

THE CREDIT THEY DESERVE

FEDERAL EITC PARTICIPATION IN ARKANSAS

by Ellie Wheeler, Senior Policy Analyst
September 2015



WHAT YOU NEED TO KNOW

Working family tax credits pump millions of dollars into the Arkansas economy. But millions more are left on the table every year when eligible Arkansans don't claim their credits. Arkansas needs a coordinated, statewide effort to get more families to claim their federal Earned Income Tax Credit (EITC). An outreach campaign that increases participation by just 5 percent would lead to \$19 million in potential economic benefit for these families.



INTRODUCTION

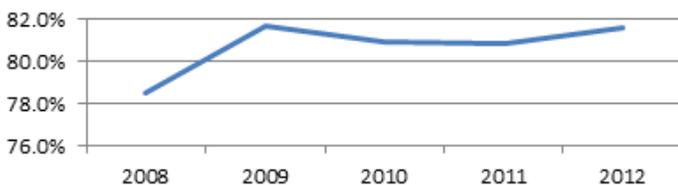
The EITC is the nation’s strongest tools to promote work and help families escape poverty. Increasing participation means that hard-working families can keep more of what they earn. It also means a boost for local economies where that credit money is usually spent.

The rate of participation is increasing in Arkansas, but about one in five Arkansans who are eligible for tax credits still don’t receive them.¹ Many people fail to participate simply because they don’t know they qualify. Free tax assistance programs like VITA (Volunteer Income Tax Assistance) 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 EITC puts about \$771 million into Arkansas’s economy annually.² Imagine the economic boost we would see if we had 100 percent participation!

Some areas of the state have local outreach campaigns that are helping make sure eligible Arkansans get their full EITC. However, these efforts are scattered and do not cover all areas of Arkansas. We need to consider a coordinated statewide campaign to improve participation.

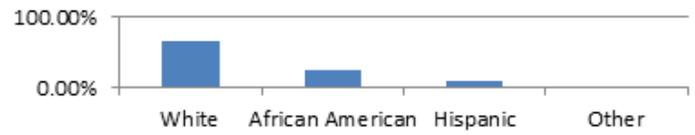
A higher rate of eligible Arkansans use EITC programs



WHO QUALIFIES FOR TAX CREDITS IN ARKANSAS?

Most EITC-eligible tax filers in Arkansas are white, representing over 65 percent of the eligible population. African Americans are the second largest eligible demographic. They make up about 24 percent of the eligible EITC filers in Arkansas. Only 23.5 percent of Arkansans who are eligible for the EITC file as single.

EITC eligible tax filers in Arkansas



Low-income families who qualify for the EITC sometimes are also eligible for the federal Child Tax Credit. The Child Tax Credit is a similar important poverty fighting tool that helps offset the cost of raising children. Low-income parents, young people at the beginning of their careers, and veterans or military families represent a large share of working folks in Arkansas who qualify for federal tax credits like these.

- 228,000³ moms and 147,000⁴ dads in Arkansas keep more of their paycheck because of the EITC or the similar Child Tax Credit.
- These types of tax credits lift about 57,000 Arkansas kids out of poverty each year.⁵
- 173,000 young workers (18-34) in Arkansas received one or more federal tax credits in 2012.⁶
- 32,000 veteran and military families use tax credits in Arkansas.⁷

Tax Year 2014 Income Limits and Range of EITC

Number of Qualifying Children	For Single, Income Must be Less Than	For Married, Income Must be Less Than	Range of EITC
No Child	\$ 14,590.00	\$ 20,020.00	\$2 to \$496
One Child	\$ 38,511.00	\$ 43,941.00	\$9 to \$3,305
Two Children	\$ 43,756.00	\$ 49,186.00	\$10 to \$5,460
Three or More Children	\$ 46,997.00	\$ 52,427.00	\$11 to \$6,143

SOURCE: from: <http://www.eitc.irs.gov/EITC-Central/abouteitc/ranges>

WHAT DOES IT TAKE TO BE ELIGIBLE FOR THE EITC?

The amount of your credit depends on your income, the number of children in your family, and if you file as single or married. But the most critical rule of the EITC is that to receive it you have to be working. For low-income workers, the more you earn, the more you get back in credits. Eventually the credits plateau and then taper off. The idea is to encourage work until, finally, you earn enough that you don't qualify for the credits.

Low-wage workers who don't have 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 for a credit if her income is less than about \$38,000 a year. But if she didn't have a kid, her eligibility would be cut off at less than half that income level: \$14,590 a year. There is an opportunity for policymakers to bolster the EITC for low-income childless adults who are either excluded or barely helped by tax credits. Find out more about income limits and EITC ranges for different family types in the chart above.

Every year about 300,000 Arkansans claim their EITC, and on average their tax credit is about \$2,500. Some of that credit amount goes to offsetting the income taxes that are owed. Nationally, about 12 percent of each EITC claim is "spent" on cancelling out income taxes, on average. The rest goes back to the filer as a refund, and is normally spent in local communities.

There is an opportunity for the state of Arkansas to do more to promote EITC awareness and participation. The only significant outreach in the state is from a network of private groups. This network promotes the EITC through advertising, community information events, and Volunteer Income Tax Assistance (VITA) sites. The state of Arkansas has a lot to gain by partnering with these groups and investing in a coordinated, statewide campaign. Every working Arkansan who doesn't claim their credit leaves federal money on the table and out of the economy.



NOTES

¹ <http://www.etc.irs.gov/EITC-Central/Participation-Rate>

² <http://www.etc.irs.gov/EITC-Central/eitcstats>

³ <http://www.cbpp.org/research/federal-tax/fact-sheet-21-million-mothers-benefit-from-tax-credits-for-lower-income-working>

⁴ http://www.cbpp.org/research/federal-tax/fact-sheet-13-million-fathers-benefit-from-tax-credits-for-lower-income-working#_ftn1

⁵ <http://apps.cbpp.org/3-5-14tax/?state=AR>

⁶ <http://www.cbpp.org/research/federal-tax/14-million-millennials-benefit-from-pro-work-tax-credits>

⁷ <http://apps.cbpp.org/3-5-14tax/?state=AR>