



Why Does West Virginia Need a State Earned Income Tax Credit?

1. A State EITC at 5% would have no negative impact on the budget.

Based on estimates provided by Deputy Revenue Secretary Mark Muchow, the base cost of the WV State Family Tax Credit (SFTC) is \$17 million in FY2010. By replacing the West Virginia Family Tax credit with a State EITC at 5% of the value of a Taxpayer's federal EITC, there would be a small gain in total revenue of \$0.5 million.

2. A State EITC would have an economic impact.

Refundability is a key component to the success of the federal EITC that the current state credit lacks. Refundability allows for families to use their credit for very basic necessities – food, clothing, shelter, utilities – or to better their circumstances – purchase a home, pay for educations, provide for childcare, or obtain reliable transportation. All of these things provide a stimulus to the local economy as studies show that refund dollars are spent locally.

A recent study in Michigan concluded the following about the economic impact of the EITC:

- 80% the \$1.3 billion in refunds were spent resulting in \$1 billion in new expenditures
- Each dollar of expenditure is earned and then re-spent generating an additional \$1.1 billion in new expenditures.
- For every dollar of EITC benefit received, \$1.67 is generated in new earnings.

3. A state EITC would benefit almost twice as many West Virginians.

Eligibility for the SFTC is limited to 100% of the federal poverty level (\$22,050 for a family of four) – a partial credit is given up to 120%. The federal EITC extends to 200% in acknowledgement of the fact that many of the working poor earn above the poverty level but still don't earn enough to make ends meet. In WV approximately 148,000 filers claim the federal EITC – only 89,000 qualify for the SFTC.

4. Because it is modeled after the Federal EITC it is a familiar and proven method for reducing poverty.

The current SFTC is modeled after similar legislation in Kentucky. This approach has been somewhat ineffective, leading advocates in Kentucky to push for the creation of a State EITC. In WV, the fact that this credit is new and relatively unknown makes the claim rate low. Since the SFTC was enacted claims have been substantially lower than expected. In 2008 only 68,754 filers claimed the SFTC, 77% of the total eligible. A State EITC would be more widely claimed as EITCs are more familiar to most working families.

5. A State EITC would reward working families.

The success of the federal EITC is largely due to its emphasis on rewarding work for the lowest wage earners. A State EITC would have the same effect – only those with qualifying earned income would be eligible. EITCs provide much needed wage supplements to working families, offset tax burdens and encourage individuals to stay in the workforce. The federal EITC is also designed to help those who need it the most – working families (ages 25-65) – over 98% of EITC benefits got to families with young children.

The SFTC has no ties to work, no age limits, and singles can benefit just as much as families.