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THE KANSAS EARNED INCOME TAX CREDIT (EITC)

By

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EXECUTIVE SUMMARY

According to some people, the federal EITC is one of the nation's single most effective tools for reducing poverty among working families and children. It lifts about 6.1 million people—over half of them children—out of poverty each year. The Kansas EITC supplements the federal EITC and benefits over 200,000 Kansans. The EITCs accomplish this by providing credits for low- and moderate-income workers, reducing their overall tax liabilities.

The EITC's structure encourages the lowest-earning families to work more hours. Research shows that the EITC substantially increases work among poor, especially among single mothers. The EITC also helps working families get by on low wages, which helps them stay employed.

The Kansas EITC though, unlike the federal, reduces the state's budget. The credit reduces the collectable income taxes available to the state and the refunds awarded create additional state spending. This spending takes away from funds that the state could spend on other programs or use to increase fiscal stability.

However, the funds expended to refunds count toward the state's maintenance of effort requirement under the Temporary Assistance for Needy Families Program, and so are matched by the federal government dollar for dollar. Currently, the state falls short of fully meeting its maintenance of effort requirement and refunds paid from the state's EITC program make up the majority of funds expended to meet this requirement. The state could find different sources to meet its required expenditures.

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I. INTRODUCTION

The 2015 Kansas legislative session saw the proposals of two contradictory bills concerning the state's Earned Income Tax Credit (EITC). One aimed to reduce the state's EITC,[1] while the other expanded it.[2] Though ultimately both bills failed to pass, their introduction in the same legislative session highlights the extent of conflicting views regarding Kansas' continued use of the state level EITC. The conflict stems from the desire to expand assistance to low income families on one hand, versus the need to reduce government spending on the other.

The Kansas EITC mimics the federal EITC,[3] but at only 17 percent of the federal rate. Now in its 40th year, the federal EITC has been one of the nation's most effective antipoverty programs.[4] For low- to moderate-income workers, the program reduces the amount of taxes owed.[5] Its goal is to encourage people to work more, or to enter the work force, and to rely less on welfare benefits.[6] The amount of credit a worker can receive is based is on income, marital status, and number of children.[7]

Hoping to build on the success of the federal EITC, Kansas enacted a state EITC in 1998.[8] Currently, the credit benefits over 200,000 working Kansans.[9] But, unlike the federal EITC, the costs for these benefits are counted as expenditures in the Kansas budget.[10] Since the costs count as qualifying expenditures under the federally run Temporary Assistance for Needy Families (TANF) program, much of the cost to the state is offset.[11] However, lost income tax revenue is not recouped and funds devoted the EITC are funds the state cannot spend somewhere else. What route to take is then a question of weighing competing policy concerns.

II. THE EARNED INCOME TAX CREDIT

A. BACKGROUND

The Earned Income Tax Credit (EITC) is a tax benefit aimed to assist low- to moderate-income workers.[12] The credit was designed to offset the impact of Social Security and Medicare taxes on low- to moderate-income individuals, while also encouraging them to work instead of relying on welfare benefits.[13] For those that qualify, the credit reduces the amount of taxes owed.[14] The federal tax credit was enacted in 1975, with the first state credit following in 1987.[15] Kansas enacted its credit in 1998.[16] The Kansas credit functions just like the federal credit except the available state credit is significantly smaller than the federal credit at only 17 percent of the federal credit.[17] Eligibility for receiving the Kansas credit is also similar to the federal credit except for an additional Kansas residency requirement.[18]

B. HOW THE EITC WORKS

To claim the credit, a person must have an earned income and then file an income tax return as single, head of household, or married filing jointly.[19] For purposes of determining the credit amounts, single and head of household are combined into one category. Those whose incomes fall under certain levels qualify for the credit.[20] Credit amounts vary according to income, number of children, and filing status. For each income level in the two filing categories (single/head of household or married filing jointly), there are three possible EITC amounts depending on whether the filer has no children, one child, or two or more children.[21]

Thus, to determine a person's federal EITC, one must know (1) the person's federal adjusted gross income, (2) filing status, and (3) the number of children. For example, in 2015, for an unmarried worker with one child in 2015, the federal EITC works like this: up to the first $9,880 earned, the worker receives a credit equal to 34 cents on the dollar, for a maximum credit value of $3,359.[22] The credit is reduced by 16 cents for each dollar earned beginning at $18,110, eventually phasing out at $39,131 in earnings.[23] These phase-in and phase-out rates and ranges depend on a worker's filing status and number of dependents claimed.

2015 Income Limits for the Federal EITC[24]

Children	Maximum Credit	Maximum Earnings	
		Single	Married
Childless	$503	$14,820	$20,330
One Child	$3,359	$39,131	$44,651
Two Children	$5,548	$44,454	$49,974
Three or More Children	$6,242	$47,747	$53,267

The federal and most state credits, including Kansas, are refundable.[25] This means a qualified filer can claim any credit in excess of their tax liability. Therefore, if they owe no federal income taxes or owe less than their credit amount, they receive the excess of the credit in the form of a refund. This is an important aspect of the EITC since lower income workers typically do not owe federal taxes but still pay a significant portion of their income in Social Security and Medicare taxes.[26] Refund recipients can choose to receive the credit as a lump sum payment, like a regular income tax refund, or can receive part of it in each paycheck throughout the year.[27] The latter option is called an advance payment. To receive an advance payment, the worker must have at least one child.[28]

C. ELIGIBILITY

The credit is available only to those who were U.S. citizens or resident aliens for the entire tax year.[29] To receive an EITC, a worker must file a federal income tax form for the year and specifically claim the credit.[30] Likewise, to receive the Kansas EITC, the worker must specifically claim it.[31] To qualify for the claimed credit, a taxpayer must additionally meet certain basic rules, have an earned income and adjusted gross income (AGI) within certain limits and must either have a qualifying child or meet certain additional rules to qualify without a qualifying child.[32] Note, the EITC has special rules for members of the military, members of the clergy, and taxpayers with certain types of disability income or children with disabilities.[33]

D. BASIC RULES

The filing taxpayer, and any spouse and any qualifying child listed on their tax return must each have a Social Security Number that is valid for employment. The filing status of the taxpayer must also be married filing jointly, head of household, qualifying widow(er), or single.[34]

1. INCOME LIMITS

The federal EITC is available only for filers who have wages and whose federal adjusted gross income (AGI) falls below certain limits.[35] The limits vary according to EITC category. As with other federal income tax thresholds and exemptions, the federal EITC income limits are adjusted every year for inflation.[36]

Limits for income earned during 2015 required total earned income to be at least $1, tax year investment income must be no more than $3,400 and both the taxpayers earned income and adjusted gross income must be no more than: [37]

Filing Status	Qualifying Children Claimed			
	Zero	One	Two	Three or more
Single, Head of Household or Surviving Spouse	$14,820	$39,131	$44,454	$47,747
Married Filing Jointly	$20,330	$44,651	$49,974	$53,267

2. QUALIFYING CHILD RULES

The child must be that taxpayer's son, daughter, adopted child, stepchild, foster child, a descendant of any of them (such as a grandchild) or a sibling, stepsibling, or a descendant of any of them (such as nephew).[38] The child must be younger than 19 or, if a full-time student, younger than 24 at the end of the filing year, or be a child of any age and permanently and totally disabled.[39] The child must also live with the taxpayer in the United States more than half the year.[40]

3. RULE FOR THOSE WITHOUT A QUALIFYING CHILD

The taxpayer must reside in the United States for more than half of the year; must not be claimed as a dependent or as a qualifying child on anyone else's return; and must be at least 25 but under 65 years old at the end of the tax year.[41]

III. STATE EARNED INCOME TAX CREDITS

A. BACKGROUND

As of the tax year 2016, of the 43 states with a state income tax, 26 and the District of Columbia have their own EITC.[42] Like the federal government, all states require workers to file a proper tax return, and 22 states and the District of Columbia follow the federal government in providing a refundable credit if the credit amount is greater than the worker's tax liability.[43] In Delaware, Maryland, Ohio, Oklahoma, and Virginia, the credit can only reduce a worker's tax liability, not provide a refund.[44] Except Wisconsin, all states allow eligibility for workers without qualifying children; and except Minnesota, all states base the amount of their credit on a percentage of the federal credit.[45]

States with EITCs: Reflecting Law as of January 2016[46]

State	Percentage of Federal Credit	Refundablility
California	85% of the federal credit up to half of the federal phase-in range	Refundable
Colorado*	10%	Refundable
Connecticut	30%	Refundable
Delaware	20%	Nonrefundable
Illinois	10%	Refundable
Indiana	9%	Refundable
Iowa	15%	Refundable
Kansas	17%	Refundable
Louisiana	3.5%	Refundable
Maine	5%	Refundable
Maryland	26%	Refundable
	50%	Nonrefundable
Massachusetts	23%	Refundable
Minnesota	Based on income	Refundable
Nebraska	10%	Refundable
New Jersey	30%	Refundable
New Mexico	10%	Refundable
New York	30%	Refundable
Ohio	10% limited to 50% of liability for state taxable income above $20,000	Nonrefundable
Oklahoma	5%	Nonrefundable
Oregon	8 % 11% with a child under 3 years old	Refundable
Rhode Island	15%	Refundable
Vermont	32%	Refundable
Virginia	20%	Nonrefundable
Washington**	10%	Refundable
Wisconsin	4% - one child 11% - two children 34% – three children	Refundable
District of Columbia	40%	Refundable

*- In 2013, Colorado passed legislation that made the EITC permanent once the state had surplus revenues to refund.[47]

**- Washington's EITC was scheduled to rise from 5% to 10% in 2010, but due to budget shortfalls, policymakers have not financed the credit.[48]

B. RECENT STATE EITC LEGISLATIVE DEVELOPMENTS

During the 2016 legislative session, over 170 bills related to the earned income tax credit were introduced among the states.[49] The aims of these bills ranged from increasing the rate, decreasing the rate, changing refundability status, making certain provisions permanent and conducting EITC outreach. Collectively, Arizona, California, Iowa, New York, Oklahoma, Oregon, Rhode Island and Virginia enacted ten of these bills.[50]

- Arizona HB 2622: Requires the Department of Economic Security to provide all childcare subsidy recipients with information on the EITC.[51]

- California SB 826: Appropriates funds for the implementation of the state's EITC including processing returns, auditing, and making necessary system changes to support the EITC program. Also specifies that $2 million of the appropriation be used to increase awareness of the state EITC and free tax preparation assistance.[52]

- Iowa HB 2460: Appropriates funds for the continuation of a grant to an Iowa-based nonprofit for the purpose of providing tax preparation assistance in order to assist low-income residents with tax filing and expand usage of the EITC.[53]

- New York SB 6409: Makes the enhanced EITC for noncustodial parents in the state permanent. The enhancement was set to expire in 2016.[54]

- Oklahoma SB 1604: Makes the state's EITC nonrefundable.[55]

- Oregon HB 4110: Increases the state's EITC from 8 percent of the federal credit to 11 percent for families with children under the age of 3.[56]

- Rhode Island HB 7454: Increases the state's EITC from 12.5 to 15 percent of the federal credit.[57]

- Virginia HB 402: Modifies the tax code related to the EITC to conform with the federal tax code. Specifically, the change makes permanent provisions of the state EITC that were set to expire in 2017.[58]

- Virginia HB 1026: Requires the Department of Social Services to provide notice to recipients of various state benefits of the availability of the federal and state EITC.[59]

- Virginia HB 29: Appropriates funding to contract with a nonprofit to provide outreach, education and tax preparation services to reach residents who may be eligible for the federal EITC.[60]

C. THE KANSAS EARNED INCOME TAX CREDIT

Kansas' EITC was enacted in 1998 at 15 percent of the federal credit.[61] In 2007, House Bill No. 2031 expanded the Kansas EITC from 15 to 17 percent effective for tax year 2007.[62] In 2010, the EITC was temporarily increased up to 18 percent for tax years 2010-2012 to offset an increase in the state sales tax before reverting back to 17 percent.[63]

Like the federal EITC, the Kansas credit is refundable.[64] Eligibility for the Kansas EITC is also based on federal eligibility, so if a Kansas resident qualifies for the federal EITC, they qualify for Kansas EITC.[65]

IV. <u>ECONOMIC IMPACT OF THE KANSAS EITC</u>

A. IMPACT ON TAXPAYERS

Like the federal EITC, the economic effects of a state EITC depend on many factors, including how many eligible taxpayers claim the credit and how and where they decide to spend the money they receive.[66] Whether EITCs affect the local economy more than the regional or state economy depends partly on the area's size and the number of EITC claimants who live there.[67]

Of those individuals filing income tax returns, 212,915 received EITCs, or 14.19 percent of all returns.[68] In general, 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) can qualify for Kansas' EITC. [69] However, the largest benefits go to families with incomes between about $10,000 and $23,000,[70] and primarily those with children.[71] Also, of the top twenty counties with the highest percentage of tax filers claiming the Kansas EITC, nineteen were rural.[72]

B. IMPACT ON THE BUDGET

For the tax year 2013, credits allowed on returns that year totaled $172,403,931 of which $127,051,910 – or almost 74 percent – were from income taxes. EITC credits accounted for $85,177,860 – or over 67 percent – of the total individual income credits and over 49 percent of all taxes credits claimed. Kansans paid, after all credits, $2,225,973,433 in individual income taxes. This accounted for almost 25 percent of the gross total of $8,914,449,498 collected that year.

Income taxes for fiscal year 2015 were $2,790,713,922. This accounts for 32.7 percent of all state taxes collected.[73] State and local sales and use taxes accounted for the largest portion at 47.3 percent.[74]

Tax Year 2013 Kansas Department of Revenue Tax Credits[75]

Individual Income Tax		Corporate Income Tax	Privilege Tax	Total Tax Credits
EITC	All Others			
$85,177,860	$41,874,050	$41,063,589	$4,288,432	$172,403,931

Tax Credits Allowed on Returns in Tax Years[76]

	TY 2011	TY 2012	TY 2013
Corporate Income	$82,244,941	$73,594,663	$41,063,589
Tax Individual Income	$177,685,951	$187,618,734	$127,051,910
Tax Privilege Tax	$3,817,308	$6,244,324	$4,288,432
Total Tax Credits	$263,748,200	$267,457,721	$172,403,931

Gross Total Collections and by Source[77]

Source	Fiscal Year 2014	Fiscal Year 2015	Percent Change	Percent of FY 2015 Total
Individual Income Taxes	$2,813,793,878	$2,790,713,922	-0.8%	32.7%
Corporate Income Taxes	$446,224,255	$461,315,382	3.4%	5.4%
Corporate Franchise Tax*	$13,279	$727,700	NA	NA
Privilege Taxes	$35,349,684	$43,217,307	22.3%	0.5%
State and Local Sales and Use Taxes	$3,932,921,341	$4,043,251,703	2.8%	47.3%
Motor Fuel Taxes	$445,481,748	$443,326,042	-0.5%	5.2%
Property Taxes: Commercial Vehicle Fees	$30,715,379	$11,164,604	NA	NA
Division of Vehicles	$234,646,359	$239,340,747	2.0%	2.8%
Alcoholic Beverage Control	$131,874,258	$136,898,761	3.8%	1.6%
Other Taxes and Fees	$400,274,983	$372,333,180	-7.0%	4.4%
Total	$8,471,295,164	$8,542,289,348	0.8%	100.0%

*Corporate Franchise Tax repealed effective Tax Year 2011; Motor Carrier Property Tax repealed and replaced with Commercial Vehicle Fee

Other taxes and fees include: bingo; dry cleaning; transient guest; cigarette; tobacco; controlled substances; estate; oil, gas, oil assessment conservation fee and gas assessment conservation fee, gas oil and sand royalties; car line; bonds; licenses; and fees.[78]

V. IMPLICATIONS OF CHANGING THE KANSAS EITC

A. EFFECT ON THE STATE'S GENERAL FUND

During the 2015 Kansas legislative session, lawmakers considered two bills (both failed) that proposed contradictory changes to the state EITC. Senate Bill 251 would have decreased the Kansas EITC rate to from 17 percent to 8.0 percent for tax year 2015 and each year thereafter. The bill would also have eliminated the credit's refundability.[79] Senate Bill 200 would have increased the Kansas EITC from 17 percent to 20 percent of the federal credit and maintained the credit's refundability.[80]

In response to these two bills, the Department of Revenue conducted a study of their potential impact on the state budget. To formulate these estimates, the Department of Revenue reviewed data on the Kansas (EITC) program. Kansas taxpayers claimed approximately $88.7 million in tax credits for tax year 2013 under the current rate of 17 percent of the amount of the federal tax credit. [81]

1. SENATE BILL 251

The Department of Revenue estimated that SB 251 would increase State General Fund revenues by $69.1 million in FY 2016, since decreasing the amount of the Kansas EITC to 8 percent for tax year 2015 and changing the tax credit from a refundable credit to a nonrefundable credit would decrease the amount of credits claimed by $69.1 million in tax year 2015, which would save the State General Fund that same amount.[82]

The Fiscal Effect to State Revenues during Subsequent Years [83]

	FY 2017	FY 2018	FY 2019	FY 2020
State General Fund	$71,900,000	$74,700,000	$77,700,000	$80,800,000

2. SENATE BILL 200

The Department of Revenue estimates that SB 200 would decrease State General Fund revenues by $15.5 million in FY 2016. [84] The Department also indicates that the administrative costs of implementing the change would be negligible and could be absorbed within existing resources.[85]

The Fiscal Effect to State Revenues during Subsequent Years [86]

	FY 2017	FY 2018	FY 2019	FY 2020
State General Fund	($16,100,000)	($16,800,000)	($17,400,000)	(18,100,000)

B. OTHER EFFECTS

The Kansas Department for Children and Families indicates that it relies on the refundable portion of the EITC as the primary state expenditure to match the federal Temporary Assistance for Needy Families (TANF) Program maintenance of effort requirement.[87] Decreasing the amount of the Kansas EITC to 8 percent and eliminating the refundable portion of the tax credit would require additional state matching funds devoted to state child welfare and poverty programs through the budget process to count toward the state maintenance of effort (MOE) requirements to avoid any federal TANF penalties. The Kansas Department for Children and Families estimates that the state would have to spend an additional $46.5 million from the State General Fund to keep its state maintenance of effort at required levels. This estimate assumes that there will be no other changes to current funding sources that are used for the TANF state maintenance of effort requirements.[88]

In sum, SB No. 251 would increase revenues by $69.1 million, but would require additional expenditures of $46,554,400 ($46.1 million in additional TANF state maintenance of effort plus $54,400 in administrative costs from the Department of Revenue).[89]

The Department of Administration indicates that adjusting state income tax liabilities has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program.[90] This program intercepts individual income tax refunds and homestead tax refunds and applies those amounts to debts owed to state agencies, municipalities, district courts, and state agencies in other states. Debts include, but are not limited to child support, taxes, educational expenses, fines, services provided to the debtor, and court ordered restitution. As the dollar amounts of refunds are decreased, the amount available for possible debt setoffs is also reduced.[91]

VI. THE KANSAS EITC AND TANF

A. THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES PROGRAM

The Temporary Assistance for Needy Families (TANF) program is a federal assistance program.[92] TANF provides block grants for states to provide time-limited cash assistance for needy families, with work requirements for most recipients. The program is designed to reform the nation's welfare system by moving recipients into work and turning welfare into a program of temporary assistance.[93]

In order to receive these federal funds, states must spend a specified amount of their own funds.[94] This state-spending requirement is known as the “maintenance of effort” (MOE) requirement.[95] A state’s yearly MOE requirement is based on what a state was required to spend in 1994 under the Aid to Families with Dependent Children program (which TANF replaced). Each state must spend at least 80 percent of what it spent in 1994 if it does not meet the minimum work participation rates; or at least 75 percent of what it spent in 1994 if it does meet the minimum work participation rates.[96] The consequence of failing to satisfy the MOE requirements is a dollar-for-dollar reduction of the state’s TANF grant amount for the subsequent year and the state will be required to expend additional state funds equal to the amount by which the state fell short of meeting its MOE requirement.[97]

For state expenditures to count toward the state’s MOE, the expenditures must meet the statutory requirements for “qualified State expenditures.”[98] To be considered “qualified State expenditures,” the expenditure must be assistance made to or on behalf of an eligible family.[99] “Eligible families” means families with a child who lives with a custodial parent or other adult caretaker relative and who meet the financial eligibility criteria under the State's TANF plan.[100]

Expenditures do not include revenue losses or nonrefundable tax credits, but states may claim refundable earned income tax credits that result in payments to families.[101]

Certain other types of expenditures that may also not be counted, include (1) expenditures of funds which originated with the Federal government; (2) State Medicaid expenditures; (3) State funds which match Federal funds (or State expenditures which support claims for Federal matching funds); and (4) expenditures which States make as a condition of receiving Federal funds under other programs.[102]

However, each State may also include as expenditures, subject to a 15 percent cap, the amount of the Federal and MOE funds it spends on administrative activities.[103] "Administrative costs" are defined as costs necessary for the proper administration of the TANF program or separate State programs.[104]

1. THE ETIC AND KANSAS MOE EXPENDITURES

For Kansas, the 80 percent requirement is $65,866,230 million.[105] In fiscal year 2015, Kansas had qualified MOE spending of $63,815,031, falling $2,051,199 short of fully meeting the 80 percent requirement. Of Kansas' qualifying MOE spending, dollars paid for EITC refunds accounted for $46,863,376 or over 73 percent of qualified expenditures.[106]

Kansas MOE Expenditures[107]

Refundable EITCs	Early Care and Education		All other Expend-itures	Total State MOE Expenditure	State MOE at 80%	Difference of MOE at 80% and Total State Spending
	Child Care (Assistance and Non-Assistance)	Pre-Kindergarten /Head State				
$46,863,376	$2,846,655	$14,105,000	$0	$63,815,031	$65,866,230	-$2,051,199

Comparison to Missouri (which has no state EITC)

Missouri MOE Expenditures[108]

Basic Assistance	Work, Education, and Training Activities	Child Care (Assistance and Non-Assistance)	Non-Recurrent Short Term Benefits	Total State MOE Expenditure	State MOE at 80%	Difference of MOE at 80% and Total State Spending
$64,323,374	$18,632,876	$16,548,756	$62,571,432	$185,378,052	$128,128,826	$57,249,226

2. USE OF TANF FUNDS

States may use their TANF funding in any manner "reasonably calculated to accomplish the purposes of TANF."[109] These purposes are to: provide assistance to needy families so that children can be cared for in their own homes; reduce dependency by promoting job preparation, work and marriage; prevent out-of-wedlock pregnancies; and encourage the formation and maintenance of two-parent families. States have broad flexibility to determine eligibility, method of assistance, and benefit levels.[110] States can also transfer up to 30 percent of their TANF funds into the Child Care and Development Block Grant (CCDBG) and Social Services Block Grant programs (SSBG).[111]

3. USE OF TANF FUNDS IN KANSAS

Kansas uses TANF funds to operate the Successful Families Program.[112] This program offers employment services and support services to low-income families, including cash assistance.[113]

4. CASH ASSISTANCE

The amount of cash benefit provided depends upon the family's income and the county where the family lives. The chart below shows the highest cash benefit a family may receive, based on family size:

2013 Cash Assistance Payments [114]

Family Size	Rural County	High Cost Rural County	High Population Counties	High Cost High Population Counties
1	$224	$229	$241	$267
2	$309	$314	$326	$352
3	$386	$391	$403	$429
4	$454	$459	$471	$497
5+	Add $61 for each additional person			

*The average monthly benefit was $269. [115]

Families may get cash assistance while they look for work as long as they meet program requirements. The requirements include cooperating with DCF Child Support Services Division. Families who get cash assistance may also get medical benefits and child care.[116]

Adults must work or participate in work activities in order to receive cash assistance for their families unless they need to care for a child under 2 months of age or a disabled household member.[117]

Families can only get cash assistance for 36 months in a lifetime; may not use cash benefits to purchase alcohol, cigarettes, tobacco products, lottery tickets, concert tickets, professional or collegiate sporting event tickets or tickets for other entertainment events intended for the general public or sexually-oriented adult materials.[118]

5. EMPLOYMENT SUPPORT SERVICES AND EMPLOYMENT

Families can receive support services to help them prepare for and/or obtain employment.[119] Persons receiving cash assistance who are not required to get a job or be in work activities may also apply for these services. They include: help in obtaining and maintaining employment, job training, help in obtaining a GED or learning English, transportation assistance, clothing, moving costs related to a job, help with parenting skills, physical or mental health services, services for learning disabilities (such as help with reading and/or math), drug or alcohol problems, or domestic violence.[120]

VII. STUDIES OF THE FEDERAL EARNED INCOME TAX CREDIT

Several studies have documented the history and effects of the federal earned income tax credit, including its impact on income and poverty, work effort, household spending and asset development, and the economy.

A. POSITIVES

In 2015, the federal EITC helped more than 6.5 million people out of poverty, with more than half of them children.[121] In Kansas, the federal EITC added an estimated $511 million into Kansas' economy in 2014 alone.[122]

Proponents claim the EITC encourages large numbers of single parents to leave welfare for work, especially when the labor market is strong.[123] Specifically, they claim federal EITC expansions have played a critical role in bringing single mothers into the workforce.[124] The EITC expansions of 1994-1996 are estimated to have contributed to an increase in the employment rates of single mothers, particularly those with two or more children. By 1997, the employment rate of single mothers with two or more children had increased by roughly 8 percentage points more than the employment rate of single mothers with one child, who received a smaller benefit.[125]

A 2010 study surveyed EITC recipients who received refunds of at least $1,000 and revealed that 39 percent of families reported saving a portion of their refund, with 27 percent of families using some of their refund to purchase, repair or save for a car.[126]

B. WEAKNESSES

Since the EITC is explicitly tied to work effort, the credit does not support low-income families who cannot find work.[127] Similarly, the credit provides almost no assistance to workers without custodial children; a group plagued by low employment and high poverty rates.[128]

Administration of the credit is difficult for the IRS due to complex rules.[129] These complex rules have also led to an unusually high error rate in claiming the credit.[130]

VIII. STATE EITC EFFECT ON POVERTY

A Connecticut report commissioned to study the effect of a proposed state EITC, found that a state EITC would raise relatively few Connecticut families above the poverty level.[131] Families the EITC would raise, fall into narrow income ranges that are already quite close to the poverty line. The study, using a hypothetical 10 or 20 percent credit, concluded this result is because the state EITC is small compared to the federal credit and that there are other income support programs available.[132]

Testimony on HB 2560 in 2012, provided by Kansas Action for Children, estimates that a repeal of the Kansas EITC would result in nearly 2,000 Kansas families falling into poverty, including more than 4,000 children.[133]

A. FEDERAL POVERTY MEASURE

The poverty guidelines are issued each year by the Department of Health and Human Services (HHS).[134] The guidelines are used for administrative purposes including determining financial eligibility for certain federal programs.[135] The poverty guideline is adjusted every year for inflation according to the change in the Consumer Price Index.[136] The poverty guidelines are sometimes referred to as the "federal poverty level" (FPL), but that phrase is ambiguous and should be avoided, especially in situations (e.g., legislative or administrative) where precision is important.[137]

A number a federal programs use the poverty guidelines, or percentage multiples of the guidelines (such as, 125 percent or 185 percent of the guidelines), in determining eligibility.[138] These federal programs include Head Start, the Supplemental Nutrition Assistance Program (SNAP) formerly Food Stamp Program, the National School Lunch Program, the Low-Income Home Energy Assistance Program, and the Children's Health Insurance Program.[139] Some state and local governments, some private companies, and charitable agencies also use the guidelines in setting eligibility requirements in some of their programs, activities, or services.[140]

When determining program eligibility, some agencies compare before-tax income to the poverty guidelines, while other agencies compare after-tax income. Likewise, eligibility can be dependent on gross income, net income, or some other measure of income. Federal, state, and local program offices that use the poverty guidelines for eligibility purposes may define income in different ways.[141]

In general, public cash assistance programs, such as Temporary Assistance for Needy Families (TANF) and Supplemental Security Income (SSI), do not use the poverty guidelines in determining eligibility.[142] The EITC program also does not use the poverty guidelines to determine eligibility.[143]

2015 Poverty Guidelines for the 48 Contiguous States and the District of Columbia[144]

Persons in the Family/Household	Poverty Guideline
1	$11, 770
2	$15, 930
3	$20,090
4	$24,250
5	$28,410
6	$32,750
7	$36,730
8	$40,890

*For families/households with more than 8 persons, add $4,160 for each additional person.

The official poverty rate in 2015 was 13.5 percent.[145] The poverty rate in Kansas that year was approximately 14 percent or 407,600 Kansans.[146]

Kansas Individual Income Tax by Adjusted Gross Income Bracket[147]

Resident Taxpayers, Tax Year 2013

Effective Tax Rate on Adjusted Gross Income*	Kansas Adjusted Gross Income Brackets	Number of Returns	Kansas Adjusted Gross Income	Tax Liability After All Credits
0	No KAGI -	60,426	($2,325,271,006)	($2,949,010)
0.19%	$0 - $25,000	561,961	$6,512,776,306	$12,103,267
2.17%	$25,000 - $50,000	361,535	$13,060,225,851	$282,914,285
2.91%	$50,000 - $75,000	185,728	$11,393,900,902	$331,367,698
3.21%	$75,000 - $100,000	123,041	$10,637,750,715	$341,226,296
3.44%	$100,000 - $250,000	155,149	$21,701,159,280	$747,268,491
3.43%	$250,000 - Over	21,425	$15,001,666,885	$514,042,406
2.93%	Total Kansas Residents	1,469,265	$75,982,208,933	$2,225,973,433

* Effective rate is the tax liability (after all credits) divided by the adjusted gross income.

IX. ENDNOTES

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