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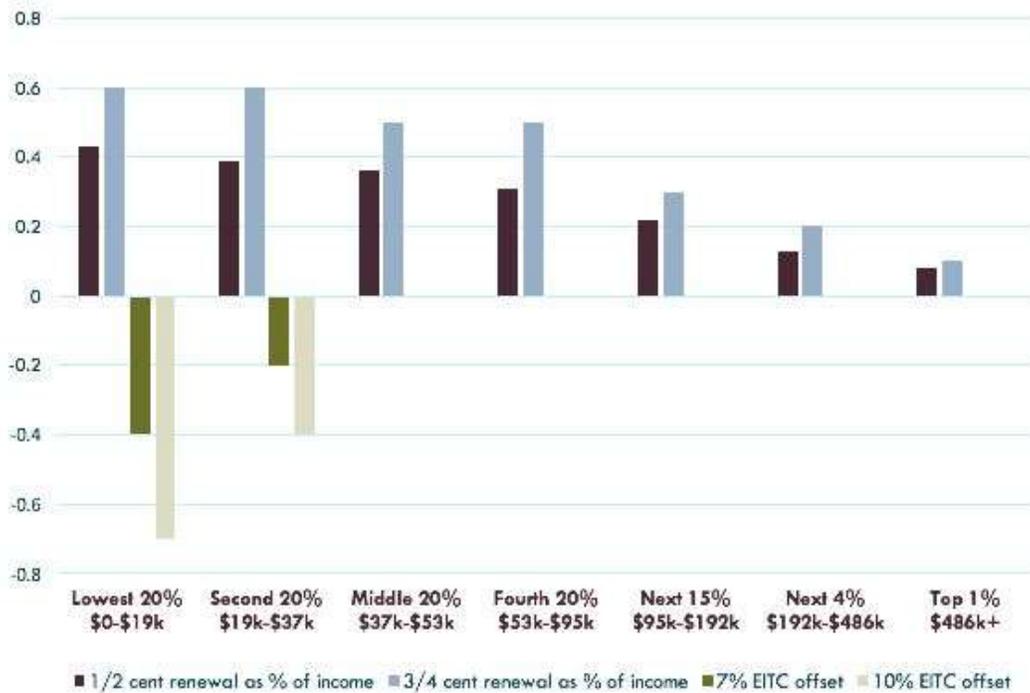
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Louisiana Budget Project

A Stronger EITC Can Offset Regressive Sales Tax

Expanding our state EITC is a common sense way to help Louisiana’s low-paid working families make ends meet as lawmakers pursue a partial renewal of the 2016 sales tax increase. The Legislature’s refusal to support comprehensive tax reform - along the lines suggested by the [Task Force on Structural Changes in Budget and Tax Policy](#) and others - has refocused attention on renewing part of the temporary “clean penny” of sales tax that expires June 30. It is the simplest way to address the fiscal cliff and avoid unacceptable cuts to health care and higher education. But the sales tax will hit low and moderate income households the hardest. Measured as a percentage of income, workers in the bottom income quintile (average income of \$12,000 a year) would be spending six times as much of their income on the sales tax renewal than households in the top 1 percent (with a mean annual income of \$1.3 million) if 3/4 cent of the temporary sales tax is renewed.

Expanding EITC can offset sales tax renewal



Source: Institute on Taxation and Economic Policy

To offset the impact of a sales tax renewal, the Legislature should expand the state Earned Income Tax Credit (EITC), which benefits working families with children by letting them keep more of what they earn. Louisiana was the first Southern state to enact an EITC, but our credit is the second lowest in the country. Increasing the credit from its current 3.5 percent to 10 percent would offset most of this burden for the bottom 40 percent of income earners. Louisiana’s credit would still be less than the

national median of refundable state EITCs which is 15 percent, but would boost the take-home pay of nearly 1 in 3 tax filers.

2018 Incomes	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%	State Revenue
.5 percent tax renewal - Average Tax Increase	+\$50	+\$106	+\$166	+\$215	+\$286	+\$375	+\$965	+\$459,000,000
EITC increase to 7% - Average Tax Decrease	-\$43	-\$52	-\$11					-\$45,000,000
.75 percent tax renewal - Average Tax Increase	+\$75	+\$159	+\$249	+\$322	+\$429	+\$562	+\$1,448	+\$689,000,000
EITC increase to 10% - Average Tax Decrease	-\$80	-\$96	-\$20					-\$83,000,000

Source: Institute on Taxation and Economic Policy

There has been substantial bipartisan momentum across the country to expand state EITCs. Three states (Hawaii, Montana, South Carolina) created a new EITC in 2017, and numerous others expanded their existing credits. This year, Missouri, Massachusetts, Maryland, and Hawaii are debating new or improved EITCs.

The EITC is effective and popular for a number of reasons at the state and federal levels:

- **It keeps families working** and helps single parents pay for necessities like childcare and transportation so they can stay in the workforce. It has been effective in helping single parents work more hours, thus gain more experience which often leads to higher pay.
- **It reduces poverty**, especially child poverty. In 2016, 4.7 million children in the United States were lifted out of poverty because of combined federal and state EITCs. Another 7.2 million children received an income boost and moved closer to being above the poverty line. Expanding a state EITC will boost this effort.
- **It strengthens Louisiana’s future** by improving outcomes for low-income students. Research shows that students in poverty who receive an income boost tend to do better and stay in school longer. With 40 percent of Louisiana children [living below 150 percent](#) of the poverty line, this translates to more post-secondary credentials and a more qualified Louisiana workforce.
- **It is easy to administer** as it is a simple percentage of the federal EITC.

Louisiana needs to raise revenue, but relying on sales tax without expanding the EITC is balancing the state budget on the backs of low-income residents. Expanding the state EITC would not only help to offset some of the sales tax burden on low-income families, it also would bring Louisiana more in line with other states and lift more working families and their children above the poverty line.