

Growing the Earned Income Tax Credit:

A cost-effective approach to reducing poverty & stimulating the economy

Forty-six million Americans lived in poverty in 2010, the most ever. Over 19 percent of children in Illinois lived in poverty. Today, low- and moderate-income families in this state face a perfect storm of hardship: earnings are declining, costs of basic necessities are rising, and their disproportionately large share of state and local taxes has grown even larger – all at a time when critical services on which struggling families rely are being slashed or eliminated.

Now is the right time to increase the size of the state's Earned Income Tax Credit

What is the Illinois EITC?

It's a tax credit that helps keep families out of poverty and lifts up those struggling to escape poverty. It helps more than 935,000 working families make ends meet by allowing them to keep more of their hard-earned money at tax time. It is one of the most cost-effective, targeted tax policies available to ease poverty, offering support to families who need it most.

It is also an economic stimulus: the EITC puts money back into local economies and boosts consumer spending.

Who benefits?

To claim the EITC, taxpayers must be both low-income and working. Families qualify on a sliding scale, with earnings up to \$45,350 this year (for two parents, two children). The EITC is primarily targeted to families with children.

The EITC should be increased

While the EITC already acts as an important anti-poverty tool for working families, it's too limited. Set at only 5 percent of the federal EITC, Illinois' credit provided a maximum of \$283 for a family raising three children this year. In tax year 2009, the average credit was only \$112. Legislators should act today to increase the size of the credit in order to maximize its value and help families afford basic items.

- **The EITC has a long history of bipartisan support because policymakers recognize it as an economic stimulus that can help maintain jobs and empower struggling working families to remain self-sufficient.**

By boosting after-tax income for working families and stimulating consumer spending, the EITC creates important ripple effects for local businesses and communities. In fact, a 2006 Brookings Institution cited data finding that every dollar a family saves through the EITC translates into \$1.58 of activity in local economies. And the Congressional Budget Office in 2010 declared that doing more for low- and middle-income families through refundable tax credits – credits such as the EITC – would boost the economy and create jobs at a rate two to three times that of any stimulus represented in extending the 2001 and 2003 federal tax cuts.

- **The EITC is a work incentive.**
It is structured to encourage and reward work by allowing struggling families to keep more of what they earn. A substantial body of research shows that the EITC encourages labor force participation of single parents by “making work pay.” For those with very low earnings, additional hours of work yield both more wages and a larger EITC.
- **Strengthening the state EITC will help lift Illinoisans out of poverty.**
It is one of the most cost-effective, most targeted approaches to reducing poverty among children and families.
- **Growing Illinois' EITC will help offset the disproportionate share of state and local taxes that our lowest-income workers pay.**
Low-income families were disproportionately affected by the increase in the state's income tax rate. While the increase was an essential step towards resolving the state's prolonged fiscal crisis, the revenue legislation included no provisions to improve tax fairness.

For more information contact

Dan Lesser
Shriver Center
708.927.8796

Sean Noble
Center for Economic Progress
312.502.5566

Kelley Talbot
Voices for Illinois Children
847.372.8582

Denise Gaines
SEIU Healthcare Illinois Indiana
217.553.3183

How increasing the Illinois EITC would affect taxpayers
Examples of various family sizes, income levels and tax billsⁱ

Family size	Income	Current maximum EITC benefit at 5%	Projected maximum EITC benefit at 10%	Projected maximum EITC benefit at 15%
1 adult, 1 child	\$12,800	\$153	\$309	\$464
1 adult, 2 children	\$20,000	\$214	\$441	\$662

A single mother with one child, earning minimum wage (\$12,800 a year), currently stands to pay \$285 in state income taxes next spring. That's \$174 more than she paid this year, and represents four days of lost income. But

- **Doubling the state EITC to 10 percent** of the federal credit would reduce her tax bill to \$131; and
- **Tripling the state EITC to 15 percent** of the federal credit would bring her a \$24 state tax refund.

A single mother with two children, earning \$20,000, currently stands to pay \$480 in state income taxes next spring. That's \$274 more than she paid this year. But

- **Doubling the state EITC to 10 percent** of the federal credit would reduce her tax bill to \$259; and
- **Tripling the state EITC to 15 percent** of the federal credit would reduce her tax bill to \$39.

A married couple with three children, earning \$30,000 a year, currently stands to pay \$799 in state income taxes next spring. That's \$393 more than they paid this year. But

- **Doubling the state EITC to 10 percent** of the federal credit would reduce their tax bill to \$600; and
- **Tripling the state EITC to 15 percent** of the federal credit would reduce their tax bill to \$398.

December 2011

ⁱ Calculated by the Center for Economic Progress