



LOUISIANA'S EITC
A SMART INVESTMENT IN WORKING FAMILIES
BY STEVE SPIRES



Louisiana Budget Project

LOUISIANA'S EARNED INCOME TAX CREDIT



A Smart Investment in Working Families and Children

About LBP

The Louisiana Budget Project (LBP) monitors and reports on public policy and how it affects Louisiana's low- to moderate-income families.

LBP was formed in 2006 by the Louisiana Association of Nonprofit Organizations (LANO) and is among more than 40 state-level policy organizations that participate in the State Priorities Partnership, coordinated by the Center on Budget and Policy Priorities.

Our Staff

Jan Moller, Director
jan@labudget.org

Ashley Herad, Director of Government Affairs and Outreach
ashley@labudget.org

Steve Spires, Senior Policy Analyst
steve@labudget.org

Grace Reinke, Poverty to Opportunity Coordinator
grace@labudget.org

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With poverty on the rise in Louisiana, especially among children, policymakers should expand the state's version of the Earned Income Tax Credit (EITC)—a tried-and-true tax benefit for families that work, but earn low wages. Louisiana's credit is the smallest in the nation, which keeps it from helping as much as it could. Its size should be doubled to make better use of this highly effective tool. The state could pay for this expansion by closing existing tax exemptions that are ineffective or that no longer serve a purpose.

The EITC encourages and rewards work by increasing income and easing the impact of the various taxes and fees that eat up a large share of income for those earning the least. This boost for low-wage families is what makes it the single-most effective anti-poverty tool for children. Young children in poor families that receive extra income do better in school, which sets them up for a more prosperous, productive future. It also provides substantial help to families with incomes just above poverty, but still struggling to meet basic needs.

To build on the success of the federal EITC, Louisiana, 26 other states, and Washington, D.C. offer their own credit to enhance the boost given to low-income working families. Louisiana's credit puts \$48.8 million back into the pockets of Louisiana families.¹ Keeping more of what they earn helps these families afford food, clothing, housing and other basics.

EITC Encourages Work, Boosts Income for Families and Reduces Poverty



The EITC is only available to taxpayers who earn income through work during the year. It encourages work by effectively raising the earnings of low-wage workers as they work more hours. In fact, the credit was largely responsible for the increased labor force participation

among single parents after the federal welfare overhaul of the 1990s.² Not only does the credit encourage low-skilled workers to enter and stay in the job market, but many families spend their credit on necessities that help them work, like repair of a car or child care.³

EITC Especially Helps Children



Reducing poverty among families and children is a good investment in a stronger economic future. The harmful, long-lasting effects of child poverty are well documented. Children who grow up in poverty are more likely to struggle in school, become pregnant in their teens, get caught up in the criminal justice system, and have lower earnings and poorer health as adults.⁴ Because the EITC boosts family income and helps parents meet basic needs, children in families that claim the credit do better. They are more likely to perform better and go farther in school, and work

and earn more as adults.⁵

The federal EITC lifted 6.2 million people out of poverty in 2013, including 3.2 million children.⁶ State credits leverage and amplify the impact of the federal credit. Louisiana has one of the highest poverty rates in the country, with one in five people living below the poverty line (about \$24,000 for a family of four in 2015), including more than one of every four of the state's children. To thrive, Louisiana needs its families to succeed. Combating poverty and reversing the current trend will be key to Louisiana's future.

Louisiana's EITC Builds on Success of Federal Credit



Every year, around 30 percent of Louisiana households claim the EITC, and in some high-poverty parishes it flows to half of all taxpayers.⁷ Louisiana has the smallest state-level credit, set at 3.5 percent of the federal credit, or less than one-fourth the 16 percent average among states.⁸

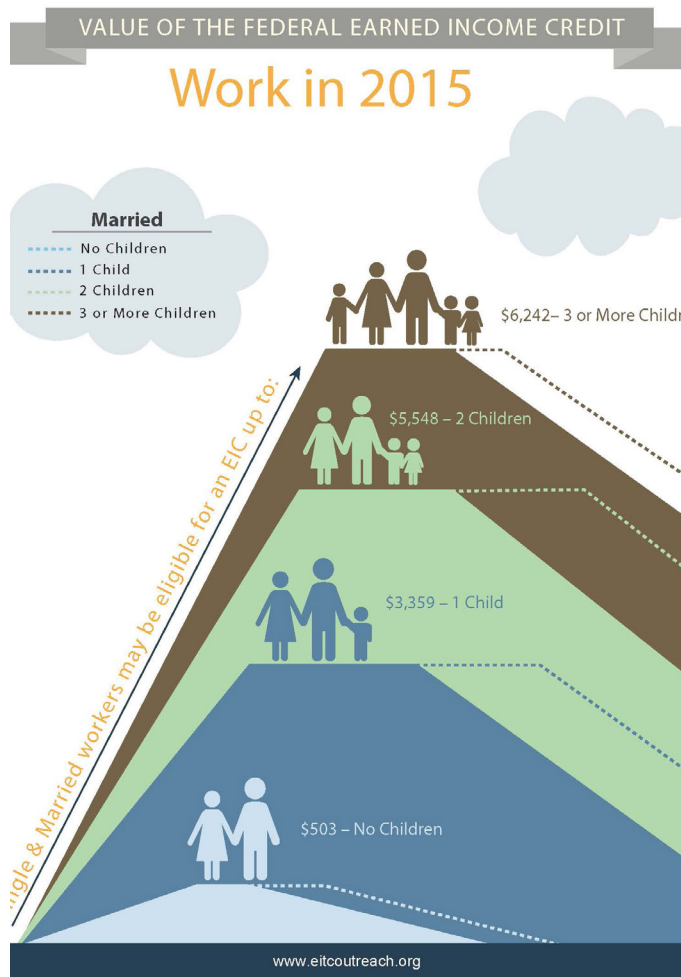
But even a modest earned-income credit like Louisiana's provides an important boost to working families for whom every dollar counts. In Louisiana, the median income is well below the national average and a large share of jobs pay a low wage.⁹ An employee working 40 hours per week for all 52 weeks of the year at the minimum wage (\$7.25 an hour) earns only \$15,080, well below the \$20,090 a year poverty line for a family of three.

Federal and state EITCs help to fill that gap. For exam-

ple, consider a single mother with two children earning the minimum wage who works about 36 hours per week because she can't get more hours or can't find a full-time child care arrangement. If she works all year she brings in \$13,572. She would receive a federal EITC of \$5,430 and a state credit of \$190. This would bring her family's income up to \$19,192 essentially to the poverty line. A state credit double the size of Louisiana's would lift her family above poverty.

Louisiana lawmakers would do well to take advantage of this effective tool for reducing poverty and double its size to bring it more in line with other states and to have a greater impact. They can fund this expansion with savings from their efforts to eliminate tax exemptions that are not as effective or no longer serve a purpose.

EITC Structure, Eligibility and Benefits



In Louisiana, most of the benefits from the federal EITC—over 98 percent of all dollars—flow to working families with children, though single workers and people without kids can also claim a small credit.¹⁰ Benefits are larger for families with two or three children and for families headed by married couples. The credit phases in as families earn more, until they reach the maximum benefit amount. As income rises, families eventually hit the phase-out range and their credit decreases gradually to zero (see pyramid chart). The gradual phase-out keeps families from abruptly losing the credit and reinforces the incentive to keep working and earning more. While families earning poverty-level wages receive the largest benefit from the EITC, it also gives families at somewhat higher income levels substantial help in making ends meet.

Workers who are eligible for the federal credit are automatically eligible for the state credit. This makes Louisiana’s credit easy and cheap to administer because it requires just one line on the state’s income tax form.¹¹ This also means that nearly every dollar spent on the EITC goes directly to working families, rather than toward administrative costs.

Federal Earned Income Tax Credit (EITC) Eligibility and Maximum Benefits (for the 2015 Tax Year)

INCOME LIMIT	NO CHILDREN	1 CHILD	2 CHILDREN	3 CHILDREN
For Individuals	\$14,820	\$39,131	\$44,454	\$47,747
For Married Couples	\$20,330	\$44,651	\$49,974	\$53,267
Max. Federal Benefit	\$503	\$3,359	\$5,548	\$6,242
Max. State Benefit	\$18	\$118	\$194	\$218

State EITC Helps Make State Tax Code More Fair



Louisiana’s state EITC also offers lawmakers a way to make Louisiana’s overall tax structure more equitable for low-income families. Although the state’s personal income tax is based on ability to pay—meaning those earning higher incomes pay more than those earning less—Louisiana’s high sales taxes hit lower-income residents especially hard, since they spend more of their income and have less opportunity to save. The state EITC helps ease the impact of sales taxes on the pocketbooks of working families that earn the least, and helps the state avoid taxing poor families deeper into poverty.¹²

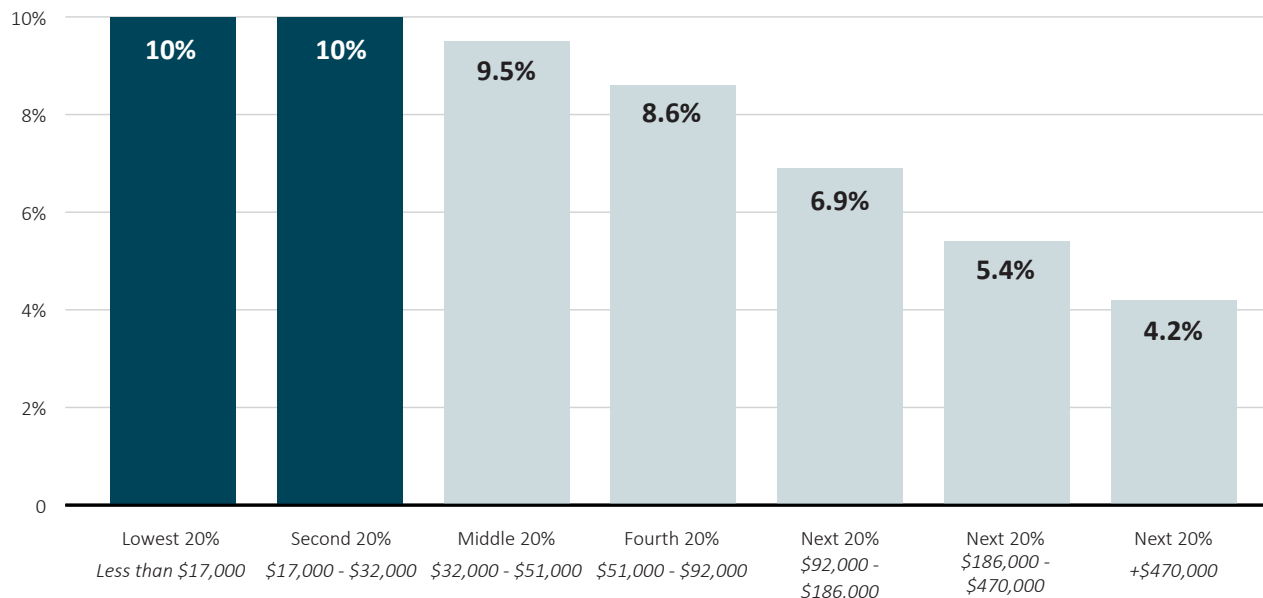
Key to the credit’s ability to do this is its refundability: Families get a credit that goes beyond what they paid in income taxes. Without this feature, the EITC would do little to help families who don’t owe much state income tax. It would not help reduce the other taxes

that hit low-income working families the hardest, nor give them the income boost that reduces poverty.

The poorest 20 percent of Louisiana households pay around 10 percent of their incomes in state and local taxes (including income, sales and property taxes), while those at the top pay under 6 percent of their income (see Who Pays? Chart).¹³ For the average family in the bottom 20 percent, that’s more than \$1,000 of the \$11,000 they earned—real money that would otherwise go to meeting basic needs. Doubling Louisiana’s EITC would be a relatively small investment for the state, but could make a large difference for working families for which every dollar counts. A single mother with two children working full-time at the minimum wage would see her credit increase to \$388 from \$194. The average benefit would increase to \$197 from \$97.

Louisiana State and Local Taxes in 2015

SHARES OF FAMILY INCOME FOR NON-ELDERLY TAXPAYERS



Source: ITEP “Who Pays” Report, 2015: http://www.itep.org/whopays/full_report.php

EITC is Example of Effective and Efficient Tax Credit



Louisiana's earned-income credit is easy to administer and its costs are predictable—noteworthy benefits at a time when policymakers are examining the hundreds of different tax exemptions, exclusions, rebates and other tax breaks that cost the state over \$7.6 billion a year.

While the cost of some tax breaks balloon far beyond initial estimates—take, for example, the spiraling costs of the state's film tax credits—the state earned income credit has been a happy exception. This is because it is tied to the federal credit, and years of past tax and income data allow for close predictions. When the tax credit was first established in 2007, the Legislative Fiscal Office calculated its four-year cost at \$162 million (around \$40.5 million a year). The actual four-year cost of \$176 million turned out to be 8 percent higher, but still a relatively steady amount per year.

The higher cost occurred for two reasons. First, the

recession caused incomes to drop, making more taxpayers eligible for the credit. Second, Congress enacted an increase in the credit at the federal level to help working families weather the recession—which increased the amount of the state credit since it is tied to the value of the federal one.

Doubling Louisiana's EITC to 7 percent of the federal credit would cost approximately \$47 million per year, or \$235 million over five years.¹⁴ Because of the simplicity and reliability of the EITC's structure, lawmakers and the public would not have to worry about the cost of the credit skyrocketing the way other tax credit programs have done in the past.

But more important than predictability of cost, the state EITC is a model credit because its benefits are clear and well-documented. Unlike other credits that have never been rigorously evaluated by the Legislature, the benefits for Louisiana families and children are proven.

Conclusion and Recommendations



The state Earned Income Tax Credit helps low-income working families make ends meet and encourages and rewards work. It is the most effective anti-poverty measure for children because it boosts the incomes of working-poor families, giving those children a better shot in school and setting them up for a more

successful adulthood. This, in turn, promises that all Louisianans benefit by ensuring a stronger economic future for the state. Lawmakers have an opportunity to use any savings found from eliminating ineffective tax exemptions to double the value of this important credit.

Endnotes



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