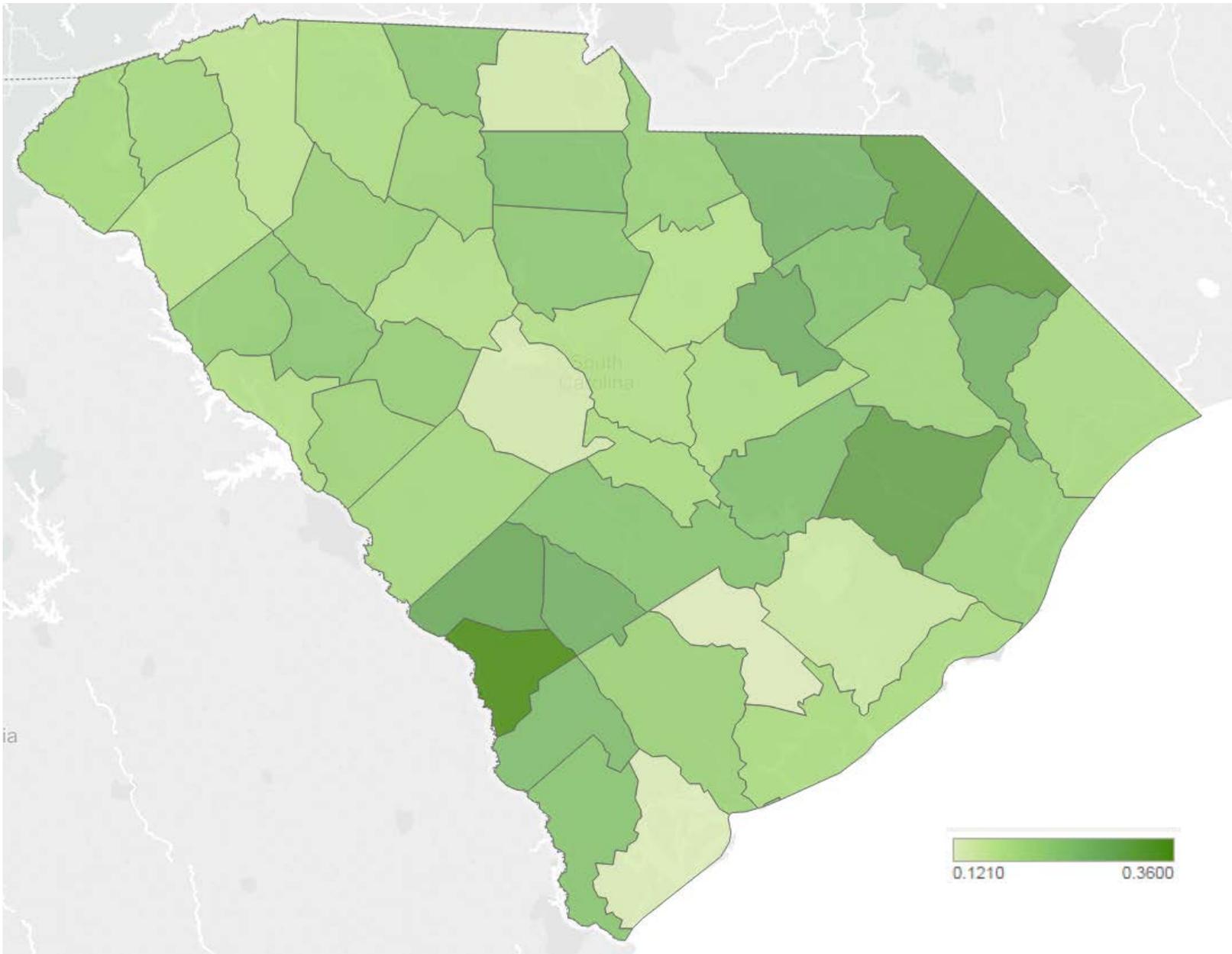


Zip code level data

<http://tinyurl.com/SCEITCzip>

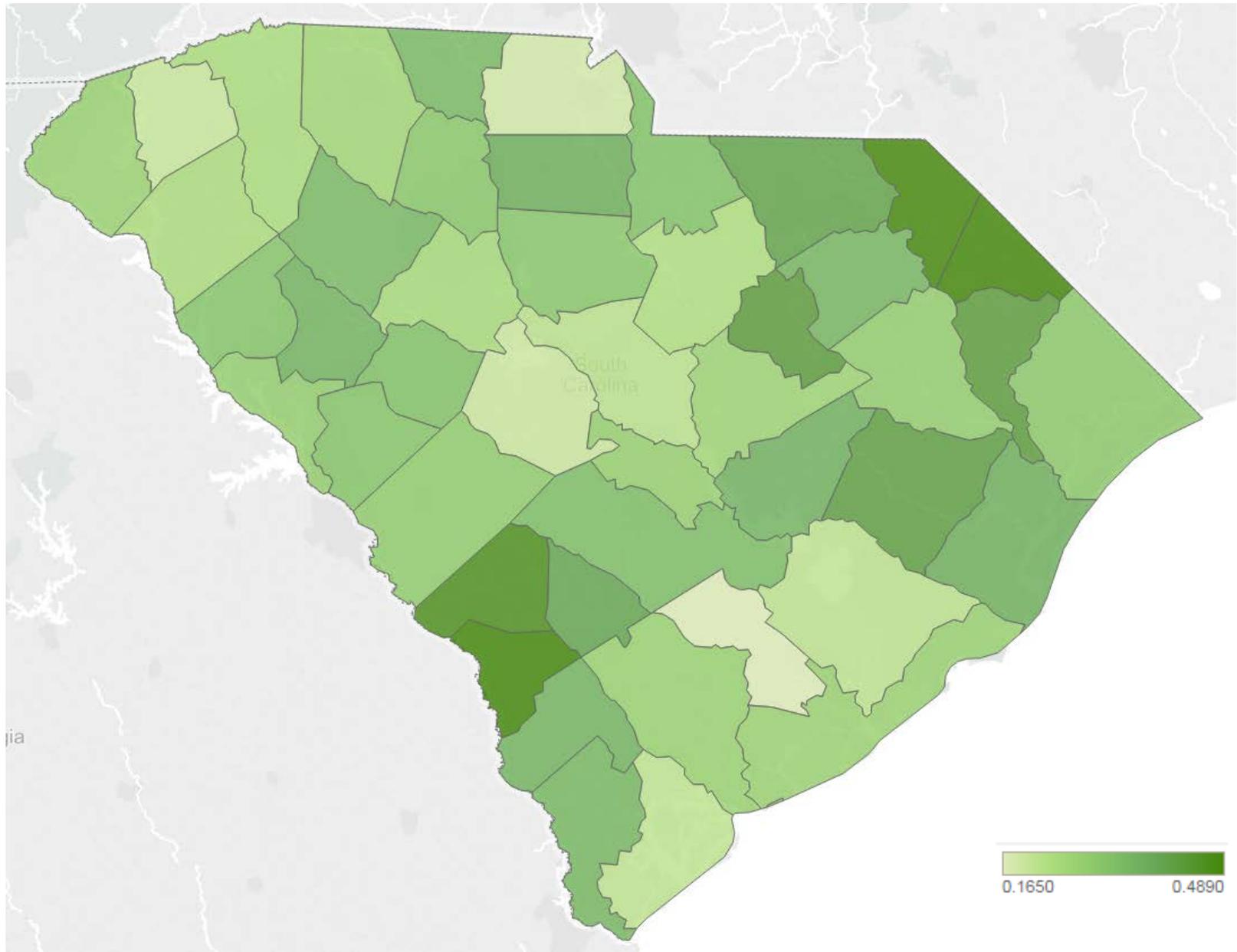


Percent below Federal Poverty Line (FPL)



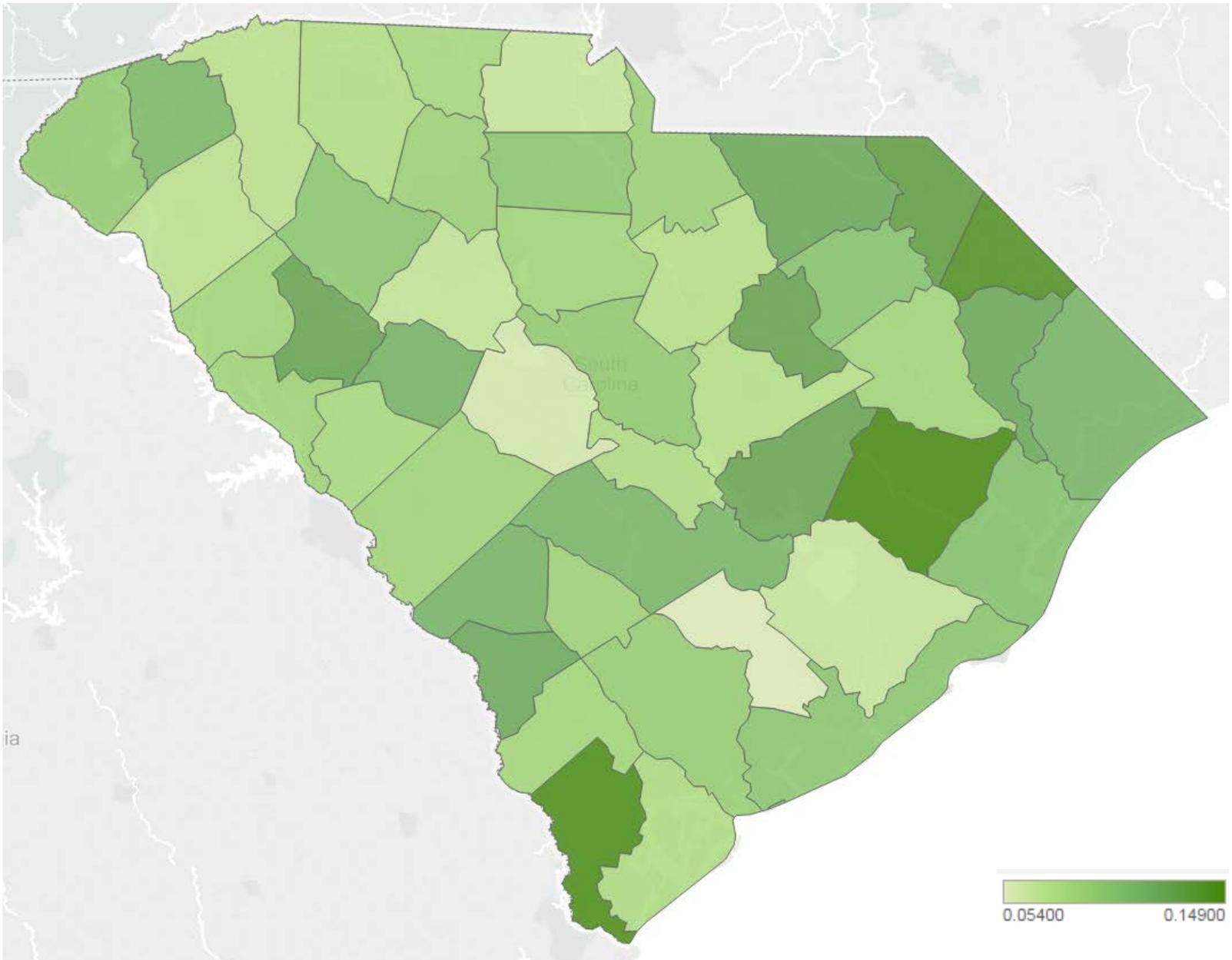
Source: U.S. Census Bureau; American Community Survey, 2013 American Community Survey 5 Year Estimates, Table S1701

Percent of children below Federal Poverty Line (FPL)



Source: U.S. Census Bureau; American Community Survey, 2013 American Community Survey 5 Year Estimates, Table S1701

Percent of employed below Federal Poverty Line (FPL)



Source: U.S. Census Bureau; American Community Survey, 2013 American Community Survey 5 Year Estimates, Table S1701

South Carolina

EITC-eligible population

TOTAL POP. IN EITC-ELIGIBLE UNITS

1,135,684

TOTAL CHILDREN IN EITC-ELIGIBLE UNITS

511,151

EITC-eligible tax unit characteristics

FILING STATUS

24.0% Married filing jointly

50.9% Head of household

25.1% Single

MEDIAN ADJUSTED GROSS INCOME

\$13,099

SHARE RECEIVING FOOD STAMPS/SNAP

35.7%

EITC-eligible tax filer characteristics

HIGHEST LEVEL OF EDUCATION

HIGH SCHOOL OR LESS 54.2%

SOME COLLEGE OR ASSOCIATE'S 35.2

BACHELOR'S OR HIGHER 10.6

TOP FIVE INDUSTRIES

ACCOMODATION, FOOD SERVICES 12.9%

HEALTH CARE 12.7

RETAIL TRADE 12.7

MANUFACTURING 11.8

CONSTRUCTION 10.1

TOP LANGUAGES SPOKEN

ENGLISH 92.5%

SPANISH 5.9

OTHER 1.6

TOP FIVE OCCUPATIONS

OFFICE AND ADMINISTRATIVE 11.1%

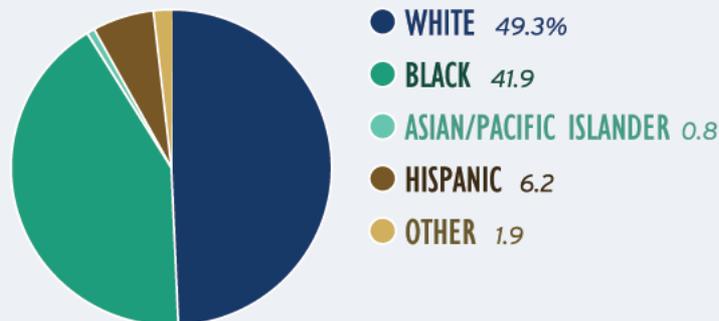
SALES 11.1

FOOD PREP. AND REL. SERVICE OCCUPATIONS 10.4

PRODUCTION 10.1

CONSTRUCTION, EXTRACTION 8.9

RACE AND ETHNICITY OF TAX FILER

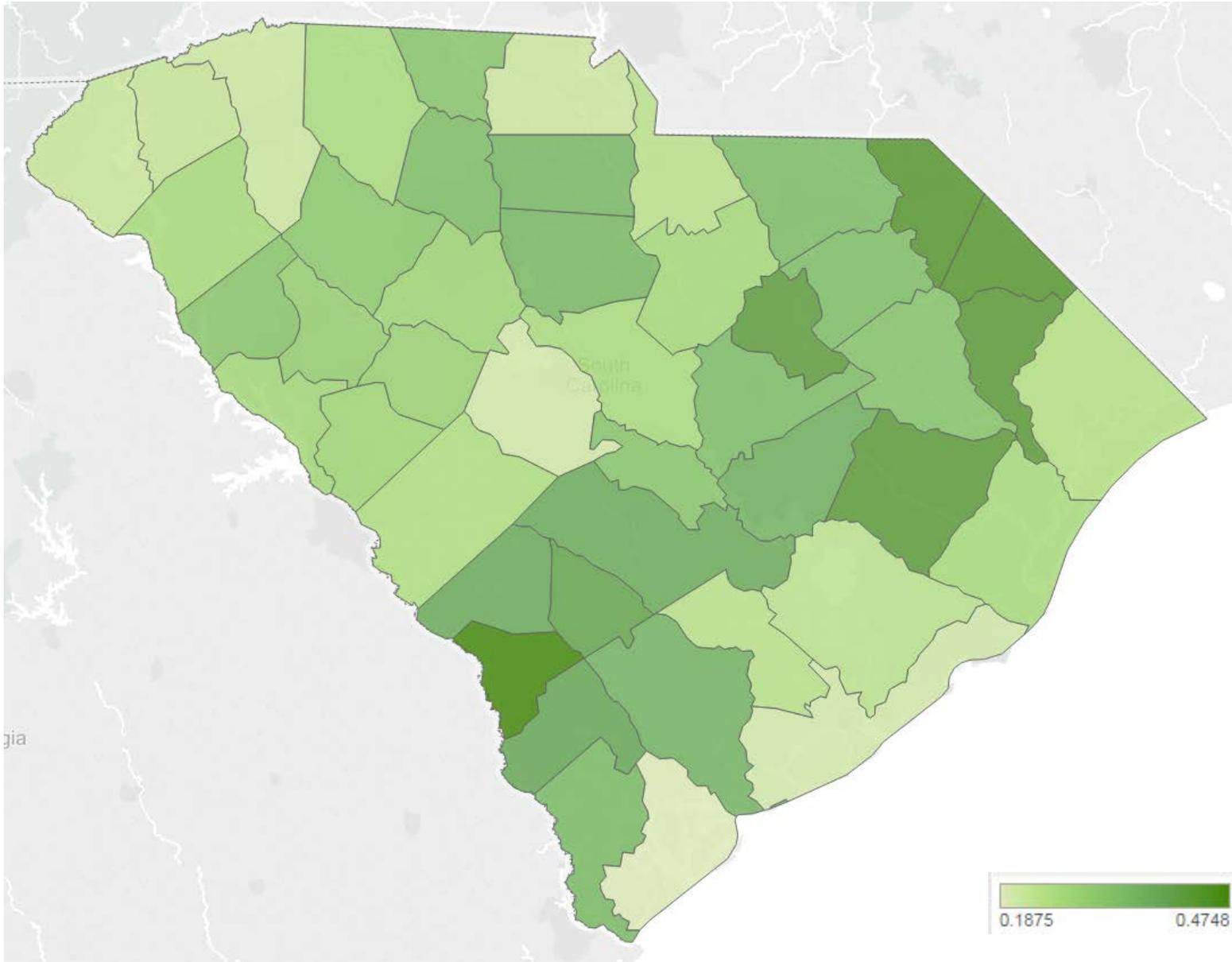


NOTES AND SOURCES

Source: MetroTax model estimates based on 2010 American Community Survey microdata.

For more details, visit brookings.edu/eitc-profiles to see the Profiles User Guide.

Percent of tax returns receiving EITC



Source: 2013 Brookings tax return data, <http://www.brookings.edu/research/interactives/eitc>

SC Fiscal Impact – March 2015

- Proposed
 - Refundable state EITC
 - Initially equal to 10% of the federal EITC
 - Increase by 2.5% each year until state EITC is equal to 20%
- Impact
 - \$140,900,000 in FY 2015-6
- Method
 - Take people's anticipated federal amounts (\$1,409,000,000)
 - Assume they get 10% = \$140,900,000

Alternative calculation

Proposed South Carolina State EITC

2012 SC Data	Total	As % of Federal
Number of claims	507,210	1.83%
Value of Claims	1,222,899,000	1.90%

Projected 2014 EITC Data		
Total EITC Federal Expenditures	69,200,000,000	
Estimated SC Claims	1,317,691,191	1.90%

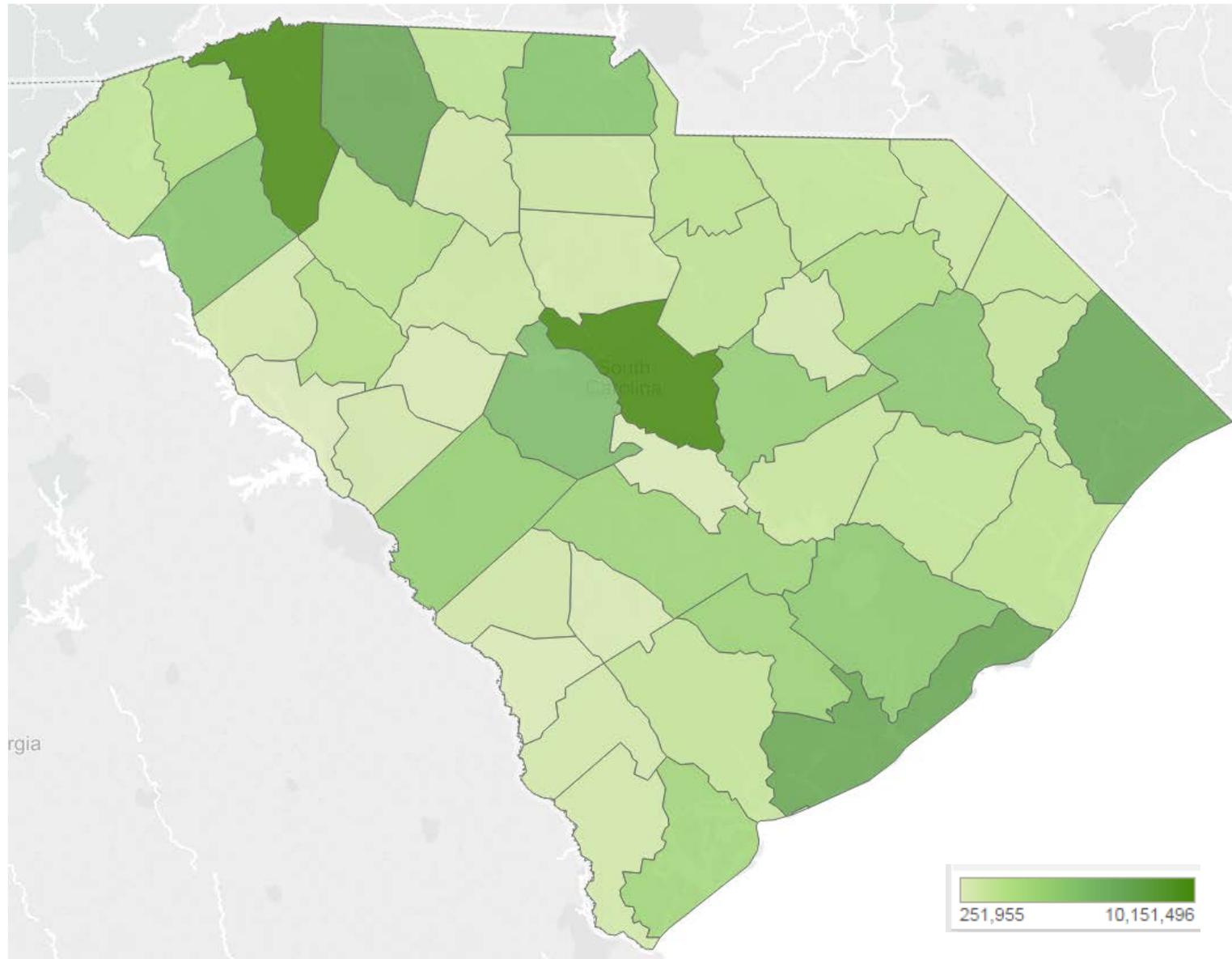
Estimated Cost of State EITC	10% of Federal	20% of Federal
<i>Assumption</i> : Percent of federal claiming state EITC		
100%	131,769,119	263,538,238
90%	118,592,207	237,184,414

Sources:

Claims data from IRS Statistics of Income, Tax Year 2012, <http://www.irs.gov/uac/SOI-Tax-Stats-Historic-Table-2>

Projected EITC expenditure from Joint Committee on Taxation estimates of federal tax expenditures, 8 August 2014.

Estimated State EITC payments (10% of federal)



SC State EITC as a Percent of State Revenue

Appropriation Act's Estimate of Tax Revenues (12 Jan 2015)

Retail Sales Tax	2,648,893,000
Individual Income Tax	3,012,820,102
Corporate Income Tax	304,298,869
Other revenue	715,450,031
<i>Total Regular Sources of Revenue</i>	<i>6,622,654,071</i>
Total Sources of All Revenue	9,783,449,162

Estimated Cost of State EITC in FY2015-16	10% of Federal	20% of Federal
<i>100% claiming</i>	140,900,000	281,800,000

EITC as a % of Revenue	10% of Federal	20% of Federal
Individual Income Tax	4.68%	9.35%
Total Income and Sales Tax	2.36%	4.72%
Total Regular Revenue	2.13%	4.26%
Total Revenue	1.44%	2.88%

Sources:
 Appropriation Act estimate of revenues, http://www.scstatehouse.gov/sess121_2015-2016/appropriations2015/gab3701.php

South Carolina State & Local Taxes in 2015

Income Group	Lowest	Second	Middle	Fourth	Top 20%		
	20%	20%	20%	20%	Next 15%	Next 4%	TOP 1%
Income Range	Less than \$17,000	\$17,000 – \$28,000	\$28,000 – \$44,000	\$44,000 – \$76,000	\$76,000 – \$148,000	\$148,000 – \$376,000	\$376,000 or more
Average Income in Group	\$10,000	\$22,400	\$34,800	\$58,300	\$101,500	\$215,700	\$937,400
Sales & Excise Taxes	5.1%	4.7%	3.9%	3.1%	2.3%	1.4%	0.7%
General Sales—Individuals	2.7%	2.6%	2.3%	1.9%	1.4%	0.9%	0.5%
Other Sales & Excise—Ind.	1.1%	0.9%	0.7%	0.5%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.3%	1.1%	0.9%	0.7%	0.5%	0.3%	0.2%
Property Taxes	2.3%	1.5%	2.1%	2.0%	1.7%	1.7%	1.5%
Property Taxes on Families	2.3%	1.5%	1.9%	1.8%	1.5%	1.1%	0.5%
Other Property Taxes	0.1%	0.0%	0.2%	0.2%	0.2%	0.6%	1.0%
Income Taxes	0.1%	0.8%	1.8%	3.0%	3.9%	3.8%	3.5%
Personal Income Tax	0.1%	0.8%	1.8%	3.0%	3.9%	3.8%	3.4%
Corporate Income Tax	0.0%	—	0.0%	0.0%	0.0%	0.0%	0.1%
Total Taxes	7.5%	7.0%	7.8%	8.1%	7.9%	6.9%	5.7%
Federal Deduction Offset	-0.0%	-0.1%	-0.2%	-0.4%	-0.8%	-1.1%	-1.2%
OVERALL TOTAL	7.5%	6.9%	7.6%	7.6%	7.2%	5.8%	4.5%

Summary

- **Benefits**
 - Work incentive
 - Impact on health, education, and poverty
 - Fiscal stimulus for local areas
 - Offset current tax burden

- **Costs**
 - Funding
 - Overlooks an underlying problem in favor of a “quick fix”
 - Non compliance (24%)
 - Overclaims based on a 2008 study of the federal program are estimated to be somewhere between \$14.0 billion and \$19.3 billion.
 - Likely more error (could be reduced by tax assistance) than fraud

References

- Berube, A. (2006). Using the Earned Income Tax Credit to stimulate local economies. *Living Cities Policy Series*, 2.
- Chetty, Raj, John N. Friedman, and Jonah Rockoff. (2011). Impacts of Tax Credits, <http://www.irs.gov/pub/irs-soi/11rpchettyfriedmanrockoff.pdf>
- Dahl, M., DeLeire, T., & Schwabish, J. (2009). Stepping stone or dead end? The effect of the EITC on earnings growth. *National Tax Journal*, 329-346.
- Dahl, Gordon B., and Lance Lochner. (2012). The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit. *American Economic Review*, 102(5): 1927-56.
- Dickert, S., Houser, S., & Scholz, J. K. (1995). The earned income tax credit and transfer programs: a study of labor market and program participation. In *Tax Policy and the Economy*, Volume 9 (pp. 1-50). MIT Press.
- Dowd, Tim and John B. Horowitz. (2011). Income Mobility and the Earned Income Tax Credit Short-Term Safety Net or Long-Term Income Support. *Public Finance* 39(5), 619-652.
- Duncan, G. J., Ziol-Guest, K. M., & Kalil, A. (2010). Early-Childhood Poverty and Adult Attainment, Behavior, and Health. *Child development*, 81(1), 306-325.
- Eissa, N., & Hoynes, H. W. (2004). Taxes and the labor market participation of married couples: the earned income tax credit. *Journal of Public Economics*, 88(9), 1931-1958.
- Eissa, Nada, and Jeffrey Liebman. (1996). Labor Supply Response to the Earned Income Tax Credit. *Quarterly Journal of Economics*, 111(2), 605-37.
- Evans, William N. and Garthwaite, Craig L. Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health. *American Economic Journal: Economic Policy*, forthcoming 2014.
- Grogger, Jeffrey. (2002). The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families. *Review of Economics and Statistics*, 85(2), 394-408.
- Gundersen, C., & Ziliak, J. P. (2004). Poverty and macroeconomic performance across space, race, and family structure. *Demography*, 41(1), 61-86.
- Hoynes, H. W., Miller, D. L., & Simon, D. (2012). Income, the earned income tax credit, and infant health (No. w18206). National Bureau of Economic Research.
- Meyer, Bruce D. and Rosenbaum, Dan T. (2001). Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers. *Quarterly Journal of Economics*, 116(3), pp. 1063-1114.
- Neumark, David and William Wascher. (2001). Using the EITC to Help Poor Families: New Evidence and a Comparison with the Minimum Wage. *National Tax Journal*, 54(2), pp. 281-317.
- Noble, S. (2012). The earned income tax credit: good for our families, communities, and economy. National Community Tax Coalition, Annie E. Casey Foundation, WK Kellogg Foundation, and the Rockefeller Foundation.
- Romich, J. L., & Weisner, T. (2000). How families view and use the EITC: Advance payment versus lump sum delivery. *National tax journal*, 1245-1265.
- Smeeding, T. M., Phillips, K. R., & O'Connor, M. (2000). The EITC: Expectation, knowledge, use, and economic and social mobility. *National tax journal*, 1187-1209.