

# Tax Credits: Earned Income Tax Credit (EITC)

## Definition

The *Earned Income Tax Credit* is the number and percent of all federal tax filers who filed for the credit.

## Data in context

The federal Earned Income Tax Credit (EITC), instituted in 1975, has a 30-year track record of supplementing the earnings of low-income working families. Experts credit it as the federal program that has been most responsible for lifting children out of poverty in the United States. The EITC also increases employment among single parents, reduces welfare dependency, and reduces family poverty.<sup>1</sup>

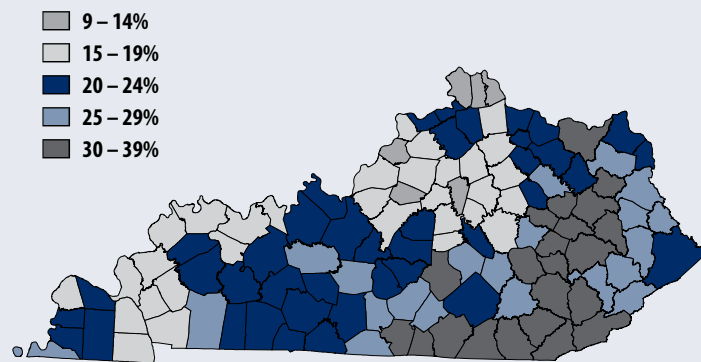
The federal EITC lifted 4.4 million people out of poverty in 2003, including 2.4 million children.<sup>2</sup> Without the EITC, the poverty rate among American children would be one-fourth higher.<sup>3</sup> Yet information gaps exist by race, with fewer Black and Hispanic families knowing about the EITC,<sup>4</sup> likely reducing the percent of children of color benefiting from the credit. Targeted outreach to communities of color could ensure all low-income working families benefit from the EITC.

Recipients with higher incomes are more likely to apply their EITC toward longer-term investments that help them build assets, including education, housing improvements, or savings; though many families use the refunds on housing, groceries, child care, transportation, and health care costs.<sup>5</sup> According to the Internal Revenue Service, 97 percent of the tax credit is spent in the recipients' local communities.<sup>6</sup>

The federal EITC is a refundable tax credit, meaning that if the value of the credit exceeds the tax filer's tax liability, the taxpayer receives the difference between the two amounts. The refundable nature of the credit helps offset other taxes that low-income workers pay, such as payroll or sales taxes.

The EITC returns money directly to low-income

EITC Filers as a Percentage of All Filers by County, 2005



Source: The Brookings Institution, EITC Interactive Website.

Kentuckians, supplementing low wages. The total value of federal EITC claims by Kentucky taxpayers was \$635 million for tax year 2005.<sup>7</sup> The average EITC value for a Kentucky taxpayer was \$1,731 in tax year 2003, \$1,775 in tax year 2004, and \$1,821 in tax year 2005. The average and total value of the federal EITC in Kentucky continues to increase each year as more filers qualify and take advantage of the credit.

Of 1.74 million federal tax returns filed by Kentuckians in tax year 2005, 20 percent included an EITC claim. In all, 345,000 Kentucky tax filers received the EITC, and many more children and spouses benefited from the credit.

While about 20 percent of federal tax filers in Kentucky received the federal EITC, the proportion of EITC recipients varied from county to county. In 2005, 21 Kentucky counties had 30 percent or more of tax filers receiving the EITC, with a high of 39 percent in McCreary County. The rate of EITC returns was less than 15 percent in just 10 counties. Even in Oldham County, the state's wealthiest, nearly one in ten filers claimed the federal EITC.

Several states have instituted a state-level, refundable EITC to further help working families meet basic needs and increase their opportunity to build assets to help weather financial challenges.<sup>8</sup> A refundable state EITC in Kentucky would begin paying benefits quickly – with little administrative cost and without requiring the creation of more governmental infrastructure. Implementing an EITC in Kentucky would give thousands of low-income working families additional funds to address their immediate needs and, for some, a few extra dollars to save for achieving long-term financial stability.

**Data Source:** The Brookings Institution, EITC Interactive website.  
**Rate Calculation:** (number of filers claiming EITC in 2000 / total number of federal tax filers in 2000)  
(number of filers claiming EITC in 2005 / total number of federal tax filers in 2005)

- 1 Greenstein, R. (2005). *The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor*. Center on Budget and Policy Priorities. Available at <http://www.cbpp.org>. Accessed September 2008.
- 2 Ibid.
- 3 Ibid.
- 4 Maag, E. (2005). *Disparities in Knowledge of the EITC*. Tax Policy Center. Available at <http://www.taxpolicycenter.org>. Accessed September 2008.
- 5 Smeeding, T., Phillips, K., and O'Connor, M. (2002). "The Earned Income Tax Credit: Expectation, Knowledge, Use, and Economic and Social Mobility," In B. D. Meyer and D. Holtz-Eakin (Eds.), *Making Work Pay: The Earned Income Tax Credit and Its Impact on America's Families*. New York: Russell Sage Foundation Publications.
- 6 Cunningham Group Consultants (2008). *The Federal Earned Income Tax Credit, Impact Analysis Report: Tax Year 2006*.
- 7 Center on Budget and Policy Priorities. *EITC Participation for Tax Year 2005 and 2004*. Available at <http://www.cbpp.org>. Accessed September 2008.
- 8 Smeeding, T., Phillips, K., and O'Connor, M. (2002). "The Earned Income Tax Credit: Expectation, Knowledge, Use, and Economic and Social Mobility," In B. D. Meyer and D. Holtz-Eakin (Eds.), *Making Work Pay: The Earned Income Tax Credit and Its Impact on America's Families*. New York: Russell Sage Foundation Publications.

## Earned Income Tax Credit returns (number & percent of all filers)

	2000		2005	
	Total EITC returns	Percent of all filers	Total EITC returns	Percent of all filers
Kentucky	296,297	17	345,336	20
Adair	1,598	26	1,831	28
Allen	1,341	19	1,685	23
Anderson	1,051	13	1,426	16
Ballard	547	16	649	19
Barren	2,927	18	3,717	22
Bath	1,064	25	1,189	26
Bell	3,010	31	3,142	33
Boone	3,736	9	5,277	11
Bourbon	1,400	17	1,584	19
Boyd	3,531	17	3,949	20
Boyle	1,891	16	2,225	19
Bracken	728	19	821	22
Breathitt	1,423	30	1,540	33
Breckinridge	1,542	19	1,777	22
Bullitt	3,771	13	4,895	16
Butler	1,049	21	1,119	23
Caldwell	1,003	18	1,078	20
Calloway	2,038	15	2,624	19
Campbell	4,660	11	5,244	13
Carlisle	395	18	452	21
Carroll	903	20	1,001	22
Carter	2,653	24	3,091	28
Casey	1,591	26	1,765	30
Christian	6,140	20	8,184	29
Clark	2,297	16	2,672	18
Clay	2,159	32	2,239	35
Clinton	1,087	30	1,170	32
Crittenden	586	16	685	19
Cumberland	718	28	727	29
Daviess	6,098	15	7,298	18
Edmonson	1,000	21	1,153	24
Elliott	456	28	487	31
Estill	1,351	24	1,521	28
Fayette	14,797	13	17,962	15
Fleming	1,342	23	1,446	24
Floyd	3,951	27	3,904	28
Franklin	3,009	13	3,740	16
Fulton	708	24	755	28
Gallatin	525	18	701	20
Garrard	1,129	19	1,368	21

	2000		2005	
	Total EITC returns	Percent of all filers	Total EITC returns	Percent of all filers
Grant	1,861	17	2,145	21
Graves	2,746	18	3,151	21
Grayson	2,028	22	2,332	25
Green	963	22	1,071	25
Greenup	2,651	18	3,080	21
Hancock	487	13	526	15
Hardin	6,548	16	8,245	20
Harlan	3,008	30	3,014	31
Harrison	1,299	16	1,506	19
Hart	1,633	24	1,788	26
Henderson	3,179	16	3,567	18
Henry	1,096	16	1,275	19
Hickman	402	20	368	21
Hopkins	3,717	19	3,918	20
Jackson	1,438	31	1,449	31
Jefferson	50,883	15	59,243	18
Jessamine	2,663	16	3,340	19
Johnson	1,953	26	2,178	27
Kenton	8,323	12	10,349	14
Knott	1,312	28	1,384	28
Knox	3,539	30	5,359	32
LaRue	985	18	1,204	21
Laurel	4,876	24	5,544	26
Lawrence	1,434	27	1,425	27
Lee	703	30	705	31
Leslie	1,131	30	1,158	30
Letcher	2,147	27	2,154	26
Lewis	1,410	29	1,629	33
Lincoln	1,988	22	2,447	26
Livingston	737	18	777	19
Logan	1,986	18	2,318	22
Lyon	429	14	493	16
McCracken	4,759	16	5,611	19
McCreary	1,994	37	2,005	39
McLean	711	18	765	19
Madison	4,737	17	5,804	19
Magoffin	1,261	31	1,352	33
Marion	1,492	20	1,621	22
Marshall	1,866	14	2,112	16
Martin	1,070	29	1,030	29
Mason	1,390	19	1,541	22

	2000		2005	
	Total EITC returns	Percent of all filers	Total EITC returns	Percent of all filers
Meade	1,837	16	2,281	20
Menifee	589	27	665	30
Mercer	1,414	15	1,714	18
Metcalfe	1,034	26	1,171	29
Monroe	1,056	24	1,157	27
Montgomery	1,935	20	2,358	23
Morgan	1,251	28	1,341	30
Muhlenberg	2,489	20	2,840	23
Nelson	2,644	15	3,342	18
Nicholas	556	19	599	22
Ohio	1,818	20	2,148	23
Oldham	1,466	7	2,027	9
Owen	621	19	765	21
Owsley	500	35	484	36
Pendleton	921	16	1,189	19
Perry	2,971	27	3,203	29
Pike	5,319	23	5,309	24
Powell	1,369	26	1,540	30
Pulaski	5,085	22	5,797	24
Robertson	146	20	164	21
Rockcastle	1,492	25	1,689	28
Rowan	1,568	20	1,868	24
Russell	1,558	26	1,832	29
Scott	1,993	14	2,653	15
Shelby	1,910	13	2,343	15
Simpson	1,177	17	1,572	21
Spencer	618	12	782	13
Taylor	1,885	20	2,230	23
Todd	880	19	1,071	23
Trigg	852	16	996	18
Trimble	619	18	665	18
Union	1,085	17	1,124	19
Warren	6,369	16	8,365	19
Washington	817	17	938	20
Wayne	1,993	28	2,313	31
Webster	1,062	18	1,114	20
Whitley	3,444	29	3,856	31
Wolfe	772	31	755	34
Woodford	1,142	11	1,384	13