



## **Help Arkansas Working Families Become Self-Sufficient: It's Time to Support a State Earned Income Tax Credit**

A state Earned Income Tax Credit (EITC) would provide tax relief to hard-working, low-income families, helping them close the gap between what they earn and what they need to make ends meet. A state EITC, piggybacking on the federal EITC, would help families and put millions of dollars back into the local economy. In 2005, 280,000 Arkansas households claimed the federal EITC, returning \$566 million to low-wage earners. Twenty-four states plus the District of Columbia have enacted state EITCs, with Washington state being the most recent state to create one earlier this month. It is time for Arkansas to follow their lead and enact a state EITC.

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- ◆ **A State EITC Can Make a Significant Difference for Hard-Working Families.** The National Center for Children in Poverty found that the federal EITC reduces child poverty for young children by nearly 25 percent – more than any other government program. A state EITC builds on the benefits of the federal EITC. A state EITC would relieve the regressive nature of payroll and property taxes and make Arkansas' state tax system more equitable.
- ◆ **The EITC Has a History of Bi-Partisan Support.** Enacted in 1975 under President Ford, and expanded under Presidents Reagan, Bush, and Clinton, the federal EITC is supported by policy makers on both sides of the aisle. President Reagan called the EITC "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." Twenty-three state EITCs have been enacted with both Democratic and Republican governors.
- ◆ **The EITC Stimulates the Local Economy.** Working families use the EITC refund to pay off debt, finance transportation to work, invest in education, and buy basic necessities. Dollars spent in the local community provide an economic stimulus to the state, including urban, suburban and rural communities.

- ◆ **The EITC Provides a Vehicle to Build Assets.** Many working families use their EITC refund as a first step to build assets, financial security, and long-term wealth.
- ◆ **How Would A State EITC Work?** A state EITC simply piggybacks on the federal EITC. A state EITC would provide low-income working families with a refund equal to a certain percentage of their federal EITC return, even if they don't owe state income taxes. An addition of one line to the state income tax form is all that is needed to implement the state EITC.
- ◆ **Who Would Benefit From a State EITC In Arkansas?** Working families with incomes of up to \$35,241 with one child and up to \$39,783 with two or more children qualify for the federal EITC, which is the same threshold for a state EITC. Most beneficiary families (69 percent) earn less than \$20,000 per year; working families with incomes between \$11,750 and \$17,400 benefit the most. About 25 percent of Arkansas tax filers claim the federal EITC, receiving an average credit of \$2,016. Working Arkansas families in both urban and rural communities benefit from the EITC.
- ◆ **How Much Would a State EITC Cost the State of Arkansas?** A refundable state EITC would cost about **\$56 million** annually if equal to 10 percent of the federal EITC, or **\$113 million** if equal to 20 percent of the federal EITC.

**For information about a state EITC:  
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