

# Giving Credit to West Virginia: A State EITC Would Help Struggling Families

80<sup>th</sup> West Virginia Legislature

House Health and Human Resources Committee

Chairman Perdue

*February 2, 2011*



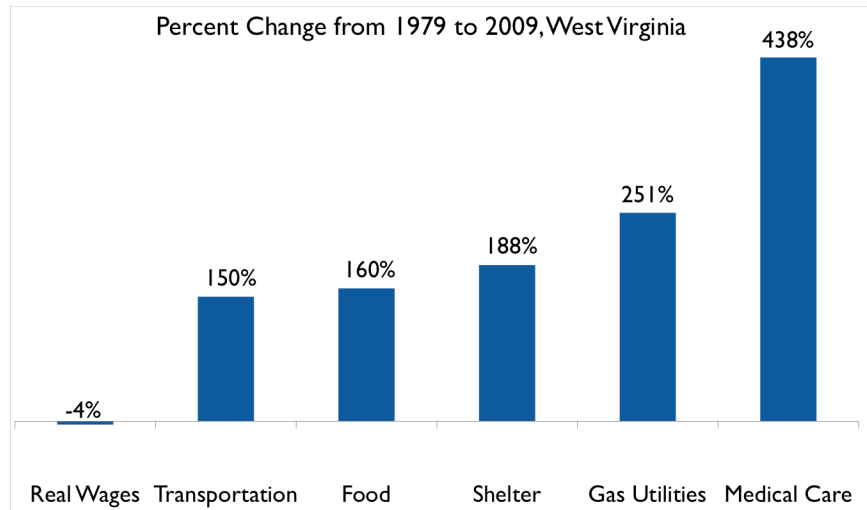
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## Many West Virginia families struggle to make ends meet

- Four in ten families in West Virginia live on less than the amount of money that a family needs to cover all of its basic needs.\*

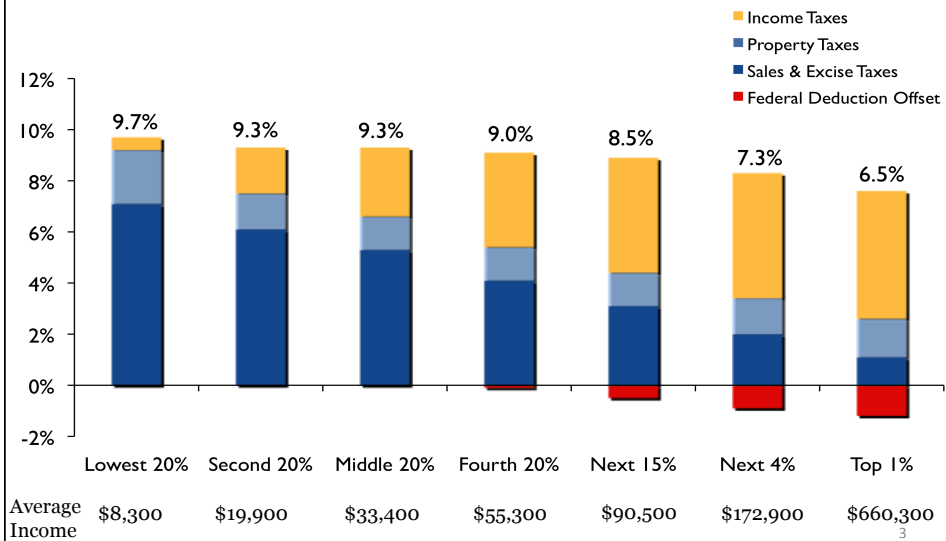
\*WorkForce WV's Self-Sufficiency Standard calculates the cost of a family's basic necessities.

## Wage stagnation and rising cost of basic needs



Source: Bureau of Labor Statistics. Data from the Consumer Price Index - All Urban Consumers, South Urban region.

## Regressive Tax Structure



Source: Institute on Taxation and Economic Policy. (2009). *Who Pays? A Distributional Analysis of the Tax System in all 50 States*.



## Following the example of other states: Enacting a state Earned Income Tax Credit



## The Impact on Districts, 2008

	WV House District 17	WV House District 9
<b>Total federal EITC received</b>	\$5,681,940	\$3,220,299
<b>Tax filers who received the EITC</b>	2,999 (19%)	1,649 (17%)
<b>Estimated state EITC at 10 percent of federal credit*</b>	\$511,375	\$289,827
<b>Average state EITC</b>	\$189	\$195

\*Assuming 90% participation.

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## Benefits of a state EITC

- Significant work incentive – makes work more financially attractive option
- Helps increase employment among low-income individuals
- Offers crucial work support to families

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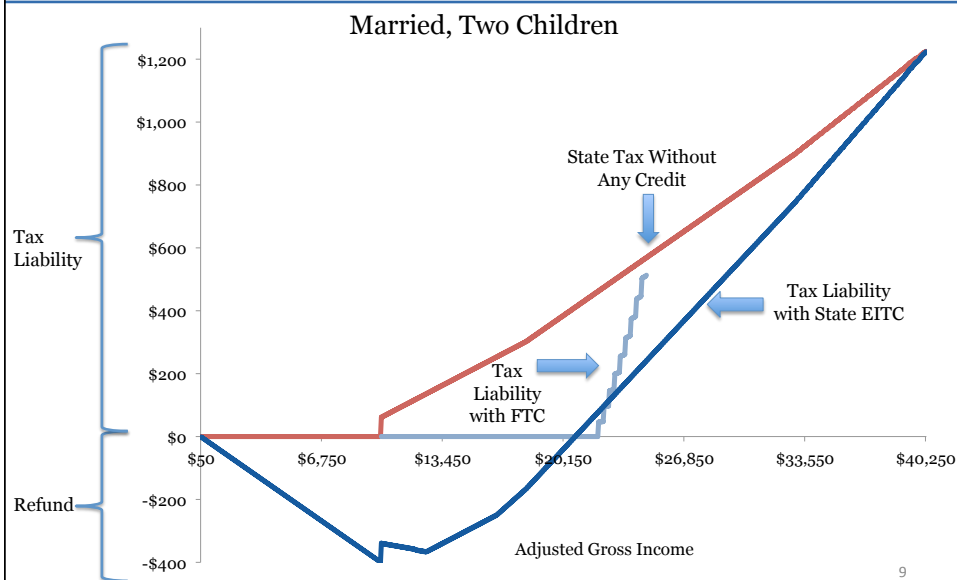
## Credit Swap

	10% State EITC	Family Tax Credit
<b>Cost (FY 2009)</b>	\$25 million (\$28 million in FY 12)*	\$14 million (\$17 million in FY 10)*
<b>Number of Tax Filers</b>	Est. 151,000 (19%)	75,938 (9.4%)
<b>Maximum income eligibility</b>	244% FPL	125% FPL
<b>Refundable</b>	Yes	No
<b>Must have earned income</b>	Yes	No
<b>Age</b>	25-64, unless children in family	All ages

\* State EITC estimates from CBPP; Family Tax Credit numbers from Tax Department (FY 10 was base cost, no estimate for FY 12).

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## Comparing state EITC with Family Tax Credit



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## Possible Funding for a State EITC

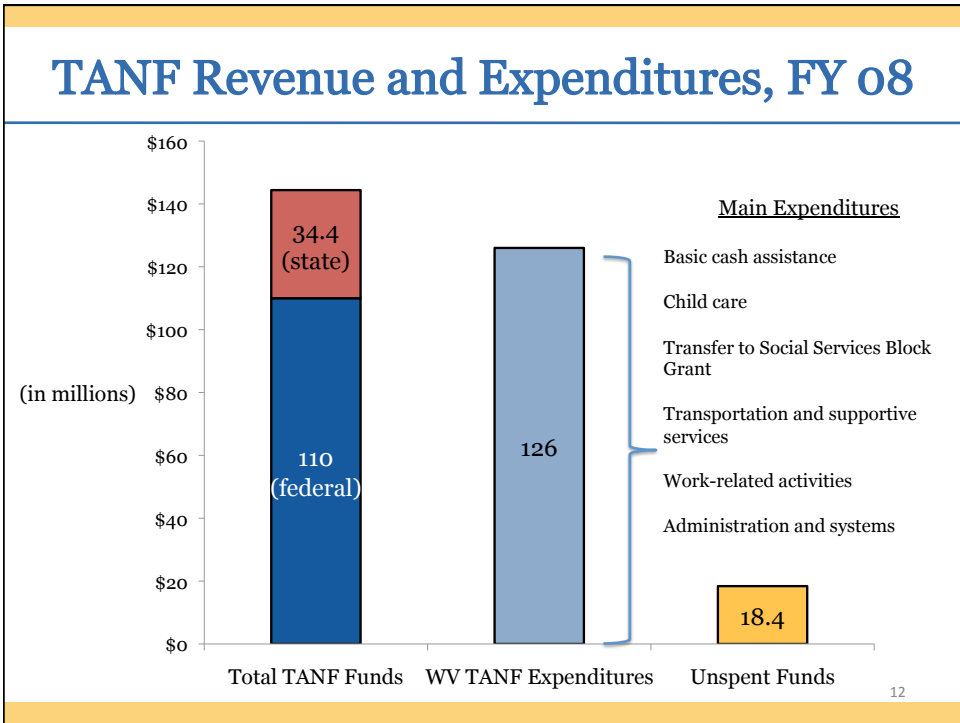
- Use general revenue funds
  - \$28 million for state EITC is less than seven-tenths of one percent of general revenue in FY 12
    - If replacing the Family Tax Credit, the state would need less than \$14 million in new revenue.
  - West Virginia has had budget surplus last four fiscal years and in first seven months of FY 11
- Use funds from increased tobacco tax
  - \$1.00 increase per pack would bring in \$133 million in new revenue
  - Additional \$26.7 million from higher tax on other tobacco products
- Use TANF funds to pay for the refundable portion of the state EITC.

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## Using TANF to fund the credit

- States can count the refundable portion of the state EITC as a qualified expenditure for TANF.
- 16 states and D.C. currently use TANF funds to cover part of their state EITC.
- West Virginia historically has had a TANF surplus.

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### Adding a State EITC to TANF Expenditures

	Amount
Basic assistance	\$31,148,455
Child care	\$21,877,339
Transfer to SSBG	\$11,017,631
Transportation & supportive services	\$14,951,851
Work-related activities	\$1,671,785
Non-recurrent short-term benefits	\$1,499,229
Administration & Systems	\$25,966,145
Other	\$18,067,033
<b>Refundable EITC</b>	<b>\$11,000,000</b>
<b>TOTAL EXPENDITURES</b>	<b>\$137,199,468</b>

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## Final Thoughts

**A refundable 10 percent state EITC can play a vital role in addressing the growing economic insecurity of many West Virginia families.**

**The state has the resources to fund this relatively inexpensive credit (surplus revenue, tobacco tax, TANF funds).**

**If there is the will to do so, West Virginia can fund an important investment that has benefits both today and in the future.**

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