

# HB 262 Moves Kentucky Forward: Earned Income Tax Credit (EITC)

## **A refundable state EITC would help families lift themselves out of poverty and would offer important opportunities to build assets.**

Between 2000 and 2005, Kentucky's deep poverty rate increased 26%. Our poverty rate and deep poverty rate are both chronically higher than the national averages. Allowing poverty to thrive will erode the foundations of our state; in fact, Education Week reports that a child born in Kentucky is significantly less likely to succeed than children born in 40 other states because of the effects of poverty. A refundable state EITC is an opportunity for families to lift themselves out of poverty. When we help people move out of poverty, we help move Kentucky Forward!

## **The federal EITC has been called the most successful anti-poverty program ever developed**

- The federal EITC is a refundable tax credit benefiting nearly 20 million working poor families, including more than 350,000 Kentuckians (“refundable” means eligible families receive the credit even if they don’t owe federal income tax.)
- The EITC is designed to reduce overall taxes and reward work by offsetting costs such as childcare and transportation faced by working families.
- The size of the EITC is based on income and family status. Once a taxpayer’s income reaches a certain amount, the credit reaches its peak, after which it begins to phase out.
- The largest federal credit--\$4,536—goes to families with two or more children with incomes from \$11,300 to \$16,850. All benefits go to families with less than \$39,783 in annual income. (2007)
- For a single parent of one child who makes \$7.50 an hour, the federal EITC results in an effective wage increase of \$1.32 an hour.

## **Kentucky can do better. Support the refundable state EITC**

- 23 states including the District of Columbia have passed EITCs, including 3 surrounding states.
- In Kentucky, about 20% of all tax filers (more than 350,000 filers) would be eligible for a state EITC. (2005 IRS)
- A refundable EITC (15% of the federal EITC) would direct about \$90 million to working poor families, helping to address rising costs of gasoline, heat and housing.
- A refundable state EITC would also help offset the unfairness of state and local taxes, which take a larger percentage of the incomes of the working poor.

## **What would a 15% state EITC provide to Kentucky’s working poor? (2007)**

Family status	Income range where EITC is greatest	Income where the credit phases out	Maximum amount of federal credit	Maximum amount of state credit at 15%
Single/no children	\$5,100-\$6,750	\$12,590	\$412	\$ 61.80
Joint/no children	\$5,100-\$8,750	\$14,590	\$412	\$ 61.80
Single/1 child	\$8,050-\$14,850	\$35,241	\$2,747	\$ 412.05
Joint/1 child	\$8,050-\$16,850	\$37,241	\$2,747	\$ 412.05
Single, 2+ children	\$11,300-\$14,850	\$37,783	\$4,536	\$ 680.40
Joint/2+ children	\$11,300-\$16,850	\$39,783	\$4,536	\$ 680.40