



## A State Earned Income Tax Credit for Kentucky

A state Earned Income Tax Credit (EITC) would provide tax relief to hard-working, low-income families, helping them close the gap between what they earn and what they need to make ends meet. A state EITC, piggybacking on the federal EITC, would help families and put millions of dollars back into the local economy. In tax year 2004, one of every five Kentucky households claimed the federal EITC, returning almost \$600 million to low-wage earners. Twenty-two states plus the District of Columbia have enacted state EITCs, including Illinois, Indiana, Iowa, Kansas, Louisiana and North Carolina. It is time for Kentucky to follow their lead and enact a state EITC.

- **A State EITC Can Make a Significant Difference for Hard-Working Families.** The National Center for Children in Poverty found that the federal EITC reduces child poverty for young children by nearly 25 percent – more than any other government program. A state EITC builds on the benefits of the federal EITC.
- **The EITC Has a History of Bipartisan Support.** Enacted in 1975 under President Ford, and expanded under Presidents Reagan, Bush and Clinton, the federal EITC is supported by policy makers on both sides of the aisle. President Reagan called the EITC “the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.” State EITCs have been enacted by both Democratic and Republican governors and legislatures.
- **The EITC Stimulates the Local Economy.** Working families use the EITC refund to pay off debt, finance transportation to work, invest in education, and buy basic necessities. Dollars spent in the local community provide an economic stimulus to Kentucky and our communities.
- **The EITC Provides a Vehicle to Build Assets.** Many working families use their EITC refund as a first step to build assets, financial security and long-term wealth.
- **The EITC is Easy to Administer.** A state EITC simply piggybacks on the federal EITC. A state EITC would provide low-income working families with a refund equal to a percentage of their federal EITC return, even if they don't owe state income taxes. An addition of one line to the state income tax form is all that is needed to implement the state EITC.
- **Who Would Benefit From a State EITC In Kentucky?** Working families with incomes of up to \$35,241 with one child and up to \$39,783 with two or more children qualify for the federal EITC, which is the same threshold for a state EITC. Most beneficiary families (69 percent) earn less than \$20,000 per year; working families with incomes between \$11,500 and \$16,000 benefit the most. About twenty percent of Kentucky tax filers claim the federal EITC. The average federal credit in Kentucky is \$1,776. Working Kentucky families throughout the state would benefit from the EITC.
- **How Much Would a State EITC Cost the State of Kentucky?** For every five percent of refundable EITC, about \$30 million in tax credits would be available to low-income working families in Kentucky annually.