# Economic Consequences of the Earned Income Tax Credit in Arkansas: An Analysis

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In the United States, earned income tax credits are part of the social welfare system. Refundable earned income tax credits are a cash transfer income maintenance tool designed to supplement the working poor's incomes. The design of these policies are purposely directed at those that work and have children. The transfers adjust to family size, and once income reaches an income threshold the transfers stop. Currently, Arkansas does not have an earned income tax credit. Although, there have been attempts to enact such a policy in the past; they have failed. Proponents of an earned income tax credit are again considering such legislation for Arkansas. This study is in response to a request by Entergy Arkansas to evaluate the economic consequences and economic impacts of an earned income tax credit in Arkansas similar to the one proposed in Working Families Opportunity Act (HB 1344) in 2015.[1]

The primary purpose of this study is educational, and it strives to make readers aware of the facts, the costs, and the consequences of this type of income maintenance program for Arkansas. The first part of the study reviews the federal earned income tax credit policy focusing on the history of the policy and eligibility requirements. The study then reviews the State's earned income tax credit policies. The first part of the study closes with a discussion of the pros and cons of an earned income tax credit policy. The second part of the study evaluates the earned income tax credit policy proposed in Working Families Opportunity Act (HB 1344). The study evaluates the economic consequences of this Act in terms of estimating the expected cash flow, the costs, and its economic impacts. The section ends with a discussion of the potential fiscal impact of the Act.

[1] Entergy Arkansas, 425 West Capitol Avenue, Little Rock, AR 72201.

## Part 1: Background

The Earned Income Tax Credit (ETIC) is one of the largest cash-transfer programs for low-income families in the federal budget.[2] The ETIC sprouted out of the 1960s War on Poverty. It was an answer to the concerns over the increasing number of welfare programs of that era. The EITC program (program) evolved from an initial modest tax credit into a significant tool for reducing poverty. Earned income tax credits have grown over time. In 1975, their initial share of the federal income maintenance budget was 5%. By 2015, their share of the federal maintenance budget was 25%.[3] This brief background section describes ETIC's history at federal and state levels, the program's eligibility requirements, and reviews the major discussion points about the effectiveness of the program.

### History

Senator Russell Long enacted ETIC in 1975. Senator Long worked to create a program that would counter the increasingly popular Negative Income Tax (NIT). The NIT was a "universal" anti-poverty program that guaranteed a minimum standard of living to all. However, Senator Long worried that the NIT provided the largest benefits to those who did not work. A NIT would cause an increase in the numbers of nonworking poor by causing a reduction in the numbers of working poor. Consequently, the ETIC was set up to provide a tax credit to the working poor and not to those outside the labor force. ETIC has expanded beyond its modest origins as subsidies were increased in 1986, 1990, 1993, 2001, and 2009. Many states have also adopted the Earned Income Tax Credit. Currently, 26 states and the District of Columbia provide a state-level supplement to the federal EITC.[4]

### Eligibility for Federal EITC

For the 2014 tax year, the federal EITC covered 27.5 million taxpayers and awarded $66.7 billion in income credits.[5] ETIC benefit amounts are dependent on a recipient's family situation and income level.[6] A qualifying child must meet relationship, age, and shared residency requirement. Table 1 reviews the EITC parameters for tax year 2015 breaking down income thresholds for both

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[2] Eaiss, Nada and Hilary Hoynes. *Behavioral Responses to Taxes; Lessons from the EITC and Labor Supply.* Working Paper 11729, National Bureau of Economic Research, November 2005.

[3] Bureau of Economic Analysis, U.S. Economic Accounts, U.S. Department of Commerce from https://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=7#reqid=70&step=1&isuri=1

[4] Policy Basics: State Earned Income Tax Credits. (2016, June 17). Retrieved December 13, 2016, from http://www.cbpp.org/research/state-budget-and-tax/policy-basics-state-earned-income-tax-credits

[5] EITC Fast Facts. (2016, January 14). Retrieved January 03, 2017, from https://www.eitc.irs.gov/Partner-Toolkit/basicmaterials/ff

[6] There are also secondary requirements that affect credit amounts. For example, families unearned income (capital gains) are ineligible for ETIC if these earnings are above $3,400 (Internal Revenue Services, https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/eitc-income-limits-maximum-credit-amounts-1-year).

Table 1
Earned Income Tax Credits Parameters 2015

| EITC Schedule 2015 for Single Filers | | | | | | |
|---|---|---|---|---|---|---|
| Single or Head of Household | Phased-In Rate | Max Credit | Income for Maximum Credit | Income Credits Start Phasing Out | Phased-Out Rate | Income Credit Phased-Out |
| No Children | 7.65% | $ 503 | $ 6,550 | $8,250 | 7.68% | $14,800 |
| One Child | 34% | $ 3,359 | $ 9,850 | $18,150 | 16.03% | $39,100 |
| Two Children | 40% | $ 5,548 | $ 13,850 | $18,150 | 21.10% | $44,450 |
| Three Children | 45% | $ 6,242 | $ 13,850 | $18,150 | 21.09% | $47,747 |
| EITC Schedule 2015 for Married Filers | | | | | | |
| Joint Filer | Phase-In Rate | Max Credit | Income for Maximum Credit | Income Credits Start Phasing Out | Phased-Out Rate | Income Credit Phased-Out |
| No Children | 7.68% | $503 | $6,550 | $13,750 | 5.25% | $23,330 |
| One Child | 34.10% | $3,359 | $9,850 | $23,650 | 16.00% | $44,650 |
| Two Children | 40.06% | $5,548 | $13,850 | $23,650 | 21.08% | $49,974 |
| Three Children | 45.07% | $6,242 | $13,850 | $23,650 | 21.08% | $53,268 |
| Source: Title 26-Internal Revenue Code/ Subtitle A / Chapter 1/ Part IV / Subpart C / 32. Earned Income, Office of Law Revision Counsel. United States Code, U.S. House Representatives. | | | | | | |
| http://uscode.house.gov | | | | | | |

single and joint filers. The EITC parameters are the credit rates and earning levels that determine the amounts of credits awarded and the range of earnings eligible for credits. Earned income must reach a certain threshold before receiving the maximum credit. This maximum credit threshold is the amount of earnings necessary to qualify for the maximum credit. The phase-in rate is the percentage of earnings that qualifies as credits up to the maximum credit. It depends on a filer's marital status and number of children in the household. When a filer's earnings qualify for the maximum tax credit, they receive this maximum credit until their earnings reach the initial phase-out amount. After they reach this initial phase-out amount, the earned income credit decreases as their income rises at a rate determined by the phased-out rate. When earnings reach the phased-out income level, earned income credits are phased-out completely. Appendix 1 contains several charts demonstrating the drift of the Federal EITC program for single filers over selected years.

## State EITC Programs

Many states have extended the benefits of the federal EITC program to their residents. As shown in Table 2, there are currently 26 states and the District of Columbia providing a state-level supplement to the federal EITC.[7] The structure of state EITC programs follows along the lines of their federal counterpart. The state programs match a percentage of their tax credit rates to the federal tax credit rates for a given tax year.[8] Refundable EITCs allow taxpayers to receive a refund for a portion of the tax credit that exceeds their income tax bill. As shown in Table 2, out of the 26 states, 22 states and the District of Columbia's credits are fully refundable if the amount is greater than taxes owned. Delaware, Ohio, Oklahoma and Virginia's EITC programs only reduce a worker's tax liability. All of the states with income tax credits allow childless workers to be eligible except for Wisconsin.[9]

State EITC programs help offset some of the regressive nature of state taxes that cause low-and moderate-income families to pay a larger percentage of their incomes as taxes as compared to high income taxpayers. According to a report from the Institute of Taxation and Economic Policy, "the poorest 20 percent of Americans pay 10.9 percent of their incomes in state and local taxes. By contrast, middle-income taxpayers pay 9.4 percent and the wealthiest one percent of taxpayers pay just 5.4 percent of their incomes in state and local taxes"[10]. The regressive nature of state taxes and the burden placed on low-income families can be partially, offset by a well-chosen EITC program.

Like the federal EITC program, there are both positive and negative aspects of state-level EITC programs. State level EITC supplements build upon the benefits offered by federal income credits. They encourage work, supplement working families' resources, help fill gaps in federal EITC, and reduce state tax burdens for low-income families. However, state EITC programs carry the same drawbacks as the federal. There are concerns over fraud, the disparity of benefits between workers with and without children, and the high costs associated with, what is in essence, a spending program where the government spends more in terms of foregone tax revenues than the amount of revenue raised by the income tax credit.[11] There are also issues

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[7] Policy Basics: State Earned Income Tax Credits. (2016, June 17). Retrieved December 13, 2016, from http://www.cbpp.org/research/state-budget-and-tax/policy-basics-state-earned-income-tax-credits

[8] Berube, A., & Holmes, N. (2016, July 29). U.S. Concentrated poverty in the wake of the great recession. Retrieved December 14, 2016, from Brookings Institute, https://www.brookings.edu/blog/the-avenue/2015/07/29/states-adopt-and-adapt-the-eitc-to-address-local-need/

[9] http://www.ncsl.org/research/labor-and-employment/earned-income-tax-credits-for-working-families.aspx

[10] Institute on Taxation and Economic Policy, Rewarding Work Through State Earned Income Tax Credits, 2016, September 14. Retrieved December 14, 2016, from Institute of Taxation and Economic Policy, http://itep.org/itep_reports/2016/09/rewarding-work-through-state-earned-income-tax-credits-2.php#.WFFbtpWQzWM. Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax System in All Fifty States*, 5th Edition, January 2015. www.whopays.org

[11] Edwards, C., & de Rugy, V. (2015, October 14). Earned income tax credit: Small benefits, large costs. Retrieved December 14, 2016, from CATO Institute, https://www.cato.org/publications/tax-budget-bulletin/earned-income-tax-credit-small-benefits-large-costs In-line Citation:

Table 2
State Earned Income Tax Programs

| State Based Earned Income Tax Credits | | | |
|---|---|---|---|
| State | Year Enacted | Refundable | % of Federal EITC |
| California | 2015 | yes | 85 percent for up to half of the federal phase-in range. |
| Colorado | 1999, 2013 | yes | 10 percent |
| Connecticut | 2011 | yes | 27.5 percent |
| Deleware | 2005 | no | 20 percent |
| District of Columbia | 2000 | yes | 40 percent |
| Illinois | 2000 | yes | 10 percent |
| Indiana | 1999 | yes | 9 percent |
| Iowa | 1989 | yes | 15 percent |
| Kansas | 1998 | yes | 17 percent |
| Lousiana | 2007 | yes | 3.5 percent |
| Maine | 2000 | yes | 5 percent |
| Maryland | 1987 | yes | Refundable EITC- 26 percent<br>Non-refundable - 50 percent |
| Massachusetts | 1997 | yes | 23 percent |
| Michigan | 2006 | yes | 6 percent |
| Minnesota | 1991 | yes | Calculated as a percentage of income (ranges from 25 to 45 percent of federal income) |
| Nebraska | 2006 | yes | 10 percent |
| New Jersey | 2000 | yes | 30 percent |
| New Mexico | 2007 | yes | 10 percent |
| New York | 1994 | yes | 30 percent |
| Ohio | 2013 | no | 10 percent, limited to 50 percent of libability for taxcable income above $20,000 |
| Oklahoma | 2002 | yes | 5 percent |
| Oregon | 1997 | yes | 8 percent |
| Rhode Island | 1986 | yes | 15 percent |
| Vermont | 1988 | yes | 32 percent |
| Virginia | 2004 | no | 20 percent |
| Wisconsin | 1989 | yes | One Child - 4 percent<br>Two Children - 11 percent<br>Three Children - 34 percent |

over making citizens aware that they can apply for state tax credits if they are eligible for federal credit.

**Pros**

The EITC helped lift 10.1 million people, including 5.3 million children, above the poverty line.[12] One reason that the EITC has been effective is because the tax credit incentivizes labor participation. Research has shown that the EITC creates incentives for those who are working and those who are not. The additional after-tax income is beneficial to those who work by letting their incomes go farther and acts as an employment incentive for unemployed persons to enter the labor force due to the additional after-tax income.[13]

The biggest benefactors of the income tax credit are single mothers. During the EITC expansions of the 1990s employment rates for women with children increased by 16% whereas the employment rates for women without children did not see a significant employment increase.[14] The impact on mothers is also passed along to their children. The EITC is very effective in improving outcomes amongst America's poorest families by allowing families to spend more on their children. According to one academic study, an increase of $1,000 in income helps raise a child's reading, math scores, and graduation rates.[15]

Another area where the EITC is effective is in income mobility. Research has found that during the EITC increases of the 1990s most recipients only received the tax credit for a short period of time, and most of the recipients, in the study sample, moved out of the third income bracket covered by the tax credit. Additionally, the likelihood that families reclaim EITC decreases the longer they go without claim credits. Although, after the 1992-2000 expansion period more people did reclaim EITC, but this could have been because of increased eligibly.[16]

A myriad of government, academic, and private research has extolled the benefits of the EITC. The linkages between the tax credits, income growth, poverty alleviation, and children's educational outcomes are established and understood. However, the EITC does have its problems.

[12] United States, Executive Office of the President and U.S. Treasury Department. (2014). *The President's Proposal to Expand the Earned Income Tax Credit*. Washington, DC: White House.

[13] Eissa, Nada & Hoynes, Hilary, 2011. "Redistribution And Tax Expenditures: The Earned Income Tax Credit," National Tax Journal, National Tax Association, vol. 64(2), pages 689-729.

[14] Ibid

[15] Dahl, G. B., & Lochner, L. (2012). The impact of family income on child achievement: Evidence from the earned income tax credit. *American Economic Review*, *102*(5), 1927–1956. doi:10.1257/aer.102.5.1927

[16] Dowd, T., & Horowitz, J. B. (2011). Income mobility and the earned income tax credit: Short-term safety net or long-term income support. *Public Finance Review*, *39*(5), 619–652. doi:10.1177/1091142111401008

**CONS**

The EITC is an expensive program. According to the Cato institute, it is the third costliest federal social welfare program with a price tag of $56 billion. The federal government also spends more on EITC than is returned from income taxes.[17] The program also faces large amounts of fraud. That, in many cases, the IRS is not prepared to deal with compliance problems. The agency investigations focus on stopping people from hiding income not from stopping people from creating income to qualify for a tax credit. Miss-claiming children and creating income from "self-employment" are a large part of the $15 billion in misappropriations.[18] Unfortunately, cases of fraud and a high cost are only some of the problems facing the tax credit.

There are also questions raised about how effective the EITC is at poverty alleviation. Although, EITC assists single mothers and multi-child families, the program does not greatly benefit those without children. Since eligibility requirements are more restrictive, the maximum credit and phase-out income are less, those without children have less incentive to either enter the labor force or work for income mobility to gain higher rebates.[19] A second issue is for two earner households. One earner, usually the wife, is more likely to drop out of the labor force if their combined income puts them above the EITC threshold.[20] A wife may decide to leave the labor force or decrease working hours so the family can stay within eligibility.

Overall, the EITC has a wide range of benefits but also a wide range of costs. On one hand, the program has helped pull many out of poverty and increased labor force participation. On the other hand, the earned income tax credit faces problems that any social welfare program faces: concerns over cost, fraud issues, and questions over its effectiveness. State level EITC programs will add onto the benefits of their federal counterparts but will also face the same concerns.

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[17] Edwards, C., & de Rugy, V. (2015, October 14). Earned Income Tax Credit: Small Benefits, Large Costs. Retrieved January 3, 2017, from Cato Institute, https://www.cato.org/publications/tax-budget-bulletin/earned-income-tax-credit-small-benefits-large-costs

[18] Holt, S. (2016, July). *The Role of the IRS as a Social Beneftis Administrator*. Washington DC: American Enterprise Institute.

[19] Urban Institute, & Brookings Institute. (2012). What is the earned income tax credit (EITC)? Retrieved January 3, 2017, from Tax Policy Center, http://www.taxpolicycenter.org/briefing-book/what-earned-income-tax-credit-eitc

[20] Essa&Hoyes

## Part 2: Estimating the Economic Impact of EITC for Arkansas

Arkansas does not currently have a state earned income tax. In 2015, the Working Families Opportunity Act (HB 1344) proposed such an EITC program for Arkansas' taxpayers. HB 1344 was unable to muster the support necessary to move out of committee. The House Bill specifies tax credits rates that were a percentage of the Federal EITC parameters. The specification provides sufficient detail to analyze the potential economic impacts of such an earned income tax credit program for Arkansas. The analysis proceeds in estimating expected earned income tax credits using the parameters specified in HB 1344. The EITC parameters were applied to Internal Revenue Service's (IRS) Statistics of Income (SOI) data for Arkansas in 2014 to derive estimates of the changes in Arkansas' disposable personal income associated with the refundable earned income tax credits. Because the SOI database lacks details on the taxpayer characteristics associated with the EITC parameters, an alternative estimate of the earned income tax credits is derived using U.S. Census PUMS database.[21] The PUMS contains household income estimates for single and married households by household size. The estimates of earned income tax credits by income groups and the number of children per household uses the data. Refundable tax credits are computed to assess the change in taxpayer's disposable personal income because of the refundable EITC. In final section of this study, the economic impact analysis of the disposable income changes yields measures of the economic consequences of the EITCs on the state's economic activity, employment levels, and fiscal impacts.

### HB1344 and SOI 2014 Estimates of Refundable EITCs

The IRS's SOI database for individuals aggregates individual income tax filings and provides summary statistics of individual tax filings by state.[22] Table 3 contains Arkansas' Federal EITC statistic for most recent year 2014. According to Arkansas' SOI 2014, there were 1,223,140 Arkansans individual federal income tax returns filed. Of these filings, 310,300 returns declared earned income credits (25.4%). The number of returns that had excess earned income tax credits over tax liabilities (refundable credits) was 275,060 returns (88.6% of the filing with earned income tax credits). For Arkansas tax filers in 2014, there were $794.5 million earned income tax credits awarded by the IRS, and of these, $702.5 million were refundable (88.4% refund rate).[23] (See Appendix 2 for Arkansas' SOI EITC data for 2007-2014)

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[21] The American Community Survey (ACS) Public Use Microdata Sample (PUMS) files are a set of untabulated records about individual people or housing units. The Census Bureau produces the PUMS files so that data users can create custom tables, http://www.census.gov/programs-surveys/acs/technical-documentation/pums.html

[22] The IRS SOI state database is available at https://www.irs.gov/uac/soi-tax-stats-historic-table-2. At the current time the most recent state data is for tax year is 2014.

[23] In Appendix 2, statistics on ratio of EITC to the personal income by county for selected years is shown. The data source for the series is the Bureau of Economic Analysis, Regional Income Accounts at: https://www.bea.gov/regional

Table 3
Federal Earned Income Tax Credits for Arkansas Tax payers for Tax Year 2014*

| Size of Adjusted Gross Income | Number of returns with earned income credit | Earned income credit amount [1] (Thousands of $) | Number of returns with excess earned income credit | Excess earned income credit (refundable) amount [2] (Thousands of $) | Refund Rate |
|---|---|---|---|---|---|
| Under $1 | 1,750 | $2,143 | 1,110 | $1,373 | 64.1% |
| $1 under $10,000 | 76,630 | $105,083 | 69,280 | $92,166 | 87.7% |
| $10,000 under $25,000 | 145,360 | $506,009 | 132,640 | $455,779 | 90.1% |
| $25,000 under $50,000 | 85,680 | $181,047 | 71,400 | $153,023 | 84.5% |
| $50,000 under $75,000 | 880 | $225 | 650 | $157 | 69.8% |
| $75,000 under $100,000 | - | $0 | - | $0 | |
| $100,000 under $200,000 | - | $0 | - | $0 | |
| $200,000 under $500,000 | - | $0 | - | $0 | |
| $500,000 under $1,000,000 | - | $0 | - | $0 | |
| $1,000,000 or more | - | $0 | - | $0 | |
| Totals | 310,300 | $794,507 | 275,080 | $702,498 | 88.4% |

[1] Earned income credit includes both the refundable and non-refundable portions. The non-refundable portion could reduce income tax and certain related taxes to zero. The earned income credit amounts in excess of total tax liability, or amounts when there was no tax

[2] The refundable portion of the earned income credit equals total income tax minus the earned income credit. If the result is negative, this amount is considered the refundable portion. No other refundable credits were taken into account for this calculation.

Source: Tax Year 2014: Historic Table 2, Statistics of Income (SOI), Internal Revenue Service (IRS), https://www.irs.gov/uac/soi-tax-stats-historic-table-2.

*State data is based on administrative records of individual income tax returns (Forms 1040) from the Internal Revenue Service (IRS) Individual Master File (IMF) system. Included in these data are returns filed during the 12-month period, January 1, 2015 to December 31, 2015. While the bulk of returns filed during the 12-month period are primarily for Tax Year 2014, the IRS received a limited number of returns for tax years before 2014 and these have been included within the state data. (Source: Documentation Guide State Data, SOI, IRS.)

Table 4
Estimates of EITC for HB 1344

| Federal Earned Income Credits ($000) | $794,507 | Federal Refundable EITC ($000) | $702,498 |
|---|---|---|---|
| AR Credit Rates Percent of Federal Rates | | Estimate of Total EITC for Arkansas ($000) | Estimate of Refundable EICT for Arkansas ($000) |
| $2,016 | 1.3% | $9,931 | $8,781 |
| $2,017 | 2.5% | $19,863 | $17,562 |
| $2,018 | 5.0% | $39,725 | $35,125 |
| Data Source; IRS SOI 2014. | | | |

Since EITC rates in HB 1344 were a percentage of the federal EITC rates, it is possible to estimate Arkansas EICTs by applying those rates to the federal refundable credit. Table 4 shows the results of these calculations. As demonstrated in this table and depending on Arkansas' proposed in disposable personal income if the parameters in HB 1344 were enacted and based on the 2014 federal EITC parameters. Note that for Arkansas to award the refundable tax credits it must forego the tax revenues associated with the total EITC awarded. For example in 2018, the state must forego $39.7 million in forgone tax revenue to refund $35.1 million credits.

**Estimate of Refundable EITC Using PUMS Household Income Data for 2015.**

The Public Use Microdata Sample (PUMS) contains the responses of individual to the American Community Survey. The responses are organized as single housing units. This study presumes the households represent tax filers and their household characteristics specify the characteristics of the tax filer's with respect to the EITC parameters.[24] Table 5 shows Arkansas' household data broken into the EITC income groupings by marital status and family size. There are slightly larger number of single head of households but married household have a substantial greater number of children. The study assumed married household filed as joint tax payers while single, head of households, and qualified widowers filed as individual tax taxpayers.

Table 6 shows the federal EITC parameters for 2015. The parameters incorporate the phase-in, maximum credit, and phase-out income ranges for single and married filers. The EITC were computed based upon the federal EITC parameters for 2015 by number of children, income groups, and filing status. The summary findings from this computation are shown in Table 7.

To estimate Arkansas federal EITC using the PUMS data, the analysis worked within the framework of the federal EITC parameters for 2015 and the PUMS 2015 data for Arkansas. In so doing, PUMS household incomes, marital status of the residences, and housing counts formed the bases of the EITC computations. The analysis computed the tax credits for each household in the PUMS sample by applying the appropriate EITC parameters to reflect different filing statuses, income levels, and number of children. Multiplying the PUMS housing counts across the income levels yielded the estimates of EITC for Arkansas by income level, filing status, and number of children. Table 7 shows the summary results of these computations.

[24] Group quarters are not included in the PUMS data used in this study. The Census Bureau defines group quarters, as places were people do not live in housing units that includes houses, apartments, mobile homes, and rented rooms. Group quarters include places like residential care facilities, dorms, and prisons for example.

Table 5
Arkansas Household Counts by EITC Parameters 2015

| Adjusted Gross Income | # of Children | | | | |
|---|---|---|---|---|---|
| Married | 0 | 1 | 2 | 3 or more | Total |
| $0 | 2,170 | | | | 2,170 |
| $1 under $6550 | 3,523 | | | | 3,523 |
| $6550 under $13750 | 8,742 | | | | 8,742 |
| $13750 under $23330 | 24,960 | | | | 24,960 |
| $23330 or more | 315,448 | | | | 315,448 |
| Total | 354,843 | | | | 354,843 |
| Married With Children | | | | | |
| $0 | | | 65 | 157 | 222 |
| $1 under $9850 | | 1,502 | 1,016 | 329 | 2,847 |
| $9850 under $23650 | | 5,495 | 4,095 | 3,096 | 12,686 |
| $23650 under $44650 | | 11,843 | 12,981 | 12,245 | 37,069 |
| $44650 under $49974 | | 4,430 | 4,039 | 1,588 | 10,057 |
| $49974 under $53268 | | 2,879 | 2,497 | 2,152 | 7,528 |
| $53268 or more | | 53,411 | 53,927 | 26,071 | 133,409 |
| Total | 354,843 | 79,560 | 78,620 | 45,638 | 558,661 |
| | | | | | |
| Single or Head of Household | 0 | 1 | 2 | 3 or more | Total |
| $0 | 14,932 | | | | 14,932 |
| $1 under $6550 | 23,257 | | | | 23,257 |
| $6550 under $8250 | 9,954 | | | | 9,954 |
| $8250 under $14800 | 84,875 | | | | 84,875 |
| $14800 or more | 343,250 | | | | 343,250 |
| Total | 476,268 | | | | 476,268 |
| Single or Head of Household with Children | | | | | |
| $0 | | 1,768 | 838 | 204 | 2,810 |
| $1 under $9850 | | 6,140 | 4,691 | 3,255 | 14,086 |
| $9850 under $18150 | | 10,213 | 4,534 | 3,772 | 18,519 |
| $18150 under $39100 | | 20,305 | 12,859 | 6,205 | 39,369 |
| $39100 under $44450 | | 1,848 | 2,042 | 1,239 | 5,129 |
| $44450 under $47747 | | 1,001 | 1,430 | - | 2,431 |
| $47747 or more | | 15,058 | 8,920 | 3,279 | 27,257 |
| Total | 476,268 | 56,333 | 35,314 | 17,954 | 585,869 |
| Grand Total | 831,111 | 135,893 | 113,934 | 63,592 | 1,144,530 |
| Source: Public Use Microdata Sample (PUMS), American Community Survey, US Census | | | | | |
| https://www.census.gov/programssurveys/acs/data/pums.html | | | | | |

Table 6
Federal EITC Parameters 2015*

| Single, Head of Household, and Qualified Widow(er) | | | | | | |
|---|---|---|---|---|---|---|
| Individual with: | Phased-In Rate | Phased-Out Rate | Minmum ADI for Maximum Credit | ADI were Credit Begins to be Phased-Out | Maximum Credit | ADI were Credit Phased-out |
| 0 Children | 7.65% | 7.65% | $6,550 | $8,250 | $503 | $14,800 |
| 1 Child | 34% | 16% | $9,850 | $18,150 | $3,359 | $39,100 |
| 2 Children | 40% | 21% | $13,850 | $18,150 | $5,548 | $44,400 |
| 3 or more Children | 45% | 21% | $13,850 | $18,150 | $6,242 | $44,450 |
| Married Filing Jointly | | | | | | |
| 0 Children | 7.65% | 7.68% | $6,550 | $13,750 | $503 | $20,330 |
| 1 Child | 34% | 15.98% | $9,850 | $23,650 | $3,359 | $44,650 |
| 2 Children | 40% | 21.06% | $13,850 | $23,650 | $5,548 | $49,974 |
| 3 or more Children | 45% | 21.06% | $13,850 | $23,650 | $6,242 | $53,268 |
| Source: Earned Income Credit (EIC) 2015 Returns, IRS-Publication 596 | | | | | | |
| *The PUMS' household income data was assumed to measure the earnings of the households in the analysis. In terms of IRS terminology, household earnings are equivalent to adjusted income (ADI) for computation of the EITC. | | | | | | |

Table 7
Federal Estimated EITC for Arkansas 2015

| Single, Head of Household, of Qualified Widow(er) | | | | |
|---|---|---|---|---|
| # of Children in Household | Total Credits Phase In | Total Credits Maxmum Credit Phase | Total Credits Phase Out | Single Filers Total Credits |
| 0 Children | $5,960,424 | $5,006,862 | $23,375,555 | $34,342,841 |
| 1 Child | $11,713,401 | $34,305,467 | $34,595,557 | $80,614,425 |
| 2 Children | $24,511,124 | $7,966,928 | $44,191,565 | $76,669,617 |
| 3 or more Children | $20,766,771 | $8,963,512 | $30,690,880 | $60,421,163 |
| Single, Total EITC | $62,951,720 | $56,242,769 | $132,853,557 | $252,048,047 |
| Married Filing Jointly | | | | |
| # of Children in Household | Total Credits Phase In | Total Credits Maxmum Credit Phase | Total Credits Phase Out | Married Filers Totla Credits |
| 0 Children | $612,849 | $4,397,226 | $3,596,972 | $8,607,048 |
| 1 Child | $2,511,830 | $104,165,949 | $122,100,762 | $228,778,541 |
| 2 Children | $3,289,864 | $28,940,259 | $43,471,864 | $75,701,987 |
| 3 or more Children | $3,613,419 | $21,924,401 | $60,495,632 | $86,033,452 |
| Married, Total EITC | $10,027,962 | $159,427,835 | $229,665,230 | $399,121,027 |
| Estimate of Total Federal Earned Income Tax Credits | | | | $651,169,074 |
| Income Data for Estimate from U.S. Census, PUMS 2015. | | | | |

From Table 7, the $252 million of earn tax credits estimated for single filers are approximately 39% of the total estimated credits. Single filers received the majority of estimated credits in the phase-in income ranges. Married filers received $399 million in credits with the majority of these credits (61%) being received by married couples with adjusted gross income in the phase-out region of earnings. Total estimated federal credits using the 2015 PUMS data for Arkansas approaches $651.2 million credits.

The next step in the analysis is to apply the HB1344 rates to the federal EITC rates to derive an estimate of the state level earned income tax credits. Table 8 contains the results from this application. The refundable credit rate estimate was from the IRS SOI data for 2014. In a comparison of EITC estimates in Table 4 and Table 8, the PUMS data are 17% lower than those derived using the SOI data. One explanation for this difference is an undercount of the number of households. The US Census Bureau's American Community Survey (ACS) reports 1,347,598 households in Arkansas for 2015 in instead of the 1,114,530 observation that were usable in PUMS database.[25] Adjusting the PUMS credit estimate for this undercount results in a new estimate of federal credits of $766 million which is within 4% of the 2014 IRS SOI estimate. Applying the refundable tax credit rate to the adjusted estimates of EITC yields a new estimate of refundable credits of $678 million. The last step is to recalculate the annual estimates of refundable EITC for 2016-2018 using the proposed HB 1344. These new annual estimates are very close to those derived from IRS SOI database for 2014.

The estimates of Arkansas' EITC are also estimates of the direct fiscal impacts on state tax revenues. Awarding EITC is equivalent to foregoing tax revenues. Hence, EITC not only represent cash transfers but also foregone tax revenues. Refunded EITC to taxpayers add to their disposable personal incomes. When taxpayers spend this additional income, the spending generates additional tax revenues. That is, there are indirect tax revenues created by the spending associated with awarding refundable EITC.

[25] American Fact Finder, US Census Bureau, https://www.census.gov/acs/www/data/data-tables-and-tools/american-factfinder/

Table 8
Estimates of EITC for House Bill 1344 Derived From Arkansas' PUMS Data
2015

| | | | |
|---|---|---|---|
| **Federal EITC Estimates** | | | |
| EITC Federal (PUMS Data) | $651,169,074 | | |
| Refund Rate (SOI 2014) | 88.42% | | |
| Federal Refundable Credits | $575,759,524 | | |
| **Arkansas HB 1344** | | | |
| AR EITC Rates | 2016 | 2017 | 2018 |
| Proposed EITC Rates | 1.25% | 2.5% | 5.0% |
| EITC for HB1344 | $8,139,613 | $16,279,227 | $32,558,454 |
| Refundable AR EITC | $7,196,994 | $14,393,988 | $28,787,976 |
| **Housing Adjustment** | | | |
| American Community Survey # Housing Units AR | 1,347,598 | | |
| PUMS Housing Units | 1,144,530 | | |
| | | | |
| EITC Estimated using PUMS Data | 651,169,074 | | |
| EITC Estimate Per Household | 569 | | |
| | | | |
| Adjusted Federal EITC Estimate for Housing Undercount | | | |
| EITC per Hosuehold*ACS Housi | $766,702,613 | | |
| Federal Refundable Tax Credits | $677,913,539 | | |
| Adjustment Factor for Housing | 17.74% | | |
| **AR EITC Estimates** | | | |
| AR HB 1344 EITC | 2016 | 2017 | 2018 |
| Proposed EITC Rates | 1.25% | 2.5% | 5.0% |
| EITC for HB1344 | $9,583,783 | $19,167,565 | $38,335,131 |
| Refundable AR EITC | $8,473,919 | $16,947,838 | $33,895,677 |

## Economic Consequences of the Refunded EITCs

An EITC program like HB 1344 will have both short term and long-term consequences. In the short term, there are the direct economic impacts associated with the receipt of the refundable tax credits. The refunded credits represent a change in tax filers' disposable personal income. The tax filers may choose to spend this additional income or save a portion. Presumably, families and individual that receive the credits and refunds have low income, and they will opt to consume the disposable income rather than save a portion. This is the assumption made in this study.

EITC have state budgetary impacts associated with the foregone tax revenues. Due to Arkansas balanced budget rule, the lost tax revenues must be offset by some combination of either raising taxes, reducing government spending elsewhere, or issuing debt. Although in the case of refunded EITC, the spending supported by the refunded credits generates tax revenues they will not be sufficient to offset the tax revenue losses associated with awarded credits. The final section of the study quantifies the fiscal effects of the EITC program.

There are long-term behavior responses of the EITC recipients. As noted previously in this paper, empirical evidence at the federal level suggest that labor force participation of low income tax filers are enhanced, but higher income recipients appear to have a tendency to reduce work efforts. These long-term behavior responses are not addressed in this study.

Economic Impacts of the Refundable EITC

To analyze the economic impacts of the refundable EITC and to quantify their fiscal impacts, the study used an Implan Model for Arkansas in 2012.[26] EITC refunds were assumed to continue annually and tax filers receiving the credits used the additional disposable personal income (DPI) to support additional personal consumption expenditures (PCE).[27] Implan's PCE varies by income groups but the groups did not match those of the EITC parameters. This necessitated regrouping the refundable tax credit estimates into appropriate income groups. Data in Table 9 shows these regroupings of refunded EITC. The DPI data in Table 9 is incorporates the adjustments associated with the housing undercount.

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[26] Implan, Huntersville, NC, implan.com

[27] Whether EITC recipients perceive EITC refunds as a temporary or permanent may affect how they spend their refunds and how they affect the economy. Tax filers who perceive refunds as a temporary boost to disposable personal income may spend the funds in ways that do not have lasting effects. In that case the influence of the EITC will be short lived. On the other hand, spending of tax filers who perceive EITC as a permanent addition to disposable personal income may have a more lasting influence in the economy, and have the full weight of the expenditures multipliers realized in the economy. This study presumed a more permanent nature to the spending allowing for the full weight of the expenditure multipliers.

Table 9
Refundable EITC 2018
Implan Model Analysis

| Refundable EITC Estimates 2018 | |
|---|---|
| Implan Model Ananlysis | |
| Income Groups | Refundable EITC |
| $1 under $10000 | $3,279,537 |
| $10000 under $15000 | $5,064,794 |
| $15000 under $25000 | $11,881,934 |
| $25000 under$35000 | $10,062,446 |
| $35000 under $50000 | $3,544,001 |
| $50000 under $75000 | $62,966 |
| Total Disposable Personal Income | $33,895,677 |

In this impact analysis, refunded EITC adds to DPI that in turn supports new levels of PCE for those awarded the credits. In the terminology of economic impact analysis, the additional DPI and associated PCE are the direct effects of the EITC program. In turn, this additional PCE supports indirect and induced economic impacts. The indirect impacts are those associated with spending by industries stemming from the inter-industry expenditures that are necessary to meet the new demands associated with the new levels of PCE. Induced economic impacts are associated with the spending generated from the additional income that is a consequence for the indirect spending rippling throughout the economy. As noted earlier this spending generates additional tax revenues that are part of the fiscal effects of the EITC program.

Thus, the analysis looks at the economic impact of an EITC program as a change in the tax filer's DPI. The study assumes tax filers perceive EITC as permanent and allocate the additional DPI to support additional permanent PCE. The PCE expenditures are in fact an increase in the final demand in the economy, and industries response by increasing production (indirect effects) and creating additional earnings (induced effects). An increase in the number and value of economic transactions generates induced fiscal effects that offset some of the lost tax revenues due to EITC program.[28]

In Table 10 the findings from the economic impact analysis associated with a HB1344 in year 2018 (5% rate) are summarized. There several measures that quantified the economic impacts. The sales measure estimates the total revenue or value of all sales in Arkansas that are a

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[28] This analysis is an unconstrained economic impact study. That is, there is no accounting for how the state obtains funding for the refundable credits. As noted previously, to refund credits (cash) the state must either raise taxes, cut expenditures, or issue debt. This analysis does not account for the consequences of these fiscal actions. Consequently, these estimates of economic impacts are maximum estimates of the consequences of the refunded credits because they are not constrained by the fiscal budgeting considerations.

consequence for the EITC. In this case and after accounting for PCE spent outside the state, the $33 million of PCE (refunded EITC) contributes $50 million in total sales (revenues) to the state economy. (A sales or output multiplier approaching 1.5 that means for one dollar of PCE sales in the economy increase by $1.50).

Table 10
EITC Program HB 1344
Economic and Fiscal Impact Summary Estimates
Tax Year 2018

| Impact Measures | Direct Effect | Indirect Effect | Induced Effect | Total Effect |
|---|---|---|---|---|
| Sales | $33,000,295 | $8,645,511 | $8,220,077 | $49,865,883 |
| Additional GDP | $17,711,098 | $4,666,265 | $4,781,443 | $27,158,806 |
| Income | $9,568,737 | $2,800,361 | $2,656,606 | $15,025,704 |
| Jobs | 239.1 | 59.8 | 63.2 | 362.2 |
| Impact of One Dollar of PCE | | | | |
| Sales | 1.00 | 0.26 | 0.25 | 1.51 |
| Additional GDP | 0.54 | 0.14 | 0.14 | 0.82 |
| Income | 0.29 | 0.08 | 0.08 | 0.46 |
| Jobs ($Million of PCE) | 7.25 | 1.81 | 1.92 | 10.98 |
| Fiscal Impacts | | | | |
| Total State and Local Tax Estimates | | | | |
| Employee Compensation | $31,693 | | | |
| Business Taxes and Fees | $2,609,795 | | | |
| Household Taxes | $373,418 | | | |
| Corporation Taxes | $112,539 | | | |
| Total | $3,127,445 | | | |

The additional GDP is the measure of new economic activity created by the EITC. It is a measure of the total earnings created by the EITC (wages, salaries, proprietor's incomes, rents, interest payment, profits and indirect business taxes). In this scenario, the PCE of $33 million adds directly to the State's GDP $17.7 million in new economic activity and then creates additional indirect and induced spending that adds $27 million to the State's GDP. (One dollar of change in the PCE adds 54 cents of new economic activity directly and in total 82 cents accounting for the indirect and induced effect)

Incomes equal the sum the wages, salaries, and proprietor incomes are also impacted by the EITC program. The $33 million in PCE supported by EITC generates $9.5 million additional income in the state directly and overall $15 million additional income. (For income, the one dollar of change in the PCE adds 28 cents of new income directly and in total 46 cents accounting for the indirect and induced effect).

Spending associated with an EITC program support full time and part time employment. The direct jobs estimate is 239 jobs and total job estimated is at 362 jobs. (Thus, for every million dollar of PCE supported by an EITC program, direct jobs support would approach 7.25 direct jobs and total jobs would approach 11 jobs)

The Implan model also provides estimates of the tax revenues impacts to state and local governments. Table 11 shows these estimates. The model provides estimates based on the amount of employee compensation that is essentially retirement funds, estimates of the indirect business tax and fees associated with production and imports, household, and corporate income taxes. According to the Implan Model, this EITC program would induce a $3.1 million increase in state and local tax revenues. The foregone tax revenues estimate for HB 1344 in 2018 is $38.3 million. Induced tax revenue of $3.1 million will partially offset this lose. EITC of the magnitude of HB 1344 creates a short fall in the state budget approaching $35 million.

**Conclusion**

An EITC program has many desirable characteristics as a means of assisting the working poor. It is administratively feasible and linked to existing state and federal tax systems. Administratively, a state EITC program adds a credit to a federal credit. From a taxpayer view, it is one more computation on the state income tax form. It is a targeted program directed at those that have earnings and varies regarding to marriage status and family size. Research suggests that an EITC may improve the labor force participation and provide low wage mothers an opportunity to afford more childcare and join the labor force.

Costs and potential fraud are two significant concerns for EITC program. Both federal and state EITC programs are spending programs. Federal and state programs forego taxes receipts reducing individual tax burdens and providing individual cash assistances. There are also concerns over compliance costs. Administrators who are responsible for finding tax fraud will have a new twist in their enforcement policy. Instead of an emphasis on people understating income, they will also have to focus on people overstating income. There are also incentives to misrepresent family relationships and the number of children to game the system. Compliance costs to tax revenue administers are likely to rise.

# APPENDICES

Appendix 1: Federal Earned Income Tax Credit Parameters: 1994-2016

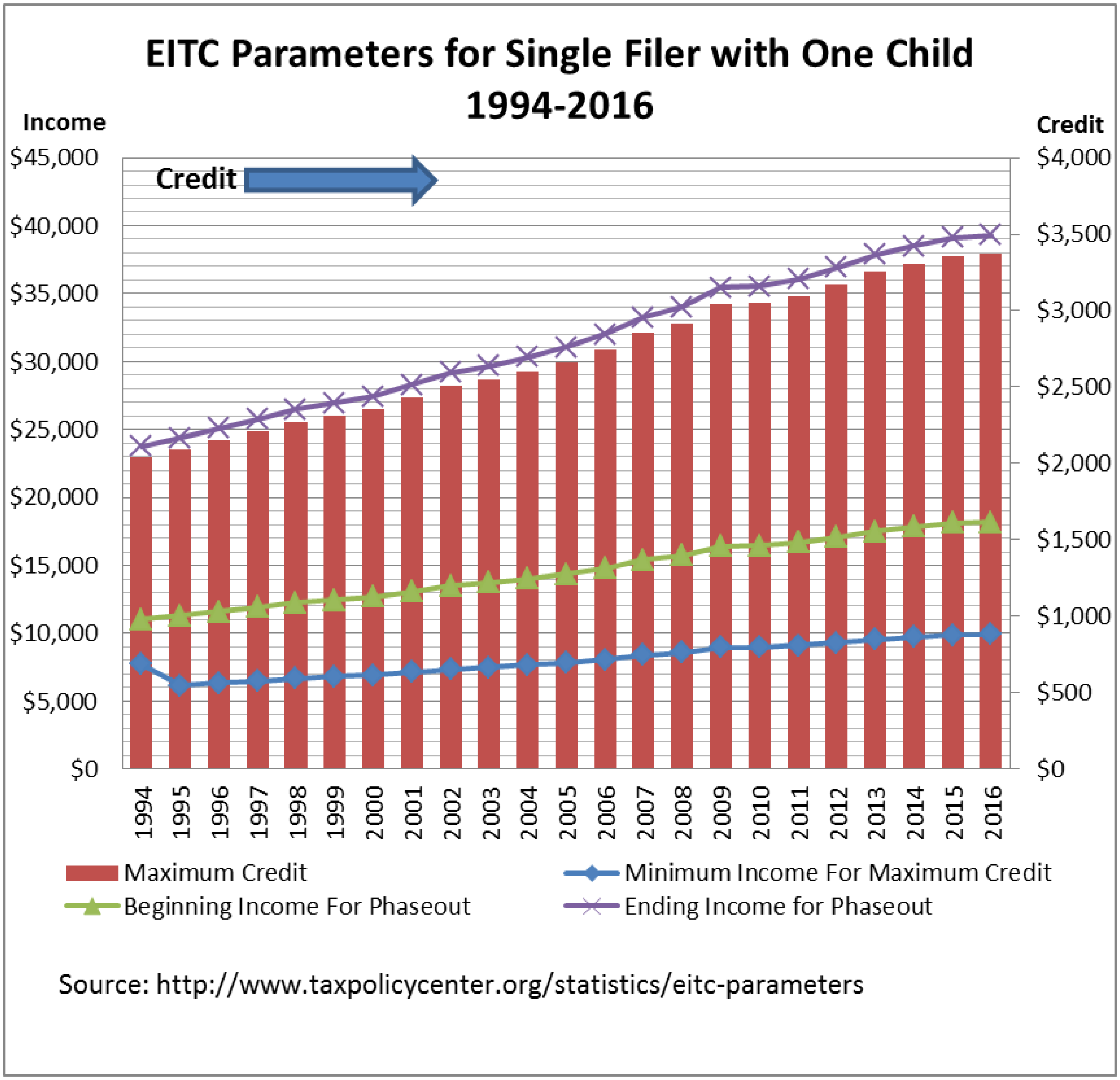
Appendix 2: Arkansas Individual Income Tax Data: Earned Income Tax Credit Number of Returns and Amount of Refundable Credits

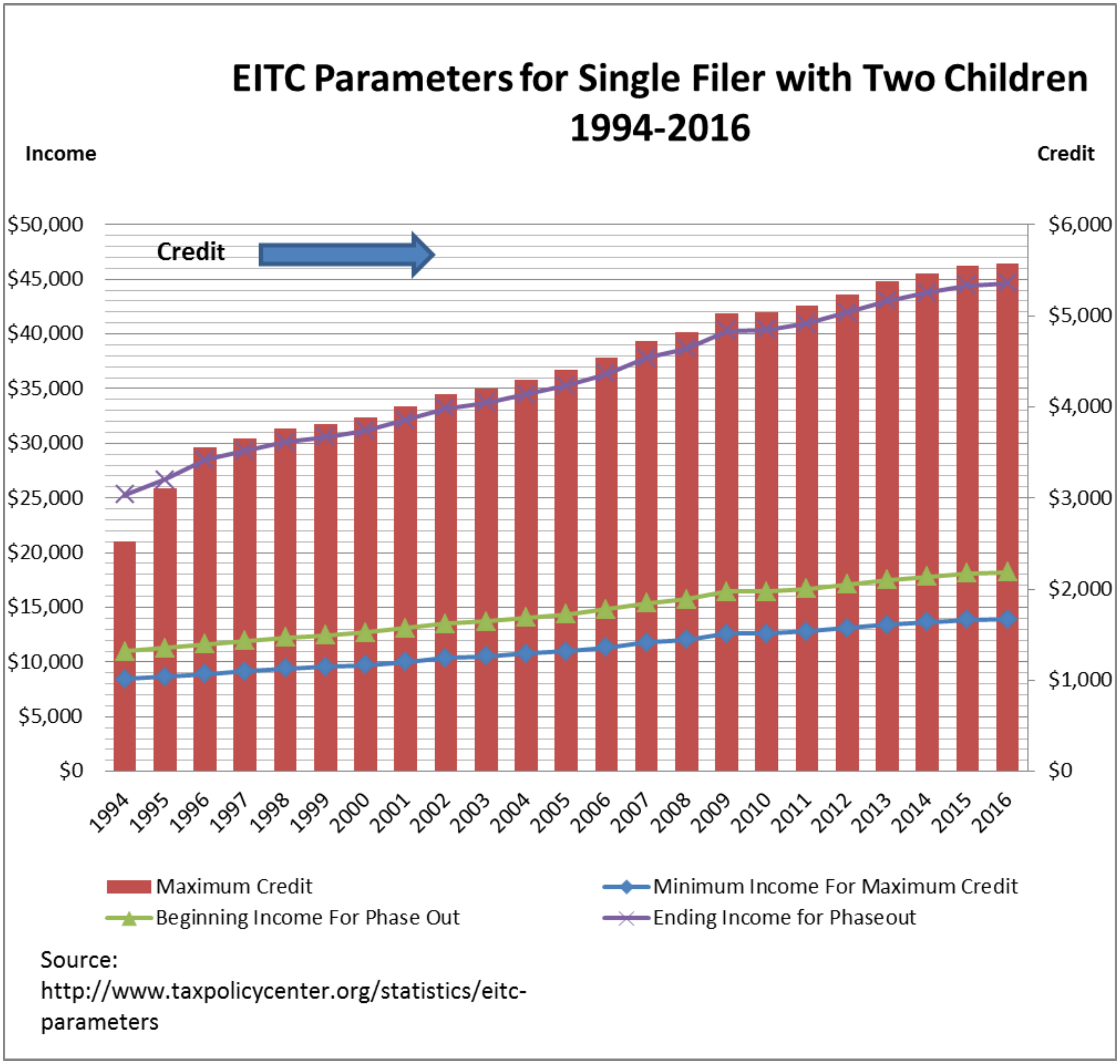
Appendix 3: Statistics on the Ratio of Federal Earned Income Tax Credit to Personal Income in Arkansas by County: Selected Years

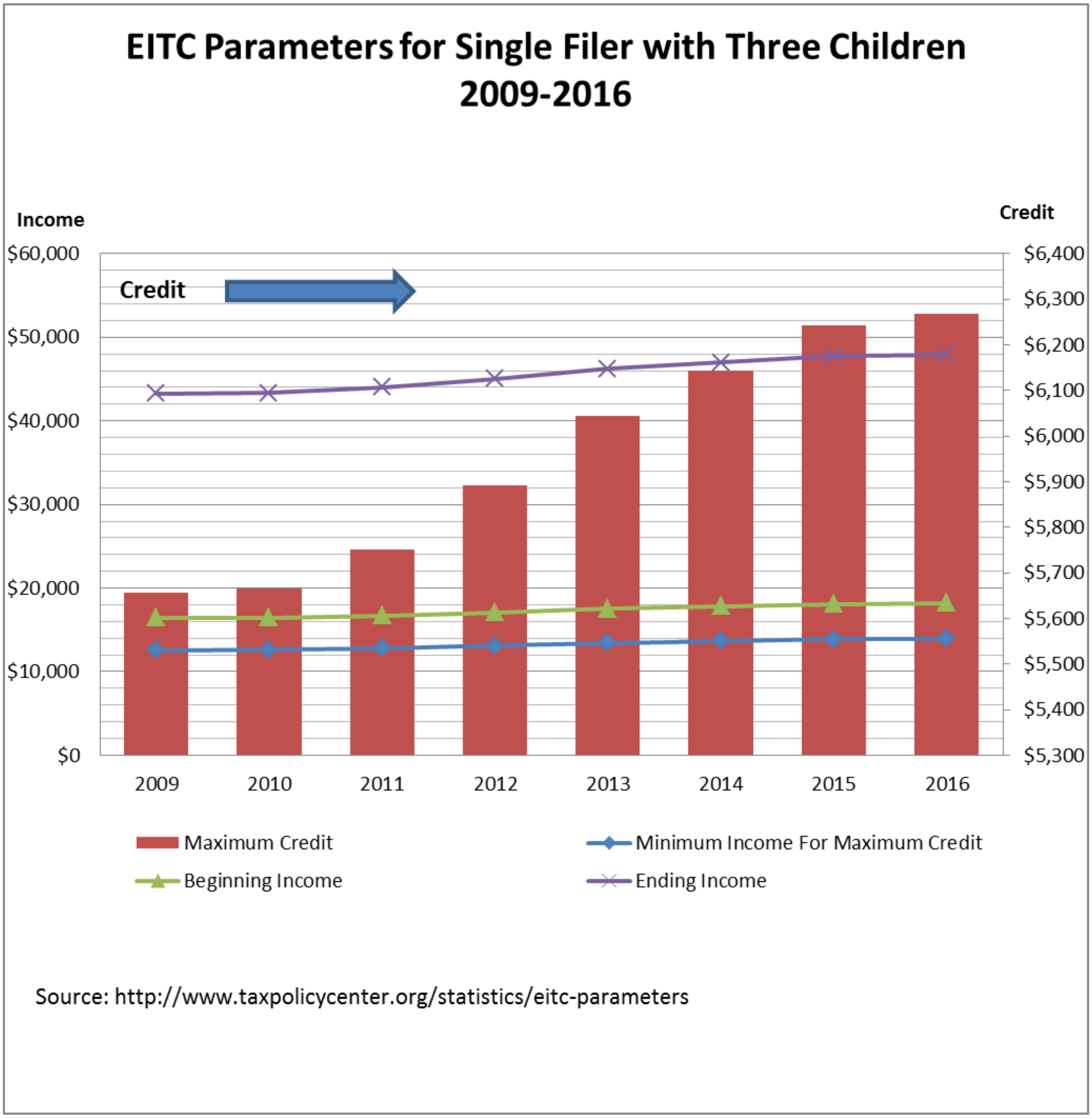
Appendix 4: Earned Income Tax Parameters 2016

Appendix 1

Federal Earned Income Tax Credit Parameters




EITC Parameters for Single Filer with Two Children
1994-2016
Income
Credit
$50,000
$45,000
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
Credit
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Maximum Credit
Minimum Income For Maximum Credit
Beginning Income For Phase Out
Ending Income for Phaseout
Source:
http://www.taxpolicycenter.org/statistics/eitc-parameters


EITC Parameters for Single Filer with Three Children
2009-2016
Income
Credit
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$6,400
$6,300
$6,200
$6,100
$6,000
$5,900
$5,800
$5,700
$5,600
$5,500
$5,400
$5,300
Credit
2009
2010
2011
2012
2013
2014
2015
2016
Maximum Credit
Minimum Income For Maximum Credit
Beginning Income
Ending Income
Source: http://www.taxpolicycenter.org/statistics/eitc-parameters

# Appendix 2

## Arkansas Individual Income Tax Data: Earned Income Tax Credit
## Number of Returns and Amount of Refundable Credits

| All Returns | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Earned income credit: [7] Number | 303,618 | 301,909 | 320,832 | 318,275 | 318,547 | 312,090 | 314,740 | 310,300 |
| Amount ($000) | $637,797 | $655,575 | $746,384 | $741,234 | $759,930 | $764,025 | $789,317 | $794,507 |
| Excess earned income credit (refundable): [8] Number | 271,945 | 271,092 | 288,131 | 284,491 | 285,907 | 279,420 | 281,030 | 275,070 |
| Amount | $572,311 | $589,003 | $670,646 | $662,060 | $683,962 | $687,646 | $703,293 | $702,498 |
| **Under $50,000** | | | | | | | | |
| Earned income credit: [7] (%) | 303,618 | 301,909 | 320,832 | 318,275 | 318,547 | 312,010 | 314,130 | 309,420 |
| Amount | $637,797 | $655,575 | $746,384 | $741,234 | $759,930 | $764,023 | $789,215 | $794,282 |
| Excess earned income credit (refundable): [8] (%) | 271,945 | 271,092 | 288,131 | 284,491 | 285,907 | 279,370 | 280,560 | 274,420 |
| Amount ($000) | $572,311.0 | $589,003.0 | $670,646.0 | $662,060.0 | $683,962.0 | $687,644.0 | $703,216.0 | $702,341.0 |
| **$50,000 under $75,000** | | | | | | | | |
| Earned income credit: [7] Number | 0 | 0 | 0 | 0 | 0 | 80 | 610 | 880 |
| Amount | 0 | 0 | 0 | 0 | 0 | 2 | 102 | 225 |
| Excess earned income credit (refundable): [8] Number | 0 | 0 | 0 | 0 | 0 | 50 | 470 | 650 |
| Amount ($000) | 0 | 0 | 0 | 0 | 0 | 2 | 77 | 157 |
| **All Returns: Annual Percentge Change** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** |
| Earned income credit: [7] (%) | | -0.56% | 6.27% | -0.80% | 0.09% | -2.03% | 0.85% | -1.41% |
| Amount (%) | | 2.79% | 13.85% | -0.69% | 2.52% | 0.54% | 3.31% | 0.66% |
| Excess earned income credit (refundable): [8] (%) | | -0.31% | 6.29% | -1.26% | 0.50% | -2.27% | 0.58% | -2.12% |
| Amount (%) | | 2.92% | 13.86% | -1.28% | 3.31% | 0.54% | 2.28% | -0.11% |

[7] "Total statutory adjustments" represents the summation of theindividual adjustments to income reported on Form 1040.

[8]The components are overstated in relation to the total because inprior years (2009 and earlier) there was a statutory limitation on the total of itemized deductions that could be claimed by certain high-income taxpayers. This limitation did not affect the component deductions, the sum of which therefore exceeded the total used incomputing income tax.

Data Source: Statistic on Income, IRS, https://www.irs.gov/uac/soi-tax-stats-individual-income-tax-return-form-1040-statistics

Appendix 3

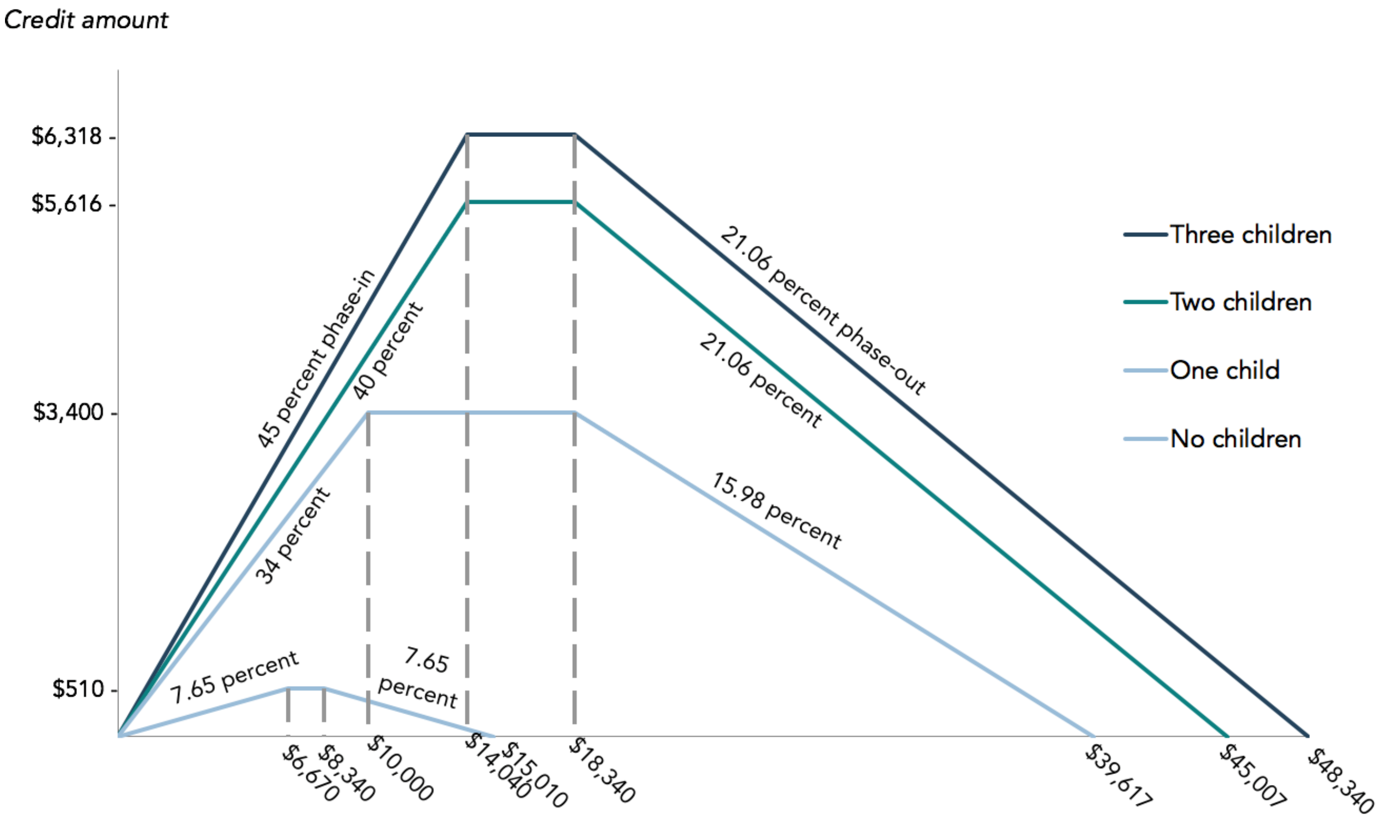
Federal Earned Income Tax Credit in Arkansas by County
Selected Years

| Characteristics of the Ratio of Earned Income Tax Credit to Personal Income (%) for Counties in Arkansas Selected Years | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1985 | 1990 | 1995 | 2000 | 2005 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Average of County's Ratio of EITC to PI (%) | 0.24% | 0.13% | 0.37% | 0.75% | 0.87% | 0.88% | 1.03% | 0.97% | 0.93% | 0.92% | 0.93% |
| Median of County Ratio of EITC to PI (%) | 0.23% | 0.12% | 0.34% | 0.73% | 0.83% | 0.84% | 0.99% | 0.94% | 0.89% | 0.88% | 0.88% |
| Range of County's Ratios of EITC to PI (%) | 0.59% | 0.30% | 0.77% | 1.30% | 1.61% | 1.52% | 1.54% | 1.54% | 1.52% | 1.39% | 1.50% |
| Maximun Average County Ratio | 0.67% | 0.34% | 0.91% | 1.62% | 1.94% | 1.81% | 1.91% | 1.86% | 1.80% | 1.68% | 1.79% |
| Minmum Average County Ratio | 0.07% | 0.04% | 0.13% | 0.32% | 0.33% | 0.29% | 0.38% | 0.32% | 0.28% | 0.29% | 0.29% |
| County with Maximum Ratio | Lee | Lee | Lee | Phillips | Phillips | Phillips | Phillips | Phillips | St. Francis | St. Francis | St. Francis |
| County with Minmum Ratio | Saline | Saline | Saline | Saline | Benton | Benton | Benton | Benton | Benton | Benton | Benton |
| All Years | | | | | | | | | | | |
| Average County Ratio Over this Time Period | 0.73% | | | | | | | | | | |
| Median County Ratio of EITC to PI (%) | 0.69% | | | | | | | | | | |
| Range County Averages | 1.18% | | | | | | | | | | |
| Maximun Average County Ratio | 1.43% | Phillips | | | | | | | | | |
| Minmum Average County Ratio | 0.25% | Benton | | | | | | | | | |
| Data Source: Bureau of Economic Analysis, U.S. Department of Commerce | | | | | | | | | | | |

This table shows several statistics describing the ratio of earned income credit to personal income levels for Arkansas counties. This ratio indicates how much of a county's personal income can be attributed to a cash transfer tied to the federal EITC. Although the cash transfer is a small part of a county's personal income, its share has growing as the federal program has expanded. There has been a steady increase in the average county ratio since 1985, and it is now approaching 1%. Phillips County had the maximum average county ratio whereas Benton County had the lowest over this period. The average ratio for all counties over the 24-year period was 0.73%, and the median ratio was 0.69%.

Appendix 4

Earned Income Tax Parameters 2016




**Source:** Tax Policy Center.
**Note:** Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income $5,590 higher than shown.

Image Source: Tax Policy Center: http://www.taxpolicycenter.org/briefing-book/what-earned-income-tax-credit-eitc