

# EITC: A Tax Credit That Works For Working Families

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The Kansas state Earned Income Tax Credit (EITC) helps more than 200,000 working Kansans—primarily those with children—make ends meet. It reduces the taxes they pay, leaving them with a little extra income to cover the basics. And it builds on the success of the federal EITC at keeping families working, reducing poverty and improving children's prospects in school and later on in life. Despite its overwhelmingly positive track record, over the years there have been efforts to scale back or eliminate the state's EITC .

## Supports for Working Families<sup>1</sup>

The EITC is available only to families and individuals who earn income through work. The Kansas EITC leverages the proven effectiveness of the federal EITC. Together the two credits:

- Keep Kansans working, despite low wages. An extensive body of research shows that the EITC substantially increases work among poor parents. Like the federal credit, the Kansas EITC helps working families get by on low wages, which helps them stay employed. The EITC is also structured to encourage the lowest-earning families to work more hours, and that additional time and experience in the workforce opens up better opportunities and higher pay down the line.
- Help Kansas families make ends meet. The Kansas EITC provides low- and moderate-income families with a

needed income boost that can help them meet basic needs and cover the cost of child care and transportation, which helps them find and keep a job.

- Reduce poverty, especially among Kansas children. The federal EITC is the nation's single most effective tool for reducing poverty among working families and children. It lifts about 6.2 million people—more than half of them children—out of poverty each year. The boost given by the Kansas EITC lifts additional families out of poverty and helps near-poor families make ends meet.
- Have a lasting effect on Kansas' children. Low-income children in families whose income is increased through initiatives like the EITC do better and go further in school. As a result, they work more hours and earn higher incomes as adults. This is good for all Kansans and our economy because it puts more individuals and families on solid ground and fewer in need of help over the long haul.

## EITC Reduces Taxes

The federal EITC was designed to offset payroll, excise and income taxes paid by families with low- and moderate-incomes, leaving them with more to support their children and easing their transition from welfare to work. Support from the EITC augments the earnings of low-wage workers, which further encourages work and helps them break out of poverty.<sup>2</sup>

Working families that receive the federal credit also pay a substantial share of their income in state and local taxes (sales, excise and property) taxes that as a share of income hit lower-income families harder than wealthier ones. In fact, the bottom fifth of households in Kansas (those earning \$19,000 or less), pay more than 10 percent of their income in state and local taxes, most of it in sales and excise taxes. The top 1 percent of income earners (those earning \$400,000 or more) on the other hand, devote just 3.9 percent of their income to state and local taxes.<sup>3</sup>

A state credit helps to reduce these taxes and 25 states, including Kansas, and the District of Columbia have established their own EITCs to do just that. On average, the more than 211,000 Kansans benefitting from the credit see their income, sales, property and excise taxes go down by about \$381.<sup>4</sup>

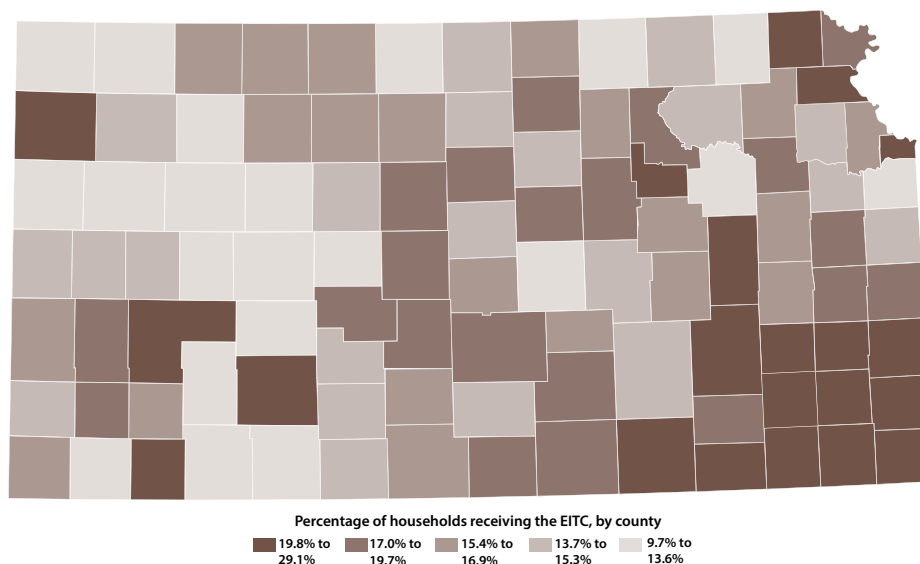
Working families with children earning up to about \$39,000 to \$52,000 (depending on marital status and the number of children in the family) generally can qualify for Kansas' EITC, but the largest benefits go to families with incomes between about \$10,000 and \$23,000.<sup>5</sup>

## EITC Helps Kansans

The Kansas EITC, like the federal credit, helps Kansans working in low-wage jobs keep more of what they earn to make ends meet and provide basic necessities for their children. And it is reaching working families in all of Kansas' communities, especially those in rural areas. Indeed, of the top 20 counties with the highest percentage of their residents receiving the state EITC, 19 were rural.

### Kansas' Earned Income Tax Credit is Essential for Low-Income Families

Many hard-working Kansans receive the Earned Income Tax Credit (EITC), encouraging people to leave welfare for work and helping low-income workers make ends meet. Over 211,000 Kansans get the state EITC - just over 17% of those filing taxes. The \$381 per household average helps families cover unforeseen expenses or make investments to improve their well-being. Reducing the state EITC would hurt many in Southeast and rural Kansas, where about 1 in 5 families receive the benefit.



Source: Brookings Institute EITC Interactive, for tax year 2012

- 1 For a review of the benefits of the EITC, see: Chuck Marr, Chye-Ching Huang, Arloc Sherman and Brandon DeBot, 2015, "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds," Center on Budget and Policy Priorities, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3793>.
- 2 "Challenges Facing Low-Income Individuals and Families," Testimony presented to the House Human Resources Subcommittee by Ron Haskins, Brookings Institute. <http://www.brookings.edu/research/testimony/2015/02/11-challenges-facing-low-income-families-haskins>.
- 3 ITEP, 2013, "Who Pays?: A Distributional Analysis of the Tax Systems in All Fifty States," <http://www.itep.org/pdf/ks.pdf>.
- 4 Kansas EITC delivered \$80,522,683 reaches 211,524 workers in 2012, for an average of \$381. <http://www.brookings.edu/research/interactives/eitc>.
- 5 Workers without children can also qualify in most states, but only if their income is below about \$15,000 (\$20,000 for a married couple) and the benefit is small.