

Kentucky Needs an 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.

Kentucky's deep poverty rate increased 26 percent from 2000 to 2005, and our poverty rate and deep poverty rate are both chronically higher than the national averages. Poverty erodes the foundations of our state. 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. We need to offer more opportunities for working families to lift themselves out of, and away from, poverty.

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 300,000 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 credit is \$4,716 for a taxpayer with two children and an annual income between \$10,750 and \$16,760. Roughly 60% of benefits go to families earning below \$20,000. 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 300,000 families) would be eligible for a state EITC.
- A refundable EITC (15% of the federal EITC) would direct about \$75 to \$85 million to working poor families and their local economies, 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 bite from the incomes of the working poor than of the wealthy.

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
Single/no children	\$5,100-\$6,710	\$12,590	\$428	\$ 61.80
Joint/no children	\$5,100-\$8,710	\$14,590	\$428	\$ 61.80
Single/1 child	\$7,660-\$14,760	\$35,241	\$2,853	\$ 412.05
Joint/1 child	\$7,660-\$16,760	\$37,241	\$2,853	\$ 412.05
Single, 2+ children	\$10,750-\$14,370	\$37,783	\$4,716	\$ 680.40
Joint/2+ children	\$10,750-\$16,760	\$39,783	\$4,716	\$ 680.40

Sources: Marguerite Casey Foundation, *Earned Income Tax Credit: Analysis and Proposals for Reform*, 2005; State EITC Online Resource Center (www.stateeitc.com); Kentucky Youth Advocates website (www.kyouth.org); Education Week 2007