

A STATE EITC IN ARKANSAS: **REINFORCING THE BRIDGE OUT OF POVERTY**



APRIL 2016





About one in five
Arkansans who are eligible
for federal tax credits
don't receive them.

April 2016

Arkansas Advocates for Children and Families

Central Arkansas Office:
Union Station
1400 W. Markham St., Suite 306
Little Rock, AR 72201
(501) 371-9678

Northwest Arkansas Office:
614 E. Emma Avenue, Suite 235
Springdale, AR 72764
(479) 927-9800

A STATE EITC IN ARKANSAS: REINFORCING THE BRIDGE OUT OF POVERTY

by Eleanor Wheeler, Senior Policy Analyst
April 2016



It's time for Arkansas to adopt its own earned income tax credit (EITC). An Arkansas EITC would supplement the wildly successful federal version which helps working families across the nation make ends meet with credits at tax time.

The credits are usually spent on catching up on bills, furthering education, or providing essentials for kids, like school clothes. A state EITC would be a powerful new anti-poverty and tax fairness tool in Arkansas, a tool that has proven to be incredibly successful in other states.

But don't thousands of Arkansans already claim an EITC every year? That is true, but they are only claiming the federal version. There is no state-level EITC in Arkansas. If the federal EITC is a well-worn bridge out of poverty, a state EITC is a reinforcing beam. Most states (26 plus the District of Columbia) are putting in those reinforcing beams because they know how important and effective that bridge out of poverty is for millions of Americans.



If the **federal EITC** is a well-worn bridge out of poverty, a **state EITC** is a reinforcing beam.



A STATE EITC CAN CHANGE THE LIVES OF WORKING PARENTS AND THEIR KIDS

You have to earn money to get an EITC, and it is designed to increase up to a certain income level, and then taper off when taxpayers achieve a more livable income range. With broad bipartisan support, tax credits for working families have been helping parents move up the income ladder since the 1970s. President Reagan called it “the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.”¹ Let’s take a closer look at all of the ways an EITC can be a turning point in the lives of working families:

- **EITCs help people get and keep jobs.** One key design of the EITC is that you have to work to get it, and for the lowest income families, the credit increases with every extra dollar of earned income. That aspect is proven again and again to encourage people to work, and allow them the opportunity to move up the income ladder. Promoting work also lowers the need for social safety net programs. It is easier to get a promotion if you can invest in an education, or afford a reliable car to get you to work. In the 1990s, the EITC did more to increase employment among single mothers² than any other policy change at the time, and it was more effective at reducing welfare caseloads than the substantial improvements in the economy.³ The moms who had access to EITCs in the 1990s also ended up with higher wages in later years compared to those who didn’t.⁴
- **EITCs reduce poverty for good.** The increased wages from the “pro-work” aspect of the EITC make it the single most effective program for reducing child poverty because when parents do better, kids do better, too.⁵ The EITC is responsible for lifting 6.2 million people out of poverty every year, including 3.2 million children.⁶ Arkansas has historically been among the worst states for adult and child poverty and child well-being. The EITC is a deliberate, practical way to help Arkansans dig out of our state’s severe poverty problem. The EITC is important for workers later in life, too. The EITC encourages work, and those extra wages increase social security benefits later in life.

- **EITCs improve outcomes for children across the board.** When parents have access to EITCs, their kids succeed in a variety of categories. Increases in EITCs have been linked to improved infant and maternal health, better test scores for elementary and middle school students, a better chance at attending college, and higher salaries decades down the road.⁷ Again, it is a simple calculation; when parents do better, kids do better, too.
- **EITCs improve the local economies where families live.** Tax credit refunds are usually spent close to home. Economists estimate that for every \$1 in EITC, there is a \$1.5 to \$2 impact on the local economy.⁸ That means more business for local stores, more job opportunities, and a stronger community.

More Arkansans are finding jobs as we recover from the recession, but even full-time wages are often too low for families to make ends meet.⁹ The median wage in Arkansas (about \$30,500) is also considerably lower than the national average (about \$35,000 a year).¹⁰ Our wages are even low compared to our neighboring states with similar demographics and economies. If you take into account racial inequities, the job quality picture gets even worse. African-American workers in Arkansas make a median wage that is about \$4 an hour (or \$8,000 a year) less than white workers, and that gap has roughly prevailed for the past 20 years. The EITC is a straightforward way to help working families who are struggling with low wages, and move our families out of poverty for good.

In addition to enacting a state EITC, there is an opportunity for Arkansas policymakers to promote more federal EITC awareness and participation. About one in five Arkansans who are eligible for federal tax credits don't receive them.¹¹ Many people who fail to participate simply don't know that they qualify. Free tax assistance programs like Volunteer Income Tax Assistance (VITA) help low-income people correctly file their taxes so that they don't miss out, but there is still a lot of room for improvement. The only significant outreach in Arkansas is from a network of private groups that promotes EITCs through advertising, community information events, and VITA sites. The state of Arkansas has a lot to gain by partnering with these groups and investing in a coordinated, state-wide campaign. Every working Arkansan who doesn't claim their credit leaves federal money on the table and out of the economy.

312,000 households in Arkansas could be changed by a state EITC.¹² Who are they?

- 32,000** veteran and military families¹³
- 143,000** families living in rural areas¹⁴
- 173,000** young workers (18-34) in Arkansas received one or more federal tax credits in 2012¹⁵

And over **298,000** of our most vulnerable children.¹⁶



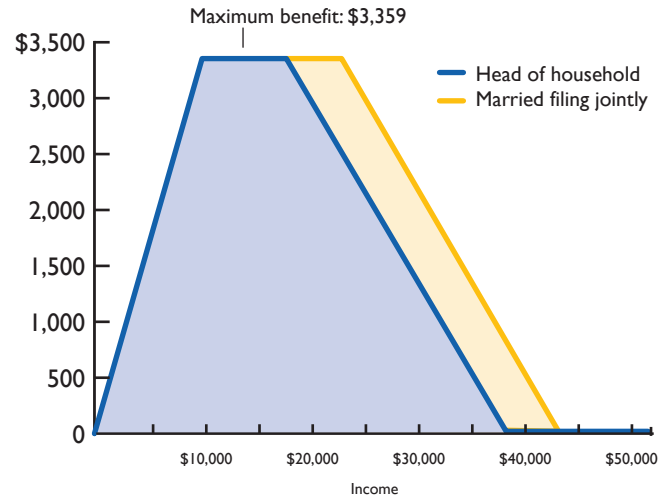
HOW STATE AND FEDERAL EITCS WORK TOGETHER:

The success of the federal version of the EITC has paved the way for more than half of the states to enact their own supplementary versions. Each state EITC is a supplement to the larger federal credit. At the state level, the calculation is simple: your state EITC is just a percentage of your federal credit amount. Different states set different percentages ranging from 3.5 percent in Louisiana to 40 percent in the District of Columbia. For example, if you are working in Kansas (where there is a 17 percent state EITC) and your federal credit is \$1,000, you will also get a \$170 credit from the state version of the program.

The larger federal calculation is a little more complicated. You have to work to earn an EITC, but the amount you receive depends on multiple factors like family size, income, and marital status. The idea is to encourage work, so the more you work, the bigger the tax credit you receive. The EITC increases up to a certain income level, then plateaus and later decreases until it finally tapers off when taxpayers achieve a more livable income range (about \$39,000 to \$53,000 a year).¹⁷ A single mom with two kids making \$25,000 a year would receive a tax credit of about \$4,000 from the federal EITC program. The graph at right shows how EITC refunds change based on income level for a tax filer with one child. You can see that the amount of the credit grows substantially when incomes increase from \$0 to about \$10,000 a year. As annual income increases past about \$20,000 a year, the EITC gradually gets smaller until the person is making enough money to no longer be eligible.

The federal EITC does a lot to improve the futures of low-income parents, but what about workers who don't have kids? Low-wage workers without kids are the only group that is taxed into, or deeper into, poverty by the federal tax code. A single mom with one child is eligible

EARNED INCOME TAX CREDIT FOR HOUSEHOLDS WITH ONE CHILD, 2015



NOTE: Assumes all income is from earnings (as opposed to investments, for example).
 DATA SOURCE: Internal Revenue Service
 CHART SOURCE: Center on Budget and Policy Priorities, CBPP.ORG

for a credit if her income is less than about \$39,000 a year. But if she didn't have a kid, she would be ineligible if she made more than just \$15,000 a year. Some policymakers at the federal level are working to expand the EITC for low-income childless adults¹⁸ who are either excluded or barely helped by tax credits. Check out the chart below to see how tax credits change based on income and family size.

Every year about 300,000 Arkansans claim their federal EITC, and their average tax credit is about \$2,600.¹⁹ Since we don't have a state EITC, no one in Arkansas will claim a state tax credit. If we did enact a 5 percent state EITC, an Arkansas worker with a typical \$2,600 federal EITC could add \$130 to their tax credit. Some of the total credit amount goes to offsetting the income taxes that are owed, and the rest goes back to the filer as a refund, and is normally spent in local communities.

TAX YEAR 2015 INCOME LIMITS AND RANGE OF THE FEDERAL EITC

Number of Qualifying Children	For Single/Head of Household or Qualifying Widow(er), Income Must be Less Than	For Married Filing Jointly, Income Must be Less Than	Range of EITC
No Child	\$14,820	\$20,330	\$2 to \$503
One Child	\$39,131	\$44,651	\$9 to \$3,359
Two Children	\$44,454	\$49,974	\$10 to \$5,548
Three or More Children	\$47,747	\$53,267	\$11 to \$6,242

THE EITC CAN HELP REMEDY OUR UNFAIR TAX SYSTEM

Arkansas is one of the worst tax states to work in if you are poor. If you add up all state and local taxes in Arkansas (income tax, property tax, sales tax, as well as registrations and other fees) the portion of a family's paycheck that goes to all of those taxes is much higher if you are poor rather than if you are well off. The lowest fifth of Arkansas families (with incomes less than \$16,000 a year) pay 12 cents in state and local taxes for every dollar they earn. In contrast, the top one percent of earners (who make over about \$350,000 a year) pay less than 6 cents on the dollar. The EITC is a common-sense way to relieve some of that imbalance in our tax system because the families who would be eligible for an Arkansas EITC are the same ones who are overtaxed.

The imbalance in our tax system is mostly because of our over-reliance on the sales tax. Sales taxes are harder on average Joes, and Arkansas depends heavily on them. Unlike progressive income taxes, which are designed to increase your rate as your ability to pay goes up, sales taxes take the same rate from everyone, whether you make \$1,000 an hour or minimum wage. The rich also tend to use their money in ways that avoid having to pay sales tax. For instance, upper-income folks save a higher share of their earnings (you don't pay sales tax if you invest), and they spend more money on services and luxuries that aren't subject to sales taxes (like spa services, lawn care, or expensive out-of-state vacations). If you look at the percent of income that goes to state and local taxes, people in Arkansas making under \$47,000 pay twice the rate as those making more than about \$350,000 a year.²⁰

Earned income tax credits allow working families to keep more of what they earn and help to partly offset the sum of all state and local taxes they pay throughout the year. The EITC helps to chip away at the major inequities in our tax structure, but it by no means allows working families to receive more than they pay in. Even with a very generous 50 percent EITC in Arkansas, the top one percent of earners would still pay by far the lowest tax rate as a share of their income compared to all other income groups.²¹



The (Un)Fairest of them all?

How did we become a state that asks so much of the bottom half of our workers and so little from the wealthiest? In 1934, we passed a law requiring a $\frac{3}{4}$ supermajority vote to change any taxes in place at the time. Since then, the sales tax has been introduced in Arkansas, and so it is exempt from that supermajority requirement (only requiring a 51 percent majority). That makes the sales tax an easy target for revenue increases. If the state ends up short on funds, it's easier to convince half the legislature to vote for an increase in sales tax than to convince 75 percent of them to vote for an income tax change. Over time, we have accumulated a lot of sales tax increases and few income tax increases, resulting in a system that asks much more from vulnerable families than from the wealthiest Arkansans.

NEXT STEPS: PUTTING THE POLICY IN PLACE

A state-level EITC is gaining momentum in Arkansas. We have had multiple proposals over the last several legislative sessions and are gaining support among community leaders and lawmakers. The most recent proposal was for a 5 percent refundable state EITC. At that level, a state EITC would cost just \$40 million a year (a small fraction of our \$5 billion budget).²² That is a great place to start. It is important to note that any credit proposals also need to be “refundable,” just like the one proposed in 2015. That means that if the EITC is greater than a tax filer’s income tax liability, they would receive the difference as a tax refund. No matter what percentage tax credit we choose, it is critical that it also be refundable. If not, the lowest income workers would not receive the full benefit of the program.

For Arkansas, the EITC is simply common sense: we are one of the highest poverty states in the nation, so we should invest in the best poverty-fighting tool available. Without government interventions like the federal EITC, child poverty rates would be nearly twice what they are now. Still, they are far too high.²³ More than one in four Arkansas kids live in families with incomes below the poverty line.²⁴ If you are a black child in Arkansas, that number jumps to one in two.²⁵ That is thanks in no small part to our severely imbalanced tax system. The federal EITC simply hasn’t been enough to offset the much higher tax share that we ask from our poorest residents.



What does it cost the state?

States can choose any percentage of the federal EITC for their version of the credit. Higher percentages cost the state more, but they also have more benefits to low-income workers. Here are some cost estimates:

A **5** percent EITC would cost the state treasury about **\$40 million** a year.²⁶

A **10** percent EITC would cost the state treasury about **\$80 million** a year.²⁷

A **20** percent EITC would cost the state treasury about **\$160 million** a year.²⁸



WHAT DOES THE EITC LOOK LIKE IN YOUR COUNTY?²⁹

NOTE: Remember that the amount of EITC claimed and the size of the tax refunds received are not equivalent. Some EITC dollars (12 percent on average nationwide) are “spent” offsetting income taxes that families owe. The remainder goes to families as a refund.

County	Total # of Tax Returns	# of EITC Returns	% of Returns Using EITC	Total \$ Amount of EITC Returns	Average EITC Returns
ARKANSAS	7,611	2,120	28%	5,274,101	2,487.78
ASHLEY	7,921	2,436	31%	6,417,221	2,634.33
BAXTER	16,238	3,510	22%	7,987,658	2,275.69
BENTON	94,161	18,632	20%	46,789,284	2,511.23
BOONE	14,203	3,555	25%	8,579,975	2,413.50
BRADLEY	3,983	1,358	34%	3,534,878	2,603.00
CALHOUN	1,474	384	26%	969,839	2,525.62
CARROLL	10,800	3,002	28%	7,486,577	2,493.86
CHICOT	3,864	1,607	42%	4,749,302	2,955.38
CLARK	7,891	2,178	28%	5,410,127	2,483.99
CLAY	5,770	1,583	27%	3,717,384	2,348.32
CLEBURNE	10,076	2,228	22%	5,115,994	2,296.23
CLEVELAND	2,953	760	26%	1,861,096	2,448.81
COLUMBIA	8,579	2,561	30%	6,669,434	2,604.23
CONWAY	7,826	1,980	25%	4,929,928	2,489.86
CRAIGHEAD	37,789	10,182	27%	26,320,525	2,585.01
CRAWFORD	22,044	6,058	27%	15,175,318	2,505.00
CRITTENDEN	19,724	8,179	41%	24,527,587	2,998.85
CROSS	6,688	2,296	34%	6,257,626	2,725.45
DALLAS	2,792	981	35%	2,511,915	2,560.57
DESHA	4,629	1,787	39%	4,909,572	2,747.38
DREW	6,865	2,122	31%	5,563,477	2,621.81
FAULKNER	44,394	9,676	22%	23,432,406	2,421.70
FRANKLIN	6,430	1,721	27%	4,342,143	2,523.03
FULTON	3,816	1,014	27%	2,528,609	2,493.70
GARLAND	39,404	10,042	25%	24,565,643	2,446.29
GRANT	6,641	1,431	22%	3,411,335	2,383.88
GREENE	15,834	4,179	26%	10,176,479	2,435.15
HEMPSTEAD	8,002	2,926	37%	8,242,614	2,817.02
HOT SPRING	11,818	3,270	28%	8,113,666	2,481.24
HOWARD	5,080	1,716	34%	4,670,868	2,721.95
INDEPENDENCE	13,608	3,456	25%	8,514,509	2,463.69
IZARD	4,191	1,078	26%	2,585,874	2,398.77
JACKSON	5,624	1,817	32%	4,427,386	2,436.65
JEFFERSON	28,554	10,213	36%	28,003,030	2,741.90
JOHNSON	8,689	2,770	32%	7,302,418	2,636.25
LAFAYETTE	2,476	887	36%	2,313,654	2,608.40
LAWRENCE	5,900	1,739	29%	4,435,509	2,550.61

County	Total # of Tax Returns	# of EITC Returns	% of Returns Using EITC	Total \$ Amount of EITC Returns	Average EITC Returns
LEE	2,814	1,252	44%	3,646,754	2,912.74
LINCOLN	3,464	1,155	33%	2,944,850	2,549.65
LITTLE RIVER	4,631	1,301	28%	3,299,226	2,535.92
LOGAN	7,987	2,279	29%	5,814,860	2,551.50
LONOKE	27,058	6,167	23%	15,316,257	2,483.58
MADISON	5,620	1,601	28%	3,979,945	2,485.91
MARION	5,693	1,509	27%	3,465,773	2,296.73
MILLER	16,109	5,168	32%	13,520,520	2,616.20
MISSISSIPPI	16,717	6,326	38%	17,285,824	2,732.50
MONROE	2,839	1,042	37%	2,741,299	2,630.81
MONTGOMERY	2,937	836	28%	2,086,269	2,495.54
NEVADA	3,147	1,041	33%	2,831,217	2,719.71
NEWTON	2,565	780	30%	1,825,417	2,340.28
OUACHITA	9,428	2,996	32%	7,632,664	2,547.62
PERRY	3,810	914	24%	2,201,377	2,408.51
PHILLIPS	6,908	3,233	47%	10,136,116	3,135.20
PIKE	3,524	1,029	29%	2,612,736	2,539.10
POINSETT	8,374	2,893	35%	7,580,557	2,620.31
POLK	6,992	2,101	30%	5,280,160	2,513.17
POPE	23,242	5,933	26%	14,139,972	2,383.28
PRAIRIE	23,242	5,933	26%	14,139,972	2,383.28
PULASKI	162,993	41,086	25%	104,014,841	2,531.64
RANDOLPH	6,277	1,899	30%	4,665,834	2,457.00
SALINE	45,477	8,875	20%	21,325,216	2,402.84
SCOTT	3,520	1,156	33%	3,117,487	2,696.79
SEARCY	2,695	928	34%	2,129,885	2,295.13
SEBASTIAN	48,724	13,439	28%	34,360,757	2,556.79
SEVIER	5,692	1,930	34%	5,310,555	2,751.58
SHARP	6,087	1,698	28%	4,054,573	2,387.85
ST. FRANCIS	8,522	3,907	46%	11,616,463	2,973.24
STONE	3,944	1,268	32%	3,008,404	2,372.56
UNION	16,076	4,789	30%	12,504,367	2,611.06
VAN BUREN	5,728	1,381	24%	3,311,336	2,397.78
WASHINGTON	82,355	19,816	24%	50,156,286	2,531.10
WHITE	28,006	6,971	25%	17,399,547	2,495.99
WOODRUFF	2,535	905	36%	2,256,704	2,493.60
YELL	7,836	2,405	31%	6,467,658	2,689.25

ENDNOTES

- 1 <http://www.epi.org/publication/ib370-earned-income-tax-credit-and-the-child-tax-credit-history-purpose-goals-and-effectiveness/>
- 2 <http://apps.cbpp.org/3-5-14tax/?state=AR>
- 3 <http://www.nber.org/papers/w9472.pdf>
- 4 <http://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens?-fa=view&id=3793>
- 5 http://web.stanford.edu/group/scspi/_media/pdf/pathways/summer_2014/Pathways_Summer_2014.pdf
- 6 <http://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>
- 7 <http://www.cbpp.org/research/federal-tax/chart-book-the-earned-income-tax-credit-and-child-tax-credit#PartTwo>
- 8 http://www.taxcreditsforworkingfamilies.org/wp-content/uploads/2012/01/NCTC-EITC-paper_Jan2012.pdf
- 9 <http://www.arkansasonline.com/news/2016/jan/26/states-unemployment-rate-falls-48-percent/>
- 10 <http://www.aradvocates.org/wp-content/uploads/State-of-Working-Arkansas-2015.pdf>
- 11 <https://www.eitc.irs.gov/EITC-Central/Participation-Rate>
- 12 <http://apps.cbpp.org/3-5-14tax/?state=AR>
- 13 <http://apps.cbpp.org/3-5-14tax/?state=AR>
- 14 <http://apps.cbpp.org/3-5-14tax/?state=AR>
- 15 <http://www.cbpp.org/research/federal-tax/14-million-millennials-benefit-from-pro-work-tax-credits>
- 16 <http://apps.cbpp.org/3-5-14tax/?state=AR>
- 17 <http://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>
- 18 <http://www.cbpp.org/research/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce-poverty?-fa=view&id=3991>
- 19 <https://www.eitc.irs.gov/EITC-Central/eitcstats>
- 20 http://www.itep.org/whopays/full_report.php
- 21 http://www.itep.org/eitc/pdf/ar_eitc.pdf
- 22 <http://www.cbpp.org/research/state-budget-and-tax/how-much-would-a-state-earned-income-tax-credit-cost-in-fiscal-year>
- 23 <http://www.aecf.org/blog/without-government-interventions-child-poverty-rate-would-nearly-double/>
- 24 <http://datacenter.kidscount.org/data/tables/249-children-under-18-living-in-poverty?loc=5&loct=2#detailed/2/any/false/36,868,867,133,38/any/8457,8458>
- 25 <http://datacenter.kidscount.org/data/tables/44-children-in-poverty-by-race-and-ethnicity?loc=5&loct=2#detailed/2/5/false/869,36,868,867,133/10,11,9,12,1,185,13/324,323>
- 26 <http://www.cbpp.org/research/state-budget-and-tax/how-much-would-a-state-earned-income-tax-credit-cost-in-fiscal-year>
- 27 <http://www.cbpp.org/research/state-budget-and-tax/how-much-would-a-state-earned-income-tax-credit-cost-in-fiscal-year>
- 28 <http://www.cbpp.org/research/state-budget-and-tax/how-much-would-a-state-earned-income-tax-credit-cost-in-fiscal-year>
- 29 <http://www.brookings.edu/research/interactives/eitc>

Arkansas Advocates for Children and Families
1400 West Markham, Suite 306
Little Rock, AR 72201
(501) 371-9678

Northwest Arkansas Office
614 East Emma Avenue, Suite 235
Springdale, AR 72764
(479) 927-9800



LEARN MORE AT WWW.ARADVOCATES.ORG

 facebook.com/aradvocates

 twitter.com/aacf

 [@aradvocates](https://instagram.com/@aradvocates)