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North Carolina's Earned Income Tax Credit (EITC) goes to families that work but struggle to get by on low wages. It helps them pay for basic necessities, reduces child poverty more than any other program, and improves kids' chances of success as adults. Eliminating the credit is a tax hike on our lowest earning families.

North Carolina's EITC can only be claimed by people who earn income through work.

- Individuals must work to receive the EITC, and for those with very low pay, the credit increases with earnings to encourage them to work more hours.
- Even with the credit, these working North Carolinians pay a substantial share of their income (nearly 10 percent in 2013) in state and local taxes like the sales tax. In fact, they pay a bigger share of their income in taxes than the state's wealthiest people.¹
- The credit allowed nearly one million working households in North Carolina to keep more of what they earned in 2011, with an average credit of about \$116.² It is a small investment that can make a big difference by helping working families pay for the basics and make ends meet, despite low wages.

The state EITC is a highly effective anti-poverty tool and has lasting, positive effects on children.

- The EITC is the nation's most effective tool for reducing poverty among children. The federal EITC kept 293,000 North Carolinians—half of whom were kids—above the poverty line in 2009-2011.³ North Carolina's EITC builds on that success.
- The EITC is largely a temporary support. Most people claim the credit only one to two years before moving on to better-paying jobs or getting back on their feet after hard times. It is a good way to help families while they are getting a toehold in the workforce and it keeps those who have experienced temporary job loss, reduced hours, or reduced pay from falling through the cracks.⁴
- That temporary help can have a lasting effect. Young children in families with additional help from programs like the EITC do better and go further in school and, as a result, work more and earn more as adults.⁵

The state EITC supports local businesses.

- The EITC has enjoyed support from the business community because it helps low-wage employees afford things that make it possible for parents to work, like transportation and child care.
- It also allows families all across the state to help their local economy by spending the tax credit at local businesses. Working families in all 100 of North Carolina's counties claim the credit, and it's especially helpful in areas where family finances and stability have been most affected by recession.
- The credit also is especially important in rural areas of our state, where local businesses depend on working families in the community as both workers and customers.⁶ More than one in four workers (27 percent) in North Carolina's rural areas claims the EITC compared with 23 percent statewide.

Now is the wrong time to shift the tax load further onto North Carolina's lowest-paid workers—especially those with children to support—by cutting or eliminating the state EITC.

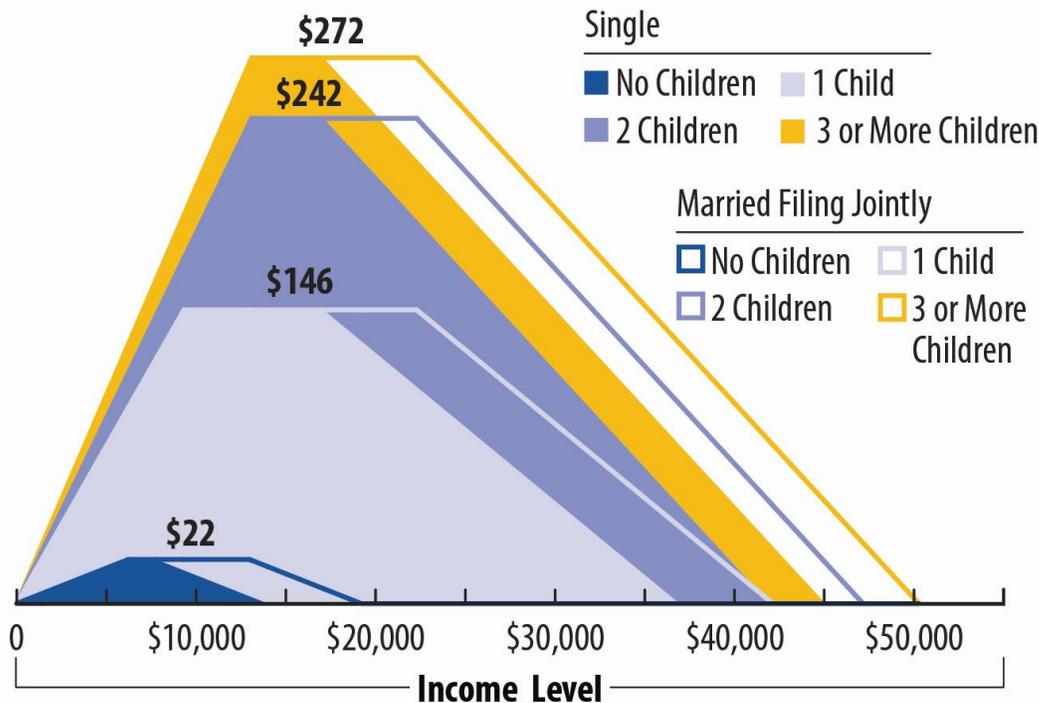
- North Carolina already asks its lowest-paid workers to pay more as a share of their income in state and local taxes than its highest earners. Without the EITC, the tax code would take even more out of the pockets of families doing their best to work, support their children, and move up the economic ladder.
- Eliminating the state EITC would likely increase poverty. The state already has the 13th highest poverty rate in the nation, and more than 1 in 4 of its children live below the federal poverty line.
- There may be problems with North Carolina's tax code, but this tax credit for low-wage workers is not one of them. We should stop giving tax breaks to the wealthy and profitable corporations, especially when they come at the expense of working families.

Who is Eligible for the North Carolina EITC and for How Much?

Depending on marital status and number of children, working families earning up to about \$38,000 to \$52,000 can qualify for the North Carolina EITC. The largest benefits are targeted to families with incomes between about \$10,000 and \$22,000. Workers without children can also qualify for the credit, but only if their income is below about \$14,000 (\$19,000 for a married couple), and the benefit is very small.

As the figure below shows, workers receive the credit beginning with their first dollar of earned income; the amount of the credit rises with earned income until it reaches a maximum level and then begins to phase out at higher income levels.

Value of North Carolina Earned Income Tax Credit, 2013



SOURCE: Preliminary estimate of 2013 EITC income limits, maximum credit amounts.
 Special thanks to Center on Budget and Policy Priorities (cbpp.org) for creation of the chart.

¹ Institute on Taxation and Economic Policy. "Who Pays?" Fourth Edition. January 2013.
² Mitchell, Tazra. "North Carolina's Earned Income Tax Credit: A Modest but Vital Boost to Low-Paid Workers across the state." NC Budget and Tax Center. February 2013.
³ Similar data for the state EITC is not available due to data limitations. Brookings Institution's analysis of Supplemental Poverty Measure Public Use Data. Three-year average of 2009-2011 data.
⁴ Tim Dowd and John B. Horowitz. "Income Mobility and the Earned Income Tax Credit: Short-Term Safety Net or Long-Term Income Support." *Public Finance Review*. September 2011.
⁵ Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil. "Early-Childhood Poverty and Adult Attainment, Behavior, and Health." *Child Development*. January/February 2010.
⁶ Center on Budget and Policy Priorities. "The Earned Income Tax Credit and Refundable Child Tax Credit in Rural America." April 2013.