EITC and South Carolina

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REVIEW: EARNED INCOME TAX CREDIT (EITC)
FIGURE 11-1.
Earned Income Tax Credit Amount by Earnings Level and Number of Children, 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
States can adopt or expand Earned Income Tax Credits to build a stronger future economy, CBPP.
Table 1
State Earned Income Tax Credits

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

<sup>a</sup> Colorado’s EITC will take effect when the state’s revenues surpass the state’s revenue limit known as TABOR.
<sup>b</sup> 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.
<sup>c</sup> 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.
<sup>d</sup> 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.
<sup>e</sup> 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 15 percent credit.
<sup>f</sup> Ohio’s EITC is limited to half of income taxes owed on income above $20,000.
<sup>g</sup> Oregon’s EITC is set to expire at the end of tax year 2019.
<sup>h</sup> Just 15 percent of Rhode Island’s EITC is refundable (i.e., 3.75 percent of the federal EITC).
<sup>i</sup> Washington’s EITC will likely be worth 10 percent of the federal credit or $50, whichever is greater.

Source: Williams and Leachman, 30 Jan 2014, States can adopt or expand Earned Income Tax Credits to build a stronger future economy, CBPP.
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 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 LANGUAGES SPOKEN
ENGLISH 92.5%
SPANISH 5.9
OTHER 1.6

TOP FIVE INDUSTRIES
ACCOMODATION, FOOD SERVICES 12.9%
HEALTH CARE 12.7
RETAIL TRADE 12.7
MANUFACTURING 11.8
CONSTRUCTION 10.1

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

- WHITE 49.3%
- BLACK 41.9
- ASIAN/PACIFIC ISLANDER 0.8
- HISPANIC 6.2
- OTHER 1.9

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

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

## Proposed South Carolina State EITC

### 2012 SC Data

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>As % of Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of claims</td>
<td>507,210</td>
<td>1.83%</td>
</tr>
<tr>
<td>Value of Claims</td>
<td>1,222,899,000</td>
<td>1.90%</td>
</tr>
</tbody>
</table>

### Projected 2014 EITC Data

<table>
<thead>
<tr>
<th></th>
<th>Total EITC Federal Expenditures</th>
<th>Estimated SC Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total EITC Federal Expenditures</td>
<td>69,200,000,000</td>
<td>1,317,691,191</td>
</tr>
<tr>
<td>Estimated SC Claims</td>
<td></td>
<td>1.90%</td>
</tr>
</tbody>
</table>

### Estimated Cost of State EITC

<table>
<thead>
<tr>
<th>Assumption: Percent of federal claiming state EITC</th>
<th>10% of Federal</th>
<th>20% of Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>131,769,119</td>
<td>263,538,238</td>
</tr>
<tr>
<td>90%</td>
<td>118,592,207</td>
<td>237,184,414</td>
</tr>
</tbody>
</table>

### Sources:


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)**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales Tax</td>
<td>2,648,893,000</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>3,012,820,102</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>304,298,869</td>
</tr>
<tr>
<td>Other revenue</td>
<td>715,450,031</td>
</tr>
<tr>
<td><strong>Total Regular Sources of Revenue</strong></td>
<td><strong>6,622,654,071</strong></td>
</tr>
<tr>
<td><strong>Total Sources of All Revenue</strong></td>
<td><strong>9,783,449,162</strong></td>
</tr>
</tbody>
</table>

**Estimated Cost of State EITC in FY2015-16**

<table>
<thead>
<tr>
<th>Claiming Method</th>
<th>10% of Federal</th>
<th>20% of Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% claiming</td>
<td>140,900,000</td>
<td>281,800,000</td>
</tr>
</tbody>
</table>

**EITC as a % of Revenue**

<table>
<thead>
<tr>
<th>Source</th>
<th>10% of Federal</th>
<th>20% of Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>4.68%</td>
<td>9.35%</td>
</tr>
<tr>
<td>Total Income and Sales Tax</td>
<td>2.36%</td>
<td>4.72%</td>
</tr>
<tr>
<td>Total Regular Revenue</td>
<td>2.13%</td>
<td>4.26%</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>1.44%</td>
<td>2.88%</td>
</tr>
</tbody>
</table>

**Sources:**

State-Local Tax Burdens as a Percentage of State Income, FY 2011

Notes:
As a unique state-local entity, Washington, DC is not included in rankings, but the figure in parentheses shows where it would rank.

Sources:
Tax Foundation calculations using data from Census Bureau, Rockefeller Institute, Bureau of Economic Analysis, Council on State Taxation, and Travel Industry Association. See www.taxfoundation.org/burdens.

taxfoundation.org/burdens

### South Carolina State & Local Taxes in 2015

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Lowest 20%</th>
<th>Second 20%</th>
<th>Middle 20%</th>
<th>Fourth 20%</th>
<th>Next 15%</th>
<th>Next 4%</th>
<th>TOP 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Range</td>
<td>Less than $17,000</td>
<td>$17,000 – $28,000</td>
<td>$28,000 – $44,000</td>
<td>$44,000 – $76,000</td>
<td>$76,000 – $148,000</td>
<td>$148,000 – $376,000</td>
<td>or more</td>
</tr>
<tr>
<td>Average Income in Group</td>
<td>$10,000</td>
<td>$22,400</td>
<td>$34,800</td>
<td>$58,300</td>
<td>$101,500</td>
<td>$215,700</td>
<td>$937,400</td>
</tr>
</tbody>
</table>

#### Sales & Excise Taxes

- 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

- Property Taxes on Families: 2.3% - 1.5% - 2.1% - 2.0% - 1.7% - 1.7% - 1.5%
- Other Property Taxes: 0.1% - 0.0% - 0.2% - 0.2% - 0.2% - 0.6% - 1.0%

#### Income Taxes

- Personal Income Tax: 0.1% - 0.8% - 1.8% - 3.0% - 3.9% - 3.8% - 3.5%
- Corporate Income Tax: 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) that fraud
References


