

Earned Income Tax Credit: Incentivizing Work, Supporting Families

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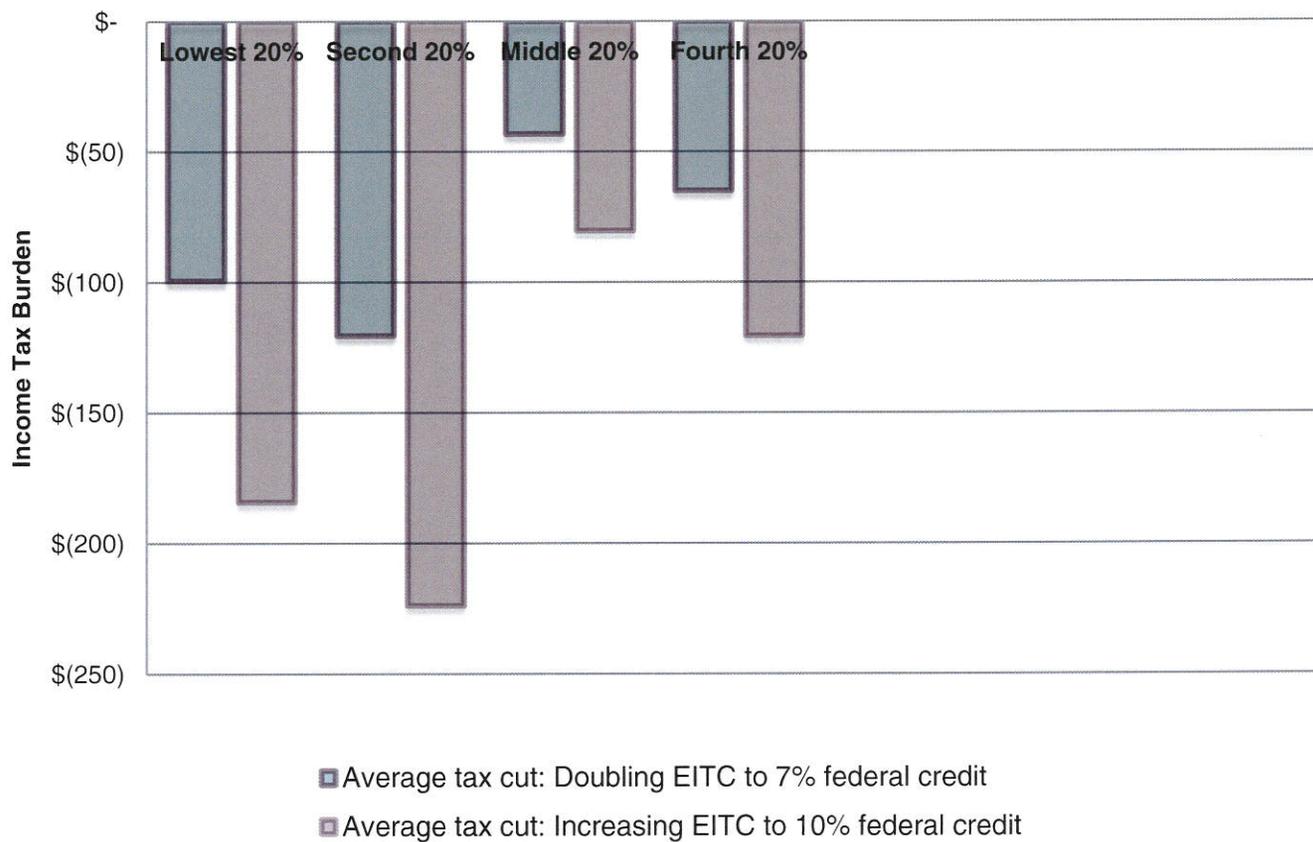
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What is the Earned Income Tax Credit?

- The EITC is a refundable tax credit that helps workers provide basic needs for their children. The size of one's credit depends on two factors: income and number of children.
- The EITC incentivizes work by phasing in the benefit amount as workers earn more. The credit flattens at a maximum benefit level as workers' earnings continue to rise, then phases out slower than it phased in. Married couples and families with children benefit the most from the EITC, which is one reason it has enjoyed strong bipartisan support in Congress.
- Louisiana is among more than two dozen states that have enacted their own EITC to complement the federal credit. The state EITC helps to supplement the benefit filers receive through the federal version and helps put more money back in the pockets of the working poor.
- Of the states that have enacted their own versions of the EITC, Louisiana's is the smallest, set at only 3.5 percent of the federal benefit. A stronger EITC would not only help working families afford basic needs, but it would help local businesses as people spend their added income.
- During the 2015 regular session, the Louisiana Legislative Fiscal Office estimated that doubling the EITC from 3.5 to 7 percent of the federal credit would cost approx. \$47 million annually, for a 5-year projected cost of \$235 million. Because of the simplicity and reliability of the EITC's structure, lawmakers and the public would not have to worry about rapidly growing costs of this credit, and can rest assured knowing that almost the entire cost goes toward helping working families.

An EITC increase would make Louisiana's tax code more progressive, relieving some of the tax burden on low-income families**



*Source: Institute on Taxation and Economic Policy, April 2016

**See Appendix for details

Appendix: Impact of increases to the Earned Income Tax Credit on Louisiana tax payers

2015 Incomes	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income range	Less than \$19,000	\$19,000 – \$37,000	\$37,000 – \$58,000	\$58,000 – \$103,000	\$103,000 – \$209,000	\$209,000 – \$534,000	\$534,000 – or more
Average Income	\$12,000	\$27,000	\$47,000	\$77,000	\$138,000	\$298,000	\$1,389,000

Effects on taxpayers: Doubling EITC to 7% of federal credit							
Tax Change as % of Income	-0.4%	-0.2%	-0.0%	-0.0%	—	—	—
Average Tax Change	-52	-57	-10	-2	—	—	—
% with Income Tax Cut	+53%	+47%	+24%	+4%	—	—	—
Avg. Tax Cut for Those w/ Cut	-99	-120	-43	-65	—	—	—
Share of Tax Cut	+43%	+47%	+8%	+2%	—	—	—
Effects on taxpayers: Increase EITC to 10% of federal credit							
Tax Change as % of Income	-0.8%	-0.4%	-0.0%	-0.0%	—	—	—
Average Tax Change	-97	-106	-19	-5	—	—	—
% with Income Tax Cut	+53%	+47%	+24%	+4%	—	—	—
Avg. Tax Cut for Those w/ Cut	-184	-224	-80	-121	—	—	—
Share of Tax Cut	+43%	+47%	+8%	+2%	—	—	—