

Credit Where It's Due

Establishing an Earned Income Tax Credit (EITC) for Missouri's Working Families in Need

Produced by the Clark-Fox Policy Institute and the Center for Social Development, Brown School, Washington University in St. Louis

The federal Earned Income Tax Credit (EITC) has become one of the United States' most effective programs for combatting poverty experienced by low-income working families (Berube & Holmes, 2015). The EITC has garnered broad bi-partisan support, in large part because it encourages and rewards work (Center on Budget and Policy Priorities [CBPP], 2016).

In 2015, low-income working families received an average EITC of \$3,186, allowing them to purchase essential goods and services which are otherwise out of reach (CBPP, 2016). These include home and vehicle repairs; additional education or training to increase earning power; and other necessities such as child and health care (CBPP, 2016).

A total of 26 states have instituted their own EITC in addition to the federal version. Currently, the Missouri legislature is considering a state-level EITC, which would have positive and far-reaching impacts on working families, especially those with children.



*EITC could help improve long-term health and economic outcomes for more than **500,000 Missouri families.***

House Bill 109, sponsored by Rep. Mike Kelley (R-127), would authorize an earned income tax credit in Missouri.

Senate Bill 197, sponsored by Caleb Rowden (R-19), and Senate Bill 342, sponsored by Jason Holsman (D-7), creates a tax credit in the amount of twenty percent of the amount of a taxpayer's federal earned income tax credit.

Poverty Reduction

According to the Center on Budget and Policy Priorities (2016), the EITC lifted approximately 6.5 million people out of poverty in 2015, 3.3 million of whom were children. Without the EITC, the number of children living in poverty that year would have been more than 25% higher (CBPP, 2016).



*In 2015, the EITC lifted **3.3 million children** out of poverty.*

The EITC has a proven track record of effectiveness in lifting low-income families out of poverty and giving their young children a better chance for a bright future by improving their educational and economic outcomes over the life course.



Educational Effects

Research indicates a strong link between tax credit-driven increases in family income during young childhood and improved educational outcomes (Marr, Huang, Sherman, & Debot, 2015). Young children whose families' poverty is offset by the EITC are more likely to attend college, engage in productive work, and earn higher lifetime income, recent research shows (Marr et al., 2015).



Health Outcomes

Health outcomes for children and adults are positively impacted by EITC receipt; children in particular are less likely to develop the disabilities and illnesses commonly associated with child poverty (Marr et al., 2015).



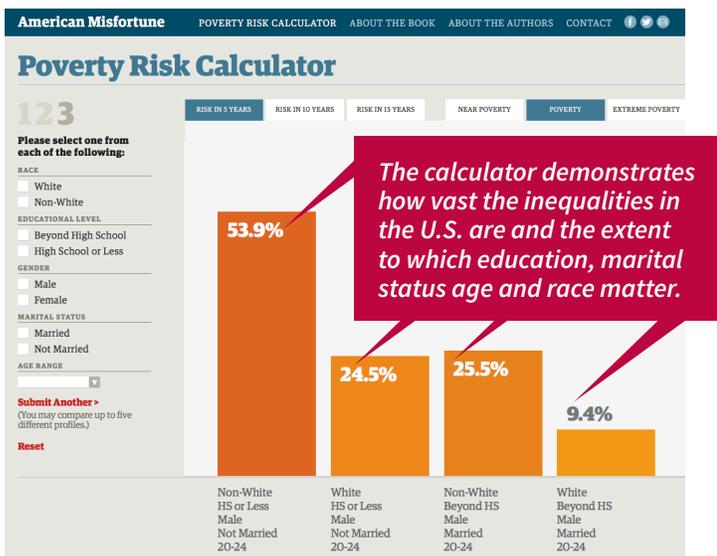
Community Impacts

The EITC has proven to be an economic boon to communities. EITC recipients tend to spend their refunds locally, which infuses money into the community, improves the viability of businesses and revitalizes communities overall (Berube & Holmes, 2015).

EITC – A Means to Counteract Inequity

Individual risk of impoverishment is heavily influenced by one's race, gender, age, marital status, and education level, according to Mark Rank, PhD, the Herbert S. Hadley Professor of Social Welfare at the Brown School.

Dr. Rank and Thomas Hirschl, professor in the Department of Development Sociology at Cornell University, developed a poverty risk calculator designed to estimate Americans' future risk of living in poverty based on these demographic indicators.



“Race, education, marital status, and age make a huge difference in terms of who is more or less likely to experience poverty in the years ahead,” Rank said.

The EITC helps counteract the institutionalized inequalities contributing to personal economic hardship among marginalized populations. While it is widely hailed as the most effective federal anti-poverty program, the EITC is by no means a catch-all solution to widespread poverty. Rather, it should be regarded as a single strategy among many others which are necessary to combat poverty in a comprehensive way.

Other federal and state safety net programs such as unemployment benefits, TANF, SNAP, and a strong minimum wage are needed to assist populations not supported by the EITC. Furthermore, family EITC eligibility does not preclude the need for additional intervention - in fact, a two-parent, two-child family with one worker earning the federal minimum wage can only rise above the poverty line with the addition of SNAP benefits (CBPP, 2016).

The EITC, while beneficial to a large portion of the working poor, is not a one-size-fits-all solution and must function in tandem with other effective interventions targeting specific problems associated with poverty or population subsets affected by it.

Tax Time and Financial Well-Being

Original research conducted by the Brown School's Center for Social Development (CSD) shows that the federal EITC program is a wise investment. Specifically, CSD's Refund to Savings (R2S) initiative – which encourages low- to moderate-income (LMI) households to save their tax refund – has yielded important insights on working families who benefit from EITC.

- The average EITC refund represents up to 22 percent of a LMI household's annual income.
- A majority (78 percent) of EITC recipients use their refund to cover basic necessities.
- Just under half (48 percent) of EITC recipients use their refund to pay down important debt.
- More than one-third of EITC recipients did not have a savings account.
- Sixty-six percent of EITC recipients experience a financial shock within a six-month period, with job loss and reductions in income being the most frequent.
- The most common types of debt retired by EITC recipients are overdue bills and credit card balances (55 percent).

As the R2S initiative continues, CSD researchers are exploring ways to reduce financial volatility and shocks for EITC households by prompting recipients to save their tax refunds for unexpected emergencies.

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