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Purpose

This white paper summarizes the current landscape of the North Carolina Earned Income Tax Credit and attempts to consider ways it can evolve to better the lives of low-income residents in North Carolina. In addition, the paper uses other state EITC programs as examples of successful campaigns that North Carolina can mirror. Also, the paper discusses how raising the North Carolina EITC can benefit low-income residents and why, in fact, the percentage should be raised. Finally, this paper suggests possible studies, which can be done to discover the impact the EITC has on residents of North Carolina.

Overview

The Federal EITC is a refundable tax credit given to low and moderate income working families. Enacted in 1975 under Gerald Ford, it was expanded under the Reagan, Bush Sr. and Clinton administrations to become the nation’s largest antipoverty program for working families. One of the most effective and widely supported federal programs, the Federal EITC raises nearly 5 million people over the poverty line each year. Research has shown this credit creates tax fairness and promotes entry into the workforce. In 2008, the maximum Federal EITC benefit was $4,824 for families with two or more children and $2,917 for families with one child. Individual workers without children can also claim the credit but their benefit is much lower than that of workers with families. The largest EITC benefits go to working families with incomes below the poverty level. Because the credit is refundable, it is able to offset any federal taxes owed and the remaining credit is received as a refund. This is important because it is this refund that allows for working families to benefit economically. With this refund, families can pay off past debt, invest in education or childcare and finance decent housing. The EITC has also been shown to help boost local economies as it provides an increase in purchasing power. It is a strong work incentive that supplements wages and lift families out of poverty.

In tax year 2005, 770,644 working families, 21 percent of all NC taxpayers, filed for the federal credit and received a total of more than $1.5 billion, an average of $1,950 per family. Enacting a state EITC would only increase the impact of the EITC for low income working families.
Indeed, this is why in 2007, North Carolina enacted a state EITC program to supplement the Federal EITC. It is a refundable tax credit modeled off the Federal EITC, meaning it uses the same eligibility requirements and is set as a percentage of the federal credit. It is currently set at a rate of 3.5 percent of the federal credit. Only North Carolina and Louisiana have percentages set this low. For the tax year 2009, North Carolina has raised the percentage to 5 percent of the federal credit. While this increase will help, a much larger increase will be needed to help raise North Carolina’s low-income families out of poverty.

**Examples of Other State EITCs**

Including North Carolina, there are 24 states and the District of Columbia, which have enacted EITC programs. There are also two local EITC programs in New York City and Montgomery County, Maryland. In 2008, Washington became the first state without a broad based income tax to enact a state EITC program. The reason so many states have begun to enact their own state EITC programs is because of the positive impact it is having on low to moderate income families. The District of Columbia has the highest state EITC percentage, set at 40 percent. The success of their EITC program is based on local outreach programs and support from local legislators. In 2004, some 92 percent of those who benefited from the Federal EITC also benefited from the D.C. EITC.\(^5\) In 2005, one in six D.C. households received the state EITC.

While D.C.\(^6\) has a much smaller population than North Carolina, there are other similarly sized states that have proven success with the state EITC, such as New York. In 2004, 1.3 million families received almost $670 million in state EITC credits making it the largest state EITC in the nation in terms of the total value of tax credits provided.\(^7\) It has been raised six times since its initial enactment and is currently at 30 percent. The success of both of these programs is due in part to the success of community outreach programs as well as pressure from local public and private groups applied to state legislatures. If North Carolina can follow in the footsteps of these successful programs, over 825,000 families would benefit.

**Benefit of an increase in the state EITC percentage**

The benefit of raising the state EITC percentage is vast. One element of a strong state EITC policy is to set the percentage to at least 15% of the Federal EITC. This is because credit levels should be large enough to ensure that working poor families receive adequate support to benefit
from the program. While any benefit can help, currently at 5%, the maximum benefit a family with two or more children can receive is around $241. At 15%, the maximum benefit would be $723 for a family with two or more children. That is three times the amount. With the extra benefit, the total maximum refund they could receive would be $5,547. For a low income working family, this additional amount can prove to be extremely important.

**Need For More Studies**

Since North Carolina’s EITC program is fairly new, in order to raise awareness and push for an increase in its percentage, more studies need to be conducted. Currently, there is no research on the impact the current state EITC program is having on low income working residents of North Carolina. Some suggestions for studies are:

- One study could first find out where the concentration of federal and state EITC returns is filed. Then, take the raw numbers of who and where people are filing and compare those numbers to past filing numbers to see if the state EITC has increased the number of filers in the state.

- Another study could find the impact the EITC is having by evaluating the economic impact on local economies. One would research each legislative district to see if, and how the economy has benefited since the enactment of the EITC. Compare this to number of households who filed for the federal and state EITC in order to find if there may be a correlation.

- An additional study can illustrate the impact the EITC is having on local residents by conducting personal interviews with families who are actually receiving the credit. These personal anecdotes can be a supplement to analytical research to show the human response to the benefit of having a state EITC program.

- Finally, a study can be done to compare the cost of the program to the state to the amount of the benefit given to low income families. With this study, legislatures can be shown how the benefit is well worth the cost.

**Conclusion**

It is important to realize the success of a strong state EITC program. With it, low and moderate-income families have a much better chance of raising themselves out of poverty. Without it, families are left to struggle to meet the basic needs of survival. North Carolina should follow in
the footsteps of places such as New York and the District of Columbia and raise their percentage to help supplement the Federal EITC. This raise in the percentage is needed, but without further research, the full extent of the benefit cannot be known. There is no better time than now to advocate for the low and moderate income working families of North Carolina. An increase in the EITC state percentage, if combined with the Federal EITC, can provide a significant difference in improving the lives of North Carolina families.
Endnotes


4 “Quick FAQ’s and Statistics” EITC-Carolinas.org


