

Move 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 EITC has been called the most successful anti-poverty program ever

- 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 child care 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, \$4,824, goes to families with two or more children with incomes from \$12,060 to \$18,740. All benefits go to families with less than \$41,626 in annual income. (2008)
- For a single parent of one child who makes \$7.50 an hour, the federal EITC results in an effective wage increase of about \$1.35 an hour.

Kentucky can do better. Support the refundable state EITC

- 24 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? (2008)

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	\$438	\$ 65.70
Joint/no children	\$5,100-\$8,750	\$14,590	\$438	\$ 65.70
Single/1 child	\$8,050-\$14,850	\$35,241	\$2,917	\$ 437.55
Joint/1 child	\$8,050-\$16,850	\$37,241	\$2,917	\$ 437.55
Single, 2+ children	\$11,300-\$14,850	\$37,783	\$4,824	\$ 723.60
Joint/2+ children	\$11,300-\$16,850	\$39,783	\$4,824	\$ 723.60

