

FISCAL NOTE
Requested by Legislative Council
01/19/2015

Bill/Resolution No.: HB 1405

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(17,600,000)			
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1405 creates a refundable earned income tax credit for individuals who utilize the federal credit.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

HB 1405 creates a state earned income tax credit equal to ten percent of the federal earned income tax credit. If this amount exceeds the individual's income tax liability, the excess is refundable to the individual. If enacted HB 1405 is expected to reduce state general fund revenues by an estimated \$17.6 million in the 2015-17 biennium.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn L. Strombeck

Agency: Office of Tax Commissioner

Telephone: 328-3402

Date Prepared: 01/23/2015

2015 HOUSE FINANCE AND TAXATION

HB 1405

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1405
1/26/2015
22499

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Brucker

Explanation or reason for introduction of bill/resolution:

A Bill relating to an income tax credit equal to a portion of a taxpayer's federal earned income credit.

Minutes:

Attachment #1, 2

Chairman Headland: Opened hearing.

Representative Schneider: Introduced bill. Provided testimony. See attachment #1. (Ended testimony at 4:35)

Chairman Headland: We'll take support for HB 1405.

Caitlin McDonald, North Dakota Women's Network: Provided testimony. See attachment #2. Testimony included written testimony from other businesses.

Vice Chairman Owens: Do you have to have a qualifying child?

Caitlin McDonald: I'm not aware of needing to have a qualifying child; I believe it's open to single people. I could find that answer for you.

Vice Chairman Owens: You referenced in your testimony Ohio has raised theirs from five to ten. In this bill it says that it's a refundable. In Ohio it's not refundable. Do you see a big disconnect there?

Caitlin McDonald: I'd had to visit with my group to see what our position would be on an adjusted bill like that. I can only speak to our support on the bill as it is right now.

Chairman Headland: Further testimony in support of HB 1405?

Christopher Dodson, Director of North Dakota Catholic Conference:

There are some things that every state Catholic conference supports across the country and has for years and one of them is EITC. That includes the one at the US bishops level and that comes from experience of those in catholic charities that have hands on experience with the working poor. Also our long standing teaching in the Catholic Church that poverty isn't just by work and work is dignity. This is something that has been shown to help people and encourage them to work. It's one of the greatest anti-poverty efforts that we've had in the country and that have had bi-partisan support.

Chairman Headland: Further testimony in support? Is there any opposition? Are there any questions for the tax department?

Matt Peyerl, Office of State Tax Commissioner: There was a question asking if you could be a single person and obtain the credit and the answer is yes, you can be single; you don't need children.

Chairman Headland: Seeing no further questions we will close the hearing on HB 1405.

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1405
2/11/2015
23659

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A bill relating to an income tax credit equal to a portion of a taxpayer's federal earned income credit.

Minutes:

No attachments

Chairman Headland: This bill would create a new earned income tax credit in the state of North Dakota.

Representative Schneider: I see this bill as a workforce measure; it encourages work, supports work, and rewards work. It's particularly effective among the many states that have implemented it when there's a low unemployment rate such as North Dakota has. It puts people in a workforce at a lower earnings bracket, such as retail sales and others that are service oriented in nature and have huge numbers of vacancies. It brings people into the workforce that have barriers to working such as childcare, transportation, and costs that allows them to offset some of those and remain in the workforce. It's also an incentive to get off and stay off of public benefits which saves the state money. It's had strong bipartisan support across the country and has been advocated by presidents of both parties and was found successful at the federal level. It's simple to administer because it's based on the federal tax. I would certainly advocate for passage of this bill.

Representative Toman: On lines 16 and 17 where it says we return the excess amount of the liability to the taxpayer, do we do that anywhere else? I couldn't find it in the constitution.

Donnita Wald, General Counsel for Tax Commissioner's Office: No, we do not do this anywhere else for income tax credits. It's in article 10 towards the back. This portion of the constitution is normally called the gifting clause. It is more probable than not that it might violate that portion of the constitution as a non-constitutional gift. There is nothing that is unconstitutional unless super majority of the Supreme Court votes that it is.

Representative Schneider: I believe that because it's a tax credit it's their money that you're giving back to them. It makes it a little different than cutting a check to someone who hasn't earned it through the tax system.

Representative Dockter: I disagree because the whole premise of an earned income credit is that you didn't have enough income; you didn't earn enough so we are giving back the money.

Chairman Headland: I agree with you. There is a term that's used and it's more or less redistribution.

Representative Haak: Would you entertain a motion to strike that language; the excess amount must be refunded to the taxpayer?

Chairman Headland: I'm not sure it's that simple. Dee, could you help us with that?

Donnita Wald: If you were to take out the refund ability aspect of this bill the language you would place in there is "the credit may not exceed the taxpayer's tax liability." It would take them down to zero.

Chairman Headland: On line 13?

Donnita Wald: No. That would be replacing the language on lines 15, 16, and 17. The credit allowed by that section and the rest of that sentence on lines 16 and 17. You would replace it with "the credit under this section may not exceed the taxpayer's tax liability." That is the standard language we use when all the other credits are not refundable.

Chairman Headland: I'm trying to grasp how the credit is going to work. It's 10% against the federal tax liability.

Donnita Wald: It's 10% of the federal earned income tax credit.

Chairman Headland: If you earn the earned income tax credit on the federal form the tax credit on the state form would be 10% and that would be limited to what your tax liability would be.

Donnita Wald: Yes.

Representative Froseth: Could you explain page two paragraph three?

Chairman Headland: That would have to be taken out, correct?

Donnita Wald: That is correct. It's not refundable so that would come out.

Representative Dockter: If we would put this amendment in it would defeat the whole bill because if you're getting a federal earned income credit your income is low and you don't have any tax liability in the state so it won't do anything in most cases.

Donnita Wald: Because of our lower rates I believe that for even those on the cusp I don't think there would be a lot of people who would be able to take the full 10% of that credit. There are so many different situations.

Representative Haak: What would this do to the fiscal note?

Donnita Wald: I don't know.

Representative Steiner: I think this bill has too many problems for me. **MADE A MOTION FOR A DO NOT PASS.**

Representative Dockter: **SECONDED.**

**ROLL CALL VOTE: 9 YES 3 NO 2 ABSENT
MOTION CARRIES FOR A DO NOT PASS**

Representative Steiner will carry this bill.

Date: 2-11-15
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1405

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Rep. Steiner Seconded By Rep. Dotter

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND	✓		REP HAAK		✓
VICE CHAIRMAN OWENS	AB		REP STRINDEN		✓
REP DOCKTER	✓		REP MITSKOG	AB	✓
REP TOMAN	✓		REP SCHNEIDER		✓
REP FROSETH	✓				
REP STEINER	✓				
REP HATLESTAD	✓				
REP KLEIN	✓				
REP KADING	✓				
REP TROTTIER	✓				

Total (Yes) 9 No 3

Absent 2

Floor Assignment Rep. Steiner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1405: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO NOT PASS** (9 YEAS, 3 NAYS, 2 ABSENT AND NOT VOTING). HB 1405 was placed on the Eleventh order on the calendar.

2015 TESTIMONY

HB 1405

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1-26-15
#1 p.1

Presentation

HB 1405, Earned Income Tax Credit (EITC)

January 26, 2015

Finance and Tax Committee

Representative Mary Schneider, District 21

Chairman Headland and members of the Committee, I'm Mary Schneider, Representative from District 21 and a member of this Committee. I'm here today to urge your consideration of House Bill 1405, which would establish a state Earned Income Tax Credit.

A North Dakota resident worker would be entitled to a credit against tax liability, in the amount of ten percent of the federal Earned Income Tax Credit for the taxable year in which the credit is claimed. If the amount of the credit allowed by this section exceeds the taxpayer's income tax liability under this chapter, the excess amount is refunded to the taxpayer.

Chairman Headland and members of the Committee, the federal EITC was designed to allow low-to-moderate income working families to better meet their basic needs and make ends meet. If there is a refund, it helps to pay work-related expenses, to catch up on obligations, to be able to deal with emergencies, or for really lucky workers, to save.

The EITC has enjoyed broad bipartisan support, in part because:

- It encourages work--both entering the workforce and expanding work hours, a benefit particularly in times and places that have high workforce demands;
- It helps the working poor keep from spiraling into deeper poverty;
- It assists families to get off and stay off government benefits;
- Helps workers to meet a small part of work expenses like childcare, healthcare, uniforms, and transportation.
- It offsets taxes that disproportionately impact low and moderate income families;
- It has a positive impact on families struggling to meet the needs of children; and
- Low income families spend virtually all of their income trying to make ends meet--and they tend to spend it where they live and work--so it stimulates local communities and economies.

Despite our state's prosperity, there are still many working poor. We may have the lowest unemployment rate in the nation, but we are also usually at the top of states where citizens are working one or more minimum wage jobs--often without benefits.

Twenty-five states and the District of Columbia provide a state EITC. North Dakota is better equipped than those to help out its most needy workers.

You have in your packets a chart with the estimated number of those who would benefit in each of our Districts and the estimated average payments.

Although this bill comes with a \$17 million fiscal note, national cost figures are \$8 million for a 10% EITC credit. Neither figure considers:

- Increases in self-reliance and self-sufficiency, and the immediate impact that could have on decreasing state benefits and the impact of long-term family poverty;
- The stimulation to local economies;
- Future contributions toward TANF "maintenance of effort" requirements;
- A lessening of tax inequities;
- The benefits of expanding North Dakota's workforce;
- The effects of greater family stability; and
- The positives of asset-building.

This bill is good for our working families and their children, and good for North Dakota communities. Our workforce and our state needs a state EITC, and it's something we can all support. I urge your support of HB 1405.

Earned Income Tax Credit

House Finance and Taxation Committee

HB 1405

January 26, 2015

EITC in North Dakota

EITC

#1p.4

A state **Earned Income Tax Credit (EITC)** in North Dakota, modeled after the federal EITC, is an efficient way to help working families build a **STRONGER** financial future, make North Dakota's tax system more **EQUITABLE**, and help local communities **THRIVE**.

A STATE EITC FOR NORTH DAKOTA...

Reflects hard work. Only those who work can claim the EITC. A tax filer must earn wages in order to qualify for the credit. The EITC promotes work by increasing the amount of credit when more hours are worked.

Is targeted to families with children. Between 2009 and 2011, the federal EITC in conjunction with the Child Care Tax Credit (CTC) kept over 9,000 residents of North Dakota from falling below the poverty line, including over 4,600 North Dakota children. According to the National Center for Children in Poverty, the federal EITC reduces child poverty by nearly 25%.¹

Supports military families. Many members of the military benefit from the EITC, and returning veterans also rely on it to supplement their wages as they transition into the civilian workforce.

Helps balance tax structure. Low and moderate-income families pay disproportionately more of their income in taxes than higher income North Dakotans. The top 1% of North Dakota families paid just 4% of their income in state and local taxes compared to the 9.4% paid by the lowest income North Dakotans.² A state EITC would help offset this inequity.

Helps cover the basics. In 2010, a 10% North Dakota EITC would have returned over \$8 million to working families, helping them to pay off debt, cover transportation costs, invest in education, and buy basic necessities.

Is easy to administer. A state EITC credit is simply based on a percentage of the federal EITC. Typically, states with an EITC report very low administrative costs of less than 1%.⁴

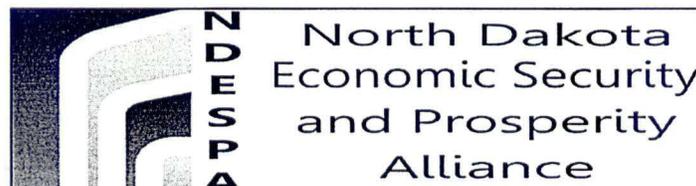
Enjoys broad based support. Since enactment by President Ford in 1975, the federal EITC was expanded under Presidents Reagan, Bush and Clinton. The federal program has been so successful that twenty-four states and the District of Columbia have established state-level EITCs to supplement the federal credit. State EITCs are typically set as a percentage of the federal credit and currently range from 3.5-40% of the federal EITC.⁴

The federal Earned Income Tax Credit (EITC) is a refundable tax credit that can be claimed by low and moderate-income working families.

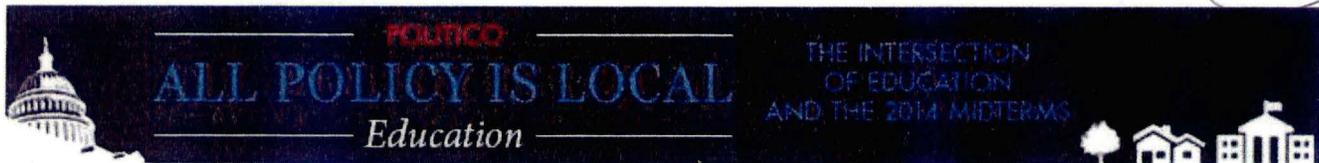
More than **42,000 North Dakota taxpayers** claimed the federal EITC in tax year 2010, bringing in more than **\$82 million** to working families and the communities in which they live.³

Sources

- 1) The Hatcher Group 50 State Resource Map Tax Credits for Working Families. "Families Kept Out of Poverty by the EITC and CTC" 2009-2011 <http://www.taxcreditsforworkingfamilies.org/working-families-poverty-eitc-ctc-state/>
The Brookings Institute "New State Data Show EITC's Widespread Anti-Poverty Impact" by Elizabeth Kneebone and Jane Williams, January 11, 2013 <http://www.brookings.edu/blogs/the-avenue/posts/2013/01/11-eitc-anti-poverty-kneebone-williams>
- 2) Institute of Tax and Economic Policy, "Who Pays: A Distributional Analysis of the Tax System in All 50 States" http://www.itepnet.org/state_reports/whopaysfactsheets
- 3) Brookings Institute, "EITC Interactive" by Alan Berube. <http://www.brookings.edu/research/interactives/eitc>
- 4) Center on Budget and Policy Priorities "Policy Basics: State Earned Income Tax Credits" December 5, 2012
- 5) Table Source: Brookings Institute, "EITC Interactive" by Alan Berube. <http://www.brookings.edu/research/interactives/eitc>



#1p.5



POLITICO

Republicans' love-hate relationship with a tax credit

By: **Brian Falter**
January 17, 2014 05:04 AM EST

Democrats' demands to raise the minimum wage have some Republicans flirting with an old flame.

Paul Ryan and Marco Rubio, both potential 2016 presidential candidates, are turning to the earned income tax credit, or something that looks a lot like it, as an alternative way of helping lower-income workers.

The embrace is a turnabout of sorts: Republicans have had a love-mostly-hate relationship with the EITC, one that reached a nadir during Mitt Romney's presidential campaign. When Romney complained 47 percent of Americans weren't paying federal income taxes, he was implicitly criticizing the credit, which takes many low-income workers off the federal income tax rolls.

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Now, Ryan and Rubio are among conservatives who say the EITC is a better way to boost the wages of the working poor.

"The minimum wage – it makes it more expensive for employers to hire low-skilled workers, but the EITC, on the other hand, gives workers a boost without hurting their prospects," Ryan, Romney's 2012 running mate, said in a speech earlier this week. "It gives families flexibility – it helps them take ownership of their lives."

In what was called a major speech on poverty, Sen. Rubio (R-Fla.) last week called for ending the EITC, but he'd replace it with something similar to the current program. The twin speeches came amid a string of op-eds by Greg Mankiw, Glenn Hubbard and other members of the Republican policy intelligentsia urging lawmakers to take another look at the program.

It comes as Republicans are under pressure this election year to show they are concerned about income inequality and wage stagnation amid Democratic bids to extend jobless benefits and raise the minimum wage.

([Also on POLITICO: Full finance policy coverage](#))

Democrats see a search for political cover.

"They're clearly on the wrong side of this in the public mind" so "they're trying to dance and change the subject," said Sen. Sherrod Brown (D-Ohio).

Like the minimum wage, the EITC boosts the income of the poor – it is essentially a wage supplement. The more they earn, up to certain limits, the more they receive in the form of a tax refund. Those without children can receive up to \$487 while those with three or more

#1p.6

children can get \$6,044. It's the government's largest anti-poverty cash program, with more than 27 million people receiving \$62 billion in aid in 2011. That's about four times the annual budget of the main federal welfare program.

Republicans have had a complicated relationship with the EITC for years, said Ryan Ellis, tax policy director at the anti-tax Americans for Tax Reform.

On the one hand, it was their idea. Many trace its origins to the late Milton Friedman, one of the godfathers of modern Republican economic thought, who proposed a "negative income tax" back in the 1960s. It was created during Republican Gerald Ford's administration as an alternative to traditional public-assistance programs. The idea was to eliminate the disincentives to work created by Social Security and Medicare payroll taxes as well as by the income limits in other welfare programs.

(Also on POLITICO: [Senate approves \\$1.1 trillion spending bill](#))

That appealed to some of the party's basic principles because it was a tax cut that only went to those with a job, and the more they earned, the more they received.

It was significantly expanded as part of the 1986 tax reform, which Ronald Reagan boasted would mean "millions of working poor will be dropped from the tax rolls altogether." It was further expanded by both Presidents George H.W. Bush, Bill Clinton, George W. Bush and Barack Obama.

But along the way, Republicans in Congress began to feel differently about the EITC, which became more closely identified with Democrats, who had pushed for many of the expansions. Many didn't like that the benefit went beyond replacing income lost through payroll taxes, and that a growing share of the program was refundable.

That means recipients can not only avoid taxes, but receive a government check at tax time.

That the bulk of the program is officially classified by budget scorekeepers as spending also makes some uncomfortable.

The portion of the EITC that reduces tax liabilities is counted as a tax cut while the refundable portion is considered an outlay; of the program's estimated \$68 billion cost in 2013, about \$60 billion is considered spending, according to the Congressional Budget Office.

The program has also long had very high error rates — as much as 25 percent or \$13 billion in over-payments in 2012 — that made it a poster child for government waste to many Republicans.

Then, during the 2012 presidential campaign, the issue of Americans not paying federal income taxes exploded when Romney was secretly recorded lamenting that the 47 percent that don't pay income taxes would never vote for him.

Some Republicans now say it a more economically efficient way of increasing pay for low-income workers because, rather than having businesses absorb the costs, the EITC spreads that burden across taxpayers.

It also has political advantages.

1 p. 7

"If we don't sound like a bunch of Ayn Rand-reading weirdos, that's a good thing," said Ellis. "If we can transmit empathy, and transmit that we are actually concerned about people that are trying to improve their lot, then that's a good thing politically."

Rubio would replace the EITC with a "federal wage enhancement" that he said would make a job "a more enticing alternative to collecting unemployment insurance."

He is still working out the details, but one of the main differences is that recipients could receive monthly payments instead of a single yearly one. He would also apply it equally to single workers; the current program is much more generous to those with children. "It's a better way of supporting low-income workers than simply raising the minimum wage," said Rubio.

His proposal is similar to the current program, said Sharon Parrott, a former Obama administration official who is now a vice president at the left-leaning Center on Budget and Policy Priorities.

"He tried to make it seem like this was something radically different from what the EITC does now, and that's a little silly," said Parrott.

His plan could dramatically increase the number of people who would qualify for the break, she said, and, if funding isn't increased, that could mean taking benefits away from those with children in order to help singles.

Rubio spokesman Alex Conant said "obviously, there's some similarities, but we view our proposal as better than the status quo." Rubio is still working on the plan to ensure those with children will not be adversely affected, perhaps by expanding the child tax credit, said Conant.

Ryan backs Rubio's proposal to offer monthly EITC payments, saying it "makes a lot of sense." In an interview, Ryan acknowledged Republicans have had an on-again, off-again relationship with the EITC, but said he sees potential.

"There's a lot of room for improvement," he said. "But the concept of rewarding work, in a flexible way, is a very good idea." Ryan added, "it has conservative origins."

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The Earned Income Tax Credit (EITC) for low- and moderate-income workers encourages and rewards work, offsets federal payroll and income taxes, and raises living standards. The Child Tax Credit (CTC) also helps low-income working families by offsetting part of the cost of child-rearing. The EITC is refundable, meaning that recipients whose credit exceeds their federal income tax liability can receive the difference as a refund. Part of the CTC is refundable.

Reducing Poverty and Encouraging Work

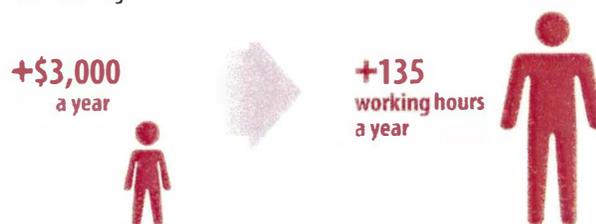
- 38,000 North Dakota households received the EITC in 2012.
- 28,000 North Dakota households received the refundable part of the CTC in 2012.
- The EITC put about \$79 million into North Dakota's economy in 2012.

Research has found that lifting low-income families' income when a child is young – as both the CTC and EITC do – not only improves a child's immediate well-being but also is associated with better health, more schooling, more hours worked, and higher earnings in adulthood (see first chart).

Extensive research also finds that the EITC encourages work, especially in a strong labor market. Research has found that during the 1990s, EITC expansions did more to raise employment among single mothers with children than either welfare reform or the strong economy (see second chart.)

Higher EITC* or Other Income for Poor Children Expected to Boost Work Hours and Earnings Later in Life

Change in annual adult work hours associated with \$3,000 annual increase in income to poor children before age 6.



For each \$3,000 a year in added income that children in a poor family receive before age 6...

...their working hours rise by 135 hours a year between ages 25 and 37, and their annual earnings rise by 17%.

*Earned Income Tax Credit

Source: Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development*, January/February 2010, pp. 306-325

Center on Budget and Policy Priorities | cbpp.org

EITC Biggest Factor Boosting Single Mothers' Employment, Research Finds

Increase in employed female heads of households in 1999 due to changes since 1993



Note: Categories from study were combined for simplicity. Categories "time limits," "other reforms," and "maximum benefits" were combined into "welfare policies." Categories "minimum wage" and "unemployment rate" were combined into "labor market factors."

Source: CBPP analysis of results from Jeffrey Grogger, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families," 2003, and data from March 1999 Current Population Survey.

Center on Budget and Policy Priorities | cbpp.org

Helping Veteran and Armed-Forces Families

In 2012, 2,000 North Dakota veteran and armed-forces families received the EITC or the refundable part of the CTC.

Helping Working Mothers and Fathers

About 29,000 North Dakota mothers and 16,000 fathers in low- and moderate-income working families received the EITC, the refundable part of the CTC, or both in 2012.

States Can Supplement the Federal Credit

Twenty-five states plus the District of Columbia offer a state tax credit based on the federal EITC, but North Dakota is not now one of them.

Congress Should Make Key Provisions of the CTC and EITC Permanent

Reforms first enacted in 2009 and subsequently extended, strengthened the CTC to reach more low-income working families and boost the credit for many families who received only a partial credit. The changes also boosted the EITC for families raising more than two children and expanded marriage penalty relief. These critical provisions will expire at the end of 2017 unless lawmakers act. Inaction would mean that about

- 36,000 children in 20,000 North Dakota families will lose some or all of their working-family tax credits
- 7,000 children, and 15,000 North Dakotans overall, will be pushed into – or deeper into – poverty.

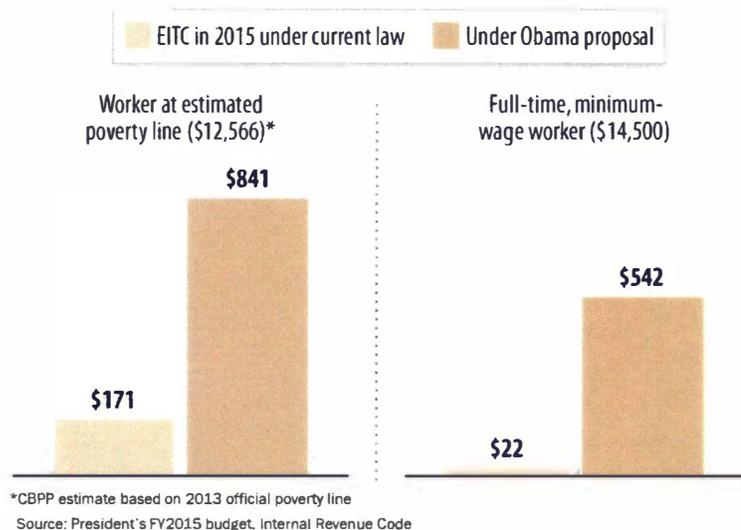
Congress Should Also Expand EITC for Childless Workers

Low-income “childless workers” – workers not living with and raising minor children - receive little or nothing from the current EITC. As a result, childless workers are the sole group that the federal tax system taxes deeper into poverty.

The President, House Ways and Means Committee Chairman Paul Ryan, and other members of Congress have proposed making more childless workers eligible for the EITC and expanding the credit for those already eligible. These changes could boost employment and reduce poverty among childless workers, while easing their tax burdens.

Under the President’s proposal, the credit for a childless adult with wages right at the poverty line would rise from just \$171 to \$841 in 2015. For a childless adult working full time at the minimum wage, the credit would jump from just \$22 to \$542 in 2015.

Obama Proposal Would Boost Earned Income Tax Credit (EITC) for Childless Workers



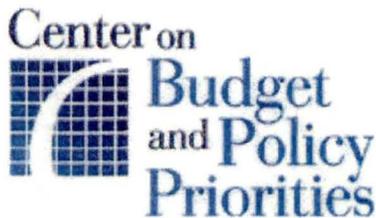
Center on Budget and Policy Priorities | cbpp.org

Some 30,000 childless workers in North Dakota would become eligible for an EITC or receive a larger EITC in 2015 under the President’s proposal.

Figures on number of recipients and dollars per state are from IRS. Antipoverty impact of EITC/CTC is from Elizabeth Kneebone and Jane R. Williams, “An Anti-Poverty Policy that Works for Working Families” <http://www.brookings.edu/blogs/the-avenue/posts/2014/02/11-anti-poverty-policy-working-families-kneebone-williams>. Number benefiting from 2009 improvements is from “The Debate over Tax Cuts: It’s Not Just About the Rich.” <http://cti.org/pdf/refundablecredits2012.pdf>. Number benefiting from President’s EITC proposal from U.S. Treasury Department, http://www.whitehouse.gov/sites/default/files/docs/eitc_report_0.pdf. Other figures are from CBPP. Antipoverty effects of the EITC and CTC improvements, as well as figures for mothers, fathers, and veteran and armed-forces families, are from CBPP analysis of the Census Bureau’s March 2010-March 2014 Current Population Survey and Supplemental Poverty Measure public use files for 2009-2013.

For more information on the EITC and CTC, see: Policy Basics on the [EITC](#) and [Child Tax Credit](#).

#1P-10



Policy Basics: The Earned Income Tax Credit

Updated January 20, 2015

The Earned Income Tax Credit (EITC) is a federal tax credit for low- and moderate-income working people. It encourages and rewards work as well as offsets federal payroll and income taxes. Twenty-six states, including the District of Columbia, have established their own [EITCs](#) to supplement the federal credit.

Related Areas of Research

[Poverty and Income](#)

[Tax — Federal](#)

[EITC and Child Tax Credit](#)

Related

[Policy Basics: State Earned Income Tax Credits](#)

[Policy Basics: The Child Tax Credit Earned Income Tax Credit Promotes](#)

[Work, Encourages Children's Success at School, Research Finds](#)

[The Earned Income Tax Credit](#)

[Outreach Campaign](#)

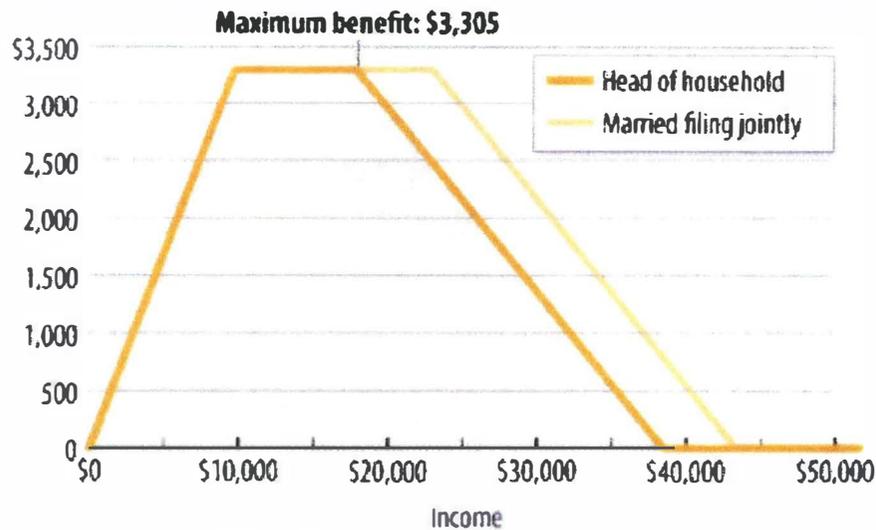
Who Is Eligible, and for How Much?

In the 2014 tax year, working families with children that have annual incomes below about \$38,500 to \$52,400 (depending on marital status and the number of dependent children) may be eligible for the federal EITC. Also, working-poor people without children that have incomes below about \$14,600 (\$20,000 for a married couple) can receive a very small EITC. In the 2013 tax year, the most recent year for which data are available, over 27 million working families and individuals received the EITC.

The amount of EITC depends on a recipient's income, marital status, and number of children. As the figure shows, workers receive the credit beginning with their first dollar of earned income; the amount of the credit rises with earned income until it reaches a maximum level and then begins to phase out at higher income levels. The EITC is "refundable," which means that if it exceeds a low-wage worker's income tax liability, the IRS will refund the balance.

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Earned Income Tax Credit for Households With One Child, 2014



Note: Assumes all income is from earnings (as opposed to investments, for example).
 Source: Internal Revenue Service

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During the 2012 tax year, the average EITC was \$2,982 for a family with children (boosting wages by about \$249 a month), compared to just \$277 for a family without children.

Research indicates that families mostly use the EITC to pay for necessities, repair homes, maintain vehicles that are needed to commute to work, and in some cases, obtain additional education or training to boost their employability and earning power.

Encouraging and Rewarding Work

The EITC is designed to encourage and reward work. As noted, a worker's EITC grows with each additional dollar of earnings until reaching the maximum value. This creates an incentive for people to leave welfare for work and for low-wage workers to increase their work hours.

This incentive feature has made the EITC highly successful. Studies show that the EITC encourages large numbers of single parents to leave welfare for work, especially when the labor market is strong. Specifically, a highly regarded study found that EITC expansions are the most important reason why employment rose among single mothers with children during the 1990s — the EITC was more effective in encouraging work than either welfare reform or the strong economy.

Reducing Poverty

In 2013, the EITC lifted about 6.2 million people out of poverty, including about 3.2 million children. The number of poor children would have been one-quarter higher without the EITC. The credit reduced the severity of poverty for another 21.6 million people, including 7.8 million children.

In combination with the [Child Tax Credit](#), the EITC lifts even more families with children above poverty (see figure).

The EITC reduces poverty directly by supplementing the earnings of low-wage workers. There has been broad bipartisan agreement that a two-parent family with two children

Earned Income Tax Credit and Child Tax Credit Have Powerful Antipoverty Impact

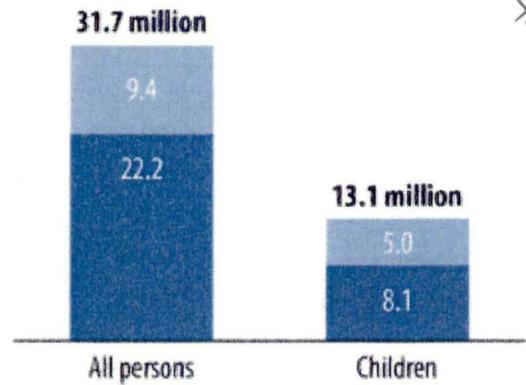
Persons lifted out of poverty or made less poor (using Supplemental Poverty Measure) by EITC and CTC, 2013

■ Lifted out of poverty ■ Made less poor

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with a full-time, minimum-wage worker should not have to raise its children in poverty. At the federal minimum wage's current level, such a family can move above the poverty line only if it receives the EITC as well as SNAP (food stamp) benefits.

Moving out of poverty is particularly important for young children. Research has found that lifting low-income families' income when a child is young not only tends to improve a child's immediate well-being, but is associated with better health, more schooling, more hours worked, and higher earnings in adulthood. A burgeoning literature links EITC receipt to improved school performance and higher college attendance rates.



Figures may not add due to rounding.

Note: Unlike the Census Bureau's official poverty measure, the SPM counts the effect of government benefit programs and tax credits.

Source: CBPP analysis of Census Bureau's March 2014 Current Population Survey and 2013 SPM public use file.

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Strengthening the EITC

The 2009 Recovery Act temporarily expanded the EITC in two ways. First, it added a "third tier" of the EITC for families with more than two children. These larger families can now receive up to \$672 more than they would have without this improvement. This addition recognizes that larger families face a higher cost of living and that families with more than two children are more likely than smaller families to be poor.

Second, the Recovery Act expanded marriage-penalty relief in the EITC, reducing the financial penalty some two-earner couples receive when they marry by allowing married couples to receive larger benefits at modestly higher income levels.

In 2013, these two expansions together lifted nearly 600,000 people out of poverty and reduced the severity of poverty for roughly 10 million poor people. Under the American Taxpayer Relief Act, enacted in January 2013, Congress extended these improvements through 2017.

In contrast to the EITC for families with children, the EITC for childless workers remains extremely small — too small even to fully offset federal taxes for workers at the poverty line. Under current law, a childless adult or noncustodial parent working full time at the minimum wage is ineligible for the EITC. (Such an individual would receive the maximum EITC if he or she had children.) [As a result](#), low-wage workers not raising minor children are the sole group that the federal tax system taxes into or deeper into poverty.

For more on the EITC and Child Tax Credit, see ["Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds."](#)

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How Much Would a State Earned Income Tax Credit Cost in Fiscal Year 2015?

By [Erica Williams](#) and [Michael Leachman](#)

Updated December 19, 2013

Half of the states and the District of Columbia have enacted earned income tax credits (EITCs) to supplement the federal EITC, the nation's most effective tool for reducing poverty among working families and children. The federal EITC lifted 6.5 million people — half of them children — out of poverty in 2012, and has lasting benefits for low-income children, helping them do better (and go further) in school and improving their earnings as adults.^[1]

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[A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2011](#)

[States Can Adopt or Expand Earned Income Tax Credits to Build a Stronger Future Economy](#)

[State Earned Income Tax Credits and Minimum Wages Work Best Together](#)

[Spreadsheet of Table 1](#)

State EITCs combat poverty further by reducing state and local taxes for low-income people and helping families keep working despite low wages. Like the federal EITC, a state EITC allows working families to keep more of what they earn and helps them meet basic needs.

Policymakers considering a state-level EITC can estimate its budget cost using a simple three-step process outlined below.

Data Sources

The Center's methodology for estimating the cost of a state EITC employs two data sources. First, Internal Revenue Service statistics on the value of all federal EITC claims filed by residents of each state are used to determine the state's share of total U.S. EITC claims. The most recent full-year data, shown in the second column of Table 1, are for claims made for the 2011 tax year.^[2]

Second, projections by the congressional Joint Committee on Taxation (JCT) of the future cost of the federal EITC provide a base for estimating the cost of a state EITC. For fiscal year 2015, the JCT estimates that the federal EITC will cost some \$66.5 billion.^[3]

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The federal EITC is refundable, meaning that people whose EITC exceeds their federal tax liability receive the difference as a refund. Most state EITCs are refundable as well. The JCT estimate of the federal EITC's cost includes both the tax expenditure (non-refundable) and outlay (refundable) portions.

Step 1: Estimate the total value of federal EITC claims in a given state for a future fiscal year.

To estimate the total value of the federal EITC in a state in a future fiscal year, we first use the IRS data on EITC claims to divide the value of EITC claims in a given state by the value of all U.S. EITC claims. This percentage is the share of the federal EITC cost attributable to that state in the base year (2011). Then, to estimate the cost of the federal EITC in the state for a future year, we apply that percentage to the JCT's projected total cost of the federal EITC for the chosen year. For example, for tax year 2011, Alabama EITC claims were \$1.41 billion, or 2.25 percent of the nationwide total. Assuming that Alabama's share of federal EITC claims remains constant, Alabama's federal EITC claims in fiscal year 2015 would be 2.25 percent of \$66.5 billion, or \$1.49 billion, as shown in the fourth column of Table 1.

Step 2: Multiply the expected value of the state's federal EITC claims by the percentage at which the state credit is to be set.

Most states' EITCs provide benefits as a set percentage of the federal credit. This percentage ranges from 3.5 percent to 40 percent, depending on the state. To estimate the cost of a state EITC, multiply the federal EITC cost for the state, as determined in Step 1, by the percentage at which the state EITC is to be set. This calculation yields an estimate of what the state credit would cost in a given fiscal year if everyone who received the federal credit also received the state credit.

Step 3: Adjust the estimate for the fact that not all federal EITC claimants will claim the state credit.

In practice, a substantial portion of those who receive the federal EITC fail to claim state EITCs. This is especially true in the first few years after a state credit is enacted, when awareness of it may be limited.^[4] In addition, some eligible families have the IRS compute their federal credit and may not receive a state EITC if the state does not compute the state credit amount for them. For these and other reasons, the cost of a refundable state EITC in its initial years is likely to be lower than the full cost of the federal credit multiplied by the state percentage. To account for this, the cost estimate should be reduced by at least 10 percent.

The Results

The estimated fiscal year 2015 costs to states of implementing a refundable EITC for tax year 2014 set at 5, 10, or 20 percent of the federal credit are shown in the last three columns of Table 1. Other percentages may be calculated based on those numbers; for instance, the cost of a 15 percent credit would be one-and-a-half times the cost of a 10 percent credit. The methodology outlined above may be used for other years using the projections of federal costs presented in Table 1.

None of these figures includes the costs of changing tax forms to include a space to claim an EITC or the costs of processing and administering EITC claims; these are likely to increase the overall cost of the credit by less than 1 percent. The estimates presented here apply only to credits that are refundable and that are set at a flat percentage of the federal EITC.

Further information on these estimates and on methods of estimating the costs of non-refundable credits and different credit structures may be obtained from the staff of the State Fiscal Project at the Center on Budget and Policy Priorities. Information on the policy implications of state EITCs may be obtained by reviewing the Center

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on Budget and Policy Priorities publication, [A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty](#), available on the Center's website.

Table 1: Estimated Cost of Refundable State Earned Income Tax Credits, FY 2015

State	Amount of Federal EITC Claims, TY 2011 (in thousands)	Percent of Total U.S. EITC Claims, TY2011	Estimated Cost of Federal EITC in FY 2015 (in millions)	Estimated Cost of State EITC in FY 2015 (in millions)		
				Set at 5% of Federal Credit*	Set at 10% of Federal Credit*	Set at 20% of Federal Credit*
Alabama	1,413,774	2.25%	1,493	67	134	269
Alaska	98,065	0.16%	104	5	9	19
Arizona	1,381,176	2.19%	1,459	66	131	263
Arkansas	759,930	1.21%	803	36	72	144
California	7,251,211	11.52%	7,660	345	689	1,379
Delaware**	159,321	0.25%	168	8	15	30
Florida	4,841,136	7.69%	5,114	230	460	920
Georgia	2,833,044	4.50%	2,993	135	269	539
Hawaii	235,605	0.37%	249	11	22	45
Idaho	302,468	0.48%	320	14	29	58
Kentucky	924,565	1.47%	977	44	88	176
Maine**	199,851	0.32%	211	9	19	38
Mississippi	1,106,784	1.76%	1,169	53	105	210
Missouri	1,196,672	1.90%	1,264	57	114	228
Montana	169,315	0.27%	179	8	16	32
Nevada	540,001	0.86%	570	26	51	103
New Hampshire	150,292	0.24%	159	7	14	29
North Carolina	2,200,620	3.50%	2,325	105	209	418
North Dakota	87,000	0.14%	92	4	8	17
Ohio**	2,183,483	3.47%	2,306	104	208	415
Pennsylvania	1,929,653	3.07%	2,038	92	183	367
South Carolina	1,206,997	1.92%	1,275	57	115	229
South Dakota	134,299	0.21%	142	6	13	26
Tennessee	1,587,753	2.52%	1,677	75	151	302
Texas	6,840,529	10.87%	7,226	325	650	1,301
Utah	451,717	0.72%	477	21	43	86
Virginia**	1,334,103	2.12%	1,409	63	127	254
West Virginia	335,500	0.53%	354	16	32	64
Wyoming	74,722	0.12%	79	4	7	14
Other Jurisdictions	73,986	0.12%	78	4	7	14
States That Have Enacted Refundable EITCs						
Colorado	757,380	1.20%	800			
Connecticut	432,218	0.69%	457			

District of Columbia	128,382	0.20%	136
Illinois	2,418,298	3.84%	2,555
Indiana	1,242,184	1.97%	1,312
Iowa	437,211	0.69%	462
Kansas	478,922	0.76%	506
Louisiana	1,415,334	2.25%	1,495
Maryland	902,588	1.43%	953
Massachusetts	782,530	1.24%	827
Michigan	1,912,050	3.04%	2,020
Minnesota	695,978	1.11%	735
Nebraska	295,609	0.47%	312
New Jersey	1,274,398	2.02%	1,346
New Mexico	502,839	0.80%	531
New York	3,887,837	6.18%	4,107
Oklahoma	821,189	1.30%	867
Oregon	570,485	0.91%	603
Rhode Island	175,773	0.28%	186
Vermont	82,990	0.13%	88
Washington	923,327	1.47%	975
Wisconsin	812,305	1.29%	858
Total	62,953,399	100.00%	66,500

* Estimates of state EITCs assume participation rate equal to 90% of federal participation.

** Delaware, Maine, Ohio, and Virginia already offer non-refundable credits. Since the cost shown is the total cost of a refundable credit, the added cost of making the credit refundable in these states would be substantially less.

Source: State claims taken from IRS Statistics of Income Bulletin, Tax Year 2011: Historical Table 2, April 2013. FY 2015 cost calculated based on Joint Committee on Taxation estimates of federal tax expenditures.

[Spreadsheet of this table \(XLS\)](#)

End notes:

[1] See Arloc Sherman, Danilo Trisi, and Sharon Parrott, *Various Supports for Low-Income Families Reduce Poverty and Have Long-Term Positive Effects on Families and Children*, Center on Budget and Policy Priorities, July 30, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3997>.

[2] All but a tiny fraction of federal EITCs for a given year are claimed and paid when taxes are filed in January through April of the following year. As a result, nearly all of the federal cost for tax year 2011 EITCs will be incurred in federal fiscal year 2012, which ends September 30, 2012. Similarly, in most states the cost of tax year 2014 claims will fall in the state fiscal year that ends in 2015.

[3] Estimates of the future cost of the federal EITC come from the Joint Committee on Taxation's "Estimates of Federal Tax Expenditures for Fiscal Years 2012-2017." The federal EITC was expanded in 2009 under the American Recovery and Reinvestment Act, thereby slightly raising the cost of a state EITC. This expansion of the credit has been extended on multiple occasions, most recently through tax year 2017.

[4] Compared to the cost each state would have incurred if every family claiming the federal credit also claimed the state credit, the actual cost of a newly enacted state EITC in its first year of availability was about 81 percent

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in Vermont, 83 percent in New York, 85 percent in Wisconsin, 88 percent in Oklahoma, 90 percent in Kansas and Minnesota, 91 percent in Colorado, and 97 percent in Massachusetts. In the second year of availability in each state, the cost in Vermont rose to 85 percent, the cost in New York rose to 90 percent, and the cost in Minnesota rose to 93 percent relative to the full-participation cost.

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Policy Basics: State Earned Income Tax Credits

Updated January 2, 2014

Twenty-six states (counting the District of Columbia) have created earned income tax credits (EITCs) to help families struggling to get by on low wages, make ends meet, and provide basic necessities for their children. These credits build on the benefits of the federal EITC, offering a hand up to families that work, and are easy to administer with nearly every dollar spent on state credits going directly to the working families they were created to help.

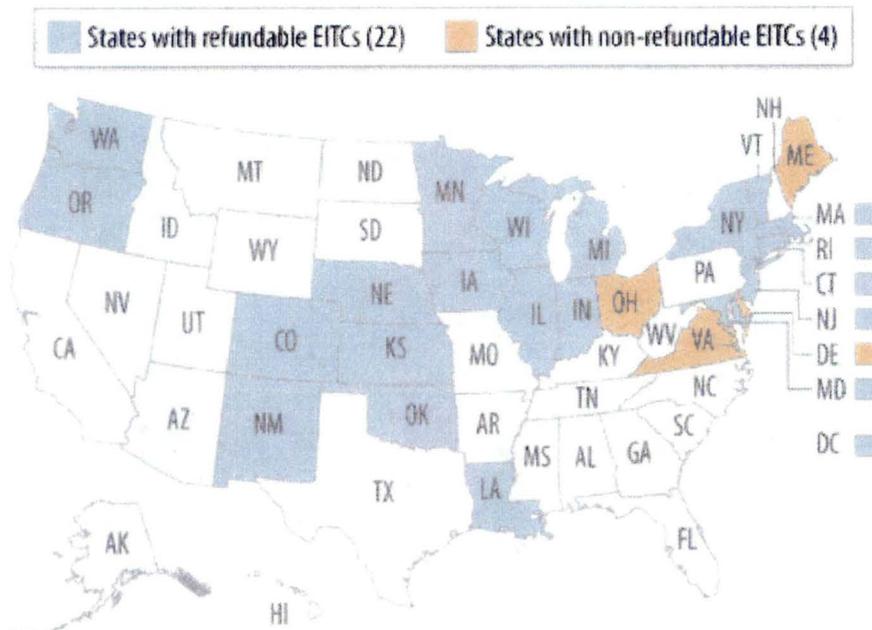
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Twenty-five States and D.C. Have Enacted EITCs, 2014



Source: CBPP analysis

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Only Working People Can Qualify

The benefits of a state EITC would reach every part of the state. The following table indicates the share of taxpayers who could benefit from a state EITC in every legislative district, based on 2012 data (the most recent year for which these data are available)

*19.19

Legislative District	Total # of Returns	# of EITC Returns	Total \$ Amount of EITC Returns	Average EITC Rebate
District 1	9,571	909	\$1,743,028.00	\$1,918.00
District 2	8,269	654	\$1,320,561.00	\$2,019.21
District 3	7,276	838	\$1,598,449.00	\$1,907.46
District 4	6,525	1,060	\$2,317,387.00	\$2,186.21
District 5	8,833	1,086	\$2,023,788.00	\$1,863.52
District 6	7,140	763	\$1,610,850.00	\$2,111.21
District 7	6,655	570	\$1,093,399.00	\$1,918.24
District 8	6,704	646	\$1,245,517.00	\$1,928.04
District 9	5,379	2,036	\$5,033,098.00	\$2,472.05
District 10	6,805	709	\$1,348,851.00	\$1,902.47
District 11	7,997	1,363	\$2,707,662.00	\$1,986.55
District 12	6,467	881	\$1,592,022.00	\$1,807.06
District 13	7,951	911	\$1,870,401.00	\$2,053.13
District 14	6,763	839	\$1,653,815.00	\$1,971.17
District 15	6,574	964	\$1,991,211.00	\$2,065.57
District 16	8,158	1,150	\$2,315,635.00	\$2,013.60
District 17	6,546	850	\$1,626,942.00	\$1,914.05
District 18	6,777	1,007	\$1,954,552.00	\$1,940.97
District 19	6,369	863	\$1,816,936.00	\$2,105.37
District 20	6,470	792	\$1,587,061.00	\$2,003.86
District 21	8,004	1,204	\$2,154,154.00	\$1,789.16
District 22	6,842	671	\$1,358,472.00	\$2,024.55
District 23	5,982	1,213	\$3,014,619.00	\$2,485.26
District 24	6,530	815	\$1,524,808.00	\$1,870.93
District 25	6,534	824	\$1,692,370.00	\$2,053.85
District 26	6,831	614	\$1,215,539.00	\$1,979.71
District 27	7,969	863	\$1,741,997.00	\$2,018.54
District 28	6,087	751	\$1,520,216.00	\$2,024.26
District 29	6,277	690	\$1,373,824.00	\$1,991.05
District 30	7,096	942	\$1,741,602.00	\$1,848.83
District 31	6,384	1,224	\$2,808,847.00	\$2,294.81
District 32	8,224	1,108	\$2,286,686.00	\$2,063.80
District 33	6,662	660	\$1,361,356.00	\$2,062.66
District 34	7,552	966	\$2,048,748.00	\$2,120.86
District 35	7,646	872	\$1,639,103.00	\$1,879.71
District 36	7,534	698	\$1,338,801.00	\$1,918.05
District 37	8,475	757	\$1,447,578.00	\$1,912.26
District 38	6,949	808	\$1,624,679.00	\$2,010.74
District 39	7,738	646	\$1,247,276.00	\$1,930.77
District 40	6,577	917	\$1,923,361.00	\$2,097.45
District 41	7,381	974	\$1,955,261.00	\$2,007.45
District 42	4,801	801	\$1,527,438.00	\$1,906.91
District 43	7,878	1,025	\$1,956,811.00	\$1,909.08
District 44	6,644	832	\$1,306,059.00	\$1,569.78
District 45	5,084	569	\$904,198.00	\$1,589.10
District 46	7,528	874	\$1,762,002.00	\$2,016.02
District 47	8,061	616	\$1,137,286.00	\$1,846.24

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Testimony on Behalf of
The North Dakota Economic Security & Prosperity Alliance (NDESPA)
House Bill 1405 – House Finance & Taxation Committee
January 26, 2015

Chairman Headland and members of the House Finance and Taxation Committee, my name is Caitlin McDonald, from the North Dakota Women’s Network. I am also representing the North Dakota Economic Security & Prosperity Alliance. NDESPA is a coalition of citizens and organizations working to build assets for North Dakotans of low and moderate income through public policy change. I am here in support of House Bill 1405, a state earned income tax credit.

The EITC has had broad bipartisan support, having been created during Republican President Gerald Ford’s administration as an alternative to traditional public-assistance programs. The idea was to eliminate the disincentives to work created by Social Security and Medicare payroll taxes as well as by the income limits in other welfare programs. The EITC was significantly expanded as part of the 1986 tax reform under President Reagan and was further expanded by Presidents George H.W. Bush, Bill Clinton, George W. Bush and Barack Obama.

Seen by some as an alternative to engaging in the debate over raising the minimum wage, US Congressman Paul Ryan recently noted “the minimum wage – it makes it more expensive for employers to hire low-skilled workers, but the EITC, on the other hand, gives workers a boost without hurting their prospects. It gives families flexibility – it helps them take ownership of their lives.”

Ohio Governor John Kasich increased his states EITC from 5% to 10% in 2014 and, by doubling the EITC with this new law, more than 500,000 Ohioans will get more help in moving up the economic ladder.

Despite a healthy state surplus and robust economy, some of North Dakota's hard-working families are still having trouble making ends meet. A state earned income tax credit, or EITC, coupled with the federal EITC, could make a real difference for North Dakota's working families.

A State EITC would be beneficial for a number of reasons, including

- 1.) It promotes (and rewards) work and encourages asset building;
- 2.) It benefits local economies; and
- 3.) It is a refund on 'earned income' and offsets the disproportionate amount of taxes paid by lower income North Dakota families.

To qualify for the federal Earned Income Tax Credit or EITC, one must have earned income from employment or self-employment and must have a valid Social Security number.

A state EITC, coupled with the Federal EITC, can be the single largest payment a working family gets all year...studies show that the highest priorities for EITC spending are for paying bills, followed by larger purchases such as appliances or vehicle repairs. Refunds may be used to pay off high interest credit card debt or could be used for education, childcare or housing improvements.

State EITCs are efficient. Typically, they are based on the existing federal EITC and take advantage of federal eligibility requirements and benefit structures. For this reason, there is little administrative cost to a state that chooses to implement its own credit.

A refundable state EITC would expand the power of the federal credit in offsetting taxes and promoting work. The EITC is designed to encourage and reward work. In fact only those with earned income are eligible for an EITC refund. By design, it creates an incentive for people to work - and to work additional hours toward full-time

employment - because the EITC grows with each additional dollar of wages until it reaches the maximum value. Research repeatedly confirms that both the federal and state EITCs increase workforce participation among eligible families.

A state EITC, coupled with the federal EITC, provides a critical financial boost to those working families who need help most. In addition, aligning asset-building programs with a state EITC allows low-wage families to build their savings and work toward long-term financial success—an important step toward breaking the cycle of poverty from generation to generation. A state EITC could be a gateway to financial services, financial literacy and savings. According to the Federal Reserve... “10 million households in the US are unbanked or under-banked.” A state EITC is an opportunity for low-income North Dakotans who lack bank accounts or access to financial institutions to access financial services and savings. Families who do not have the most basic access to mainstream financial services often rely on high-cost check cashing or other alternative financial services that consume large portions of their incomes and make it even more difficult to put aside savings for the future.

In North Dakota, the Community Action Programs offer the Individual Development Account (IDA) program - a matched savings program that encourages individuals to save for education, the purchase of a home or to start a small business. This program in North Dakota already allows participants to make a one-time deposit of a federal EITC refund into their IDA – a first step for many in building assets for the future.

Families with low incomes spend virtually all of their income to make ends meet, and they tend to spend in communities where we live and work. Studies of the use of federal EITC dollars find that roughly two-thirds of refunds received are spent locally. This benefits local businesses that are likely to see increased consumption of their products or services. The attached data shows how many North Dakotans are eligible for the EITC,

by legislative district. As the EITC refund dollars recycle through our local and state economy, economic conditions are improved.

A state EITC will also move North Dakota toward a more equitable tax structure by providing a tax cut to low- and moderate-income families who pay a higher proportion of their income in taxes than upper income families.

State EITC's have very low administrative costs, typically less than one percent of the cost of the credit, no matter which percentage of state EITC North Dakota chooses to implement. Because the federal government invests heavily in enforcement and keeps a comprehensive database to track EITC eligibility, the state can piggyback on these efforts. Therefore, the same qualifications necessary to receive the federal EITC would also apply to the state EITC.

Another benefit of a state refundable EITC is that it can be counted toward helping the state meet its "maintenance of effort" requirement for receiving federal TANF funds. I also want to emphasize the importance of refund-ability: Refundable state EITCs not only offset state income taxes, but also offset the impact of other state and local taxes disproportionately paid by low-income families, such as sales and excise taxes.

The North Dakota Economic Security & Prosperity Alliance urges the committee to pass HB 1405 as an investment in lifting North Dakotans out of poverty. Attached to this testimony is a list of NDESPA partners who stand in support of this legislation. I would be happy to take questions from the Committee.



North Dakota
Economic Security
and Prosperity
Alliance

**North Dakota Economic Security & Prosperity Alliance
(NDESPA)
2015**

AARP-ND

**North Dakota Women's Network
CAWS North Dakota**

North Dakota Disabilities Advocacy Consortium

North Dakota Community Action Partnership

North Dakota Head Start Association

North Dakota Human Rights Coalition

North Dakota United

Charles Hall Youth Services

Family Voices of North Dakota

American Association of University Women in North Dakota

Charles Hall Youth Services

North Dakota Chapter of the National Association of Social Workers

Childcare AWARE

Mental Health America of North Dakota

Prevent Child Abuse of North Dakota

North Dakota County Social Service Directors Association

NDESPA works to build and sustain a system of economic security for all North Dakotans through poverty awareness and education, grassroots and community capacity building, research and data development, and promotion of policies and practices to eliminate disparities and obstacles for achieving economic security.

#2p.6



House Finance and Taxation Committee
HB 1405
January 26, 2015

Good morning, Chairman Headland and members of the House Finance and Taxation Committee. My name is Caitlin McDonald, and I represent the North Dakota Women's Network. Thank you for the opportunity to testify in support of House Bill 1405.

The North Dakota Women's Network serves as a catalyst for improving the lives of women through communication, legislation and increased public activism. We are a statewide organization with members from every corner of the state.

The North Dakota Women's Network strongly supports implementation of a state earned income tax credit (EITC) because it will expand opportunities and improve economic security for women and their families.

The EITC is a proven, effective program that lifts more than 3 million American children out of poverty each year.

- The EITC now lifts more than 6.2 million people - over half of them children - out of poverty each year; it is the nation's most effective anti-poverty program for working families.
- 28% of children in North Dakota (over 43,000) live with a single parent. Most single parents are women.
- The EITC has contributed to an increase in employment for single mothers. A substantial body of academic research shows that the credit has contributed to a significant increase in labor force participation among single mothers.
- Interviews with EITC recipients show that many use their EITC refunds to make the kinds of investments — paying off debt, investing in education, and securing decent housing — that enhance economic security and promote economic opportunity.

The North Dakota Women's Network stands behind programs that contribute to improving women's economic security and the EITC is just such a program. Thank you for allowing me to speak to you this morning. The North Dakota Women's Network strongly urges you to pass HB 1405.

EITC in North Dakota

A state **Earned Income Tax Credit (EITC)** in North Dakota, modeled after the federal EITC, is an efficient way to help working families build a **STRONGER** financial future, make North Dakota's tax system more **EQUITABLE**, and help local communities **THRIVE**.

A STATE EITC FOR NORTH DAKOTA...

Reflects hard work. Only those who work can claim the EITC. A tax filer must earn wages in order to qualify for the credit. The EITC promotes work by increasing the amount of credit when more hours are worked.

Is targeted to families with children. Between 2009 and 2011, the federal EITC in conjunction with the Child Care Tax Credit (CTC) kept over 9,000 residents of North Dakota from falling below the poverty line, including over 4,600 North Dakota children. According to the National Center for Children in Poverty, the federal EITC reduces child poverty by nearly 25%.¹

Supports military families. Many members of the military benefit from the EITC, and returning veterans also rely on it to supplement their wages as they transition into the civilian workforce.

Helps balance tax structure. Low and moderate-income families pay disproportionately more of their income in taxes than higher income North Dakotans. The top 1% of North Dakota families paid just 4% of their income in state and local taxes compared to the 9.4% paid by the lowest income North Dakotans.² A state EITC would help offset this inequity.

Helps cover the basics. In 2010, a 10% North Dakota EITC would have returned over \$8 million to working families, helping them to pay off debt, cover transportation costs, invest in education, and buy basic necessities.

Is easy to administer. A state EITC credit is simply based on a percentage of the federal EITC. Typically, states with an EITC report very low administrative costs of less than 1%.⁴

Enjoys broad based support. Since enactment by President Ford in 1975, the federal EITC was expanded under Presidents Reagan, Bush and Clinton. The federal program has been so successful that twenty-four states and the District of Columbia have established state-level EITCs to supplement the federal credit. State EITCs are typically set as a percentage of the federal credit and currently range from 3.5-40% of the federal EITC.⁴

Sources

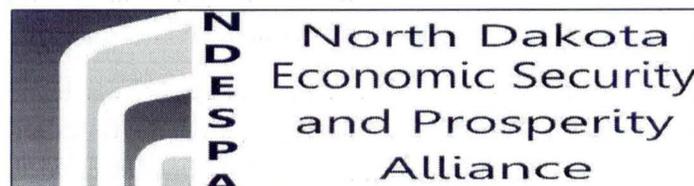
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- 3) Brookings Institute, "EITC Interactive" by Alan Berube. <http://www.brookings.edu/research/interactives/eitc>
- 4) Center on Budget and Policy Priorities "Policy Basics: State Earned Income Tax Credits" December 5, 2012
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#2p.7

EITC

The federal Earned Income Tax Credit (EITC) is a refundable tax credit that can be claimed by low and moderate-income working families.

More than **42,000 North Dakota taxpayers** claimed the federal EITC in tax year 2010, bringing in more than **\$82 million** to working families and the communities in which they live.³



The benefits of a state EITC would reach every part of the state. The following table indicates the share of taxpayers who could benefit from a state EITC in every legislative district, based on 2012 data (the most recent year for which these data are available)

Legislative District	Total # of Returns	# of EITC Returns	Total \$ Amount of EITC Returns	Average EITC Rebate
District 1	9,571	909	\$1,743,028.00	\$1,918.00
District 2	8,269	654	\$1,320,561.00	\$2,019.21
District 3	7,276	838	\$1,598,449.00	\$1,907.46
District 4	6,525	1,060	\$2,317,387.00	\$2,186.21
District 5	8,833	1,086	\$2,023,788.00	\$1,863.52
District 6	7,140	763	\$1,610,850.00	\$2,111.21
District 7	6,655	570	\$1,093,399.00	\$1,918.24
District 8	6,704	646	\$1,245,517.00	\$1,928.04
District 9	5,379	2,036	\$5,033,098.00	\$2,472.05
District 10	6,805	709	\$1,348,851.00	\$1,902.47
District 11	7,997	1,363	\$2,707,662.00	\$1,986.55
District 12	6,467	881	\$1,592,022.00	\$1,807.06
District 13	7,951	911	\$1,870,401.00	\$2,053.13
District 14	6,763	839	\$1,653,815.00	\$1,971.17
District 15	6,574	964	\$1,991,211.00	\$2,065.57
District 16	8,158	1,150	\$2,315,635.00	\$2,013.60
District 17	6,546	850	\$1,626,942.00	\$1,914.05
District 18	6,777	1,007	\$1,954,552.00	\$1,940.97
District 19	6,369	863	\$1,816,936.00	\$2,105.37
District 20	6,470	792	\$1,587,061.00	\$2,003.86
District 21	8,004	1,204	\$2,154,154.00	\$1,789.16
District 22	6,842	671	\$1,358,472.00	\$2,024.55
District 23	5,982	1,213	\$3,014,619.00	\$2,485.26
District 24	6,530	815	\$1,524,808.00	\$1,870.93
District 25	6,534	824	\$1,692,370.00	\$2,053.85
District 26	6,831	614	\$1,215,539.00	\$1,979.71
District 27	7,969	863	\$1,741,997.00	\$2,018.54
District 28	6,087	751	\$1,520,216.00	\$2,024.26
District 29	6,277	690	\$1,373,824.00	\$1,991.05
District 30	7,096	942	\$1,741,602.00	\$1,848.83
District 31	6,384	1,224	\$2,808,847.00	\$2,294.81
District 32	8,224	1,108	\$2,286,686.00	\$2,063.80
District 33	6,662	660	\$1,361,356.00	\$2,062.66
District 34	7,552	966	\$2,048,748.00	\$2,120.86
District 35	7,646	872	\$1,639,103.00	\$1,879.71
District 36	7,534	698	\$1,338,801.00	\$1,918.05
District 37	8,475	757	\$1,447,578.00	\$1,912.26
District 38	6,949	808	\$1,624,679.00	\$2,010.74
District 39	7,738	646	\$1,247,276.00	\$1,930.77
District 40	6,577	917	\$1,923,361.00	\$2,097.45
District 41	7,381	974	\$1,955,261.00	\$2,007.45
District 42	4,801	801	\$1,527,438.00	\$1,906.91
District 43	7,878	1,025	\$1,956,811.00	\$1,909.08
District 44	6,644	832	\$1,306,059.00	\$1,569.78
District 45	5,084	569	\$904,198.00	\$1,589.10
District 46	7,528	874	\$1,762,002.00	\$2,016.02
District 47	8,061	616	\$1,137,286.00	\$1,846.24

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Real Possibilities

HB1405- SUPPORT EITC
Monday, January 26, 2015
House Finance and Taxation Committee
Josh Askvig- AARP-ND
jaskvig@aarp.org or 701-989-0129

Chairman Belter, members of the House Finance and Taxation Committee, I am Josh Askvig, Associate State Director of Advocacy for AARP North Dakota. We stand in support of HB1405.

AARP policy encourages states experiencing surpluses that allow them to cut taxes through enacting or expanding Earned Income Tax Credits (EITC). EITCs allow low- and moderate-income workers and their families to share in the tax benefits of prosperity. According to a report from the Economic Policy Project, a North Dakota EITC would benefit one in nine North Dakota taxpayers.

The earned income tax credit (EITC) is the most important form of income support for low-income workers. The credit has been associated with substantial increases in the labor supply of single mothers and improved economic stability of low-income working families. Additionally, older workers with incomes low enough to qualify them for the EITC are among the most vulnerable Americans. Tax and other public policies should encourage their efforts to increase their own economic security by remaining in the workforce for as long as they choose to do so. EITCs can often help them do so.

Participation rates in the EITC are higher than those for many other low-income assistance programs and tax subsidies. The EITC is widely believed to provide critical income support and work incentives to low-income families at relatively little administrative cost.

Twenty-six states, including the District of Columbia, offer EITCs, which are supported by businesses as well as social service advocates. State EITCs can help increase the financial security of workers with children and complement welfare reform by helping low-wage workers support their families as they leave public assistance. According to the Center on Budget and Policy Priorities, over 27 million working families and individuals received the EITC in 2013.

We support HB1405 and urge this committee to give it a DO PASS RECOMMENDATION.

#2410

North Dakota Community Action Partnership Testimony

RE: HB 1405 - January 26, 2015

Submitted by Andrea Olson, Executive Director

North Dakota Community Action Partnership

Mr. Chairman and Members of the Committee, thank you for allowing me the opportunity to provide support of HB 1405. My name is Andrea Olson and I serve as Executive Director for the North Dakota Community Action Partnership. I support HB 1405 because I truly believe that a state Earned Income Tax Credit is a means to help reduce poverty and create self-sufficiency across North Dakota.

The seven North Dakota Community Action Agencies provide services across the state and operate programs that enable North Dakota residents opportunities to secure and maintain self-sufficiency. We serve all 53 counties across the state and some of our programs include Head Start, Weatherization, Volunteer Tax Assistance and Individual Development Accounts.

Our entire network has vast experience working with low-income North Dakotans and we are strong supporters of the establishment of a state EITC. It would not only promote self-sufficiency but also promote economic development; by no means is this a give-away program. This is not only an investment in human capital but also an investment in our economy. Recipients of EITC will have an increase of disposable earned income and an increased utilization of financial institutions and instruments. Recipients will also have an opportunity to have an increased savings for a variety of purposes ranging from just having a financial safety net to the possibility of long-term asset acquisition. Thank you so much for your consideration on this important bill.