



## A South Carolina Working Families Tax Credit Rewarding Work and Building Wealth

### A South Carolina Working Families Tax Credit would:

- Lift more working South Carolinians out of poverty;
- Relieve the growing burden of taxation on low and moderate income working South Carolinians; and
- Encourage and reward work.

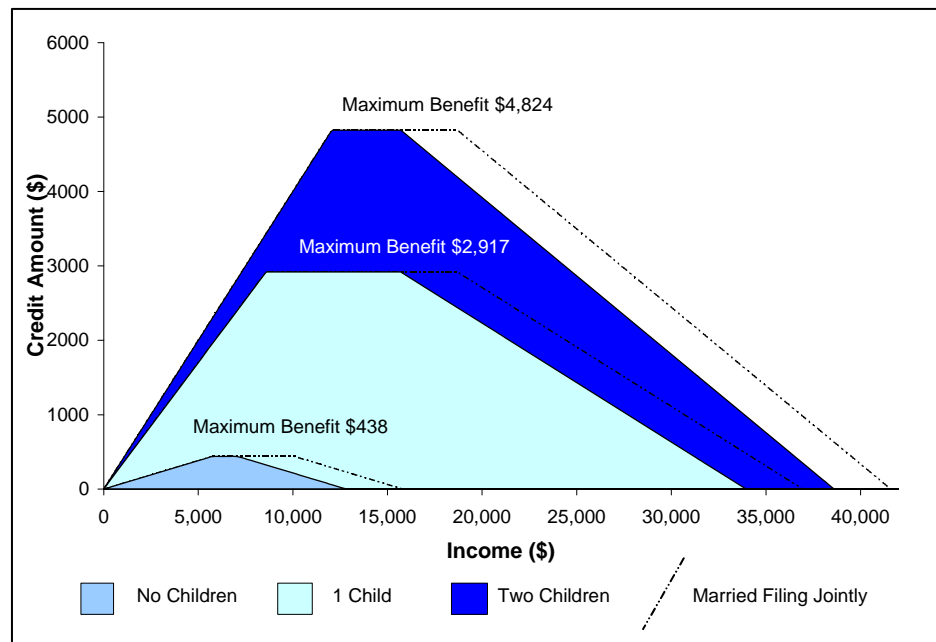
The South Carolina Working Families Tax Credit would create a refundable tax credit for low and moderate income working families based on a percentage of the federal EITC.

Families apply for the EITC when filing a federal income tax return.

The EITC is a refundable credit. A

family will receive a check for the amount of the credit over any income

taxes it owes – even if it owes no income taxes. A portion of the credit – up to \$1,750 in 2008 – can be received in the employee's paycheck as an advance over the year.<sup>1</sup>



Source: Center on Budget & Policy Priorities

The allowable credit varies by adjusted gross income, marital status and number of children (up to two). The EITC adjusts for inflation. The federal EITC in tax year 2008 pays a maximum benefit of \$4,824 to a family with two or more children, \$2,917 to a family with 1 child and \$438 to a single person without children. The credit increases to the maximum level, plateaus and then phases out as income increases.

## **History of the Federal EITC**

The federal EITC was enacted in 1975 to offset the cost of Social Security tax for low-income workers with children. Leaders of both political parties have supported the EITC for its anti-poverty effects. Expansions of the EITC have been made under the administrations of Ronald Reagan, George H.W. Bush, and Bill Clinton – all of whom praised the program.

EITC first expanded in 1986 as part of a major tax overhaul. Ronald Reagan called that bill “[t]he best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.”<sup>2</sup> In 1990, Congress used the EITC to ensure that deficit reduction initiatives did not hurt low income families. In 1993, Congress again expanded the EITC to help individuals working full-time and making minimum wage achieve self-sufficiency for themselves and their families. Congress also made the EITC available to individuals without children, although the available credit is much smaller than those available for families.<sup>3</sup>

**“The best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.”**

– Former President Ronald Reagan on the bill expanding the EITC

Some 150,000 active duty military families nationwide are eligible for the EITC. Tax law changes in 2001 and 2004 expanded the number of military personnel eligible for the EITC and increased the credit amounts by allowing military personnel to include non-taxable combat pay and housing and subsistence allowances in earned income for the EITC.<sup>4</sup>

## **What Benefits Would a State EITC Bring to South Carolina?**

The best way to estimate the benefits of a state EITC are to look at the benefits of the federal EITC as set out in the voluminous academic research on the EITC.<sup>5</sup>

- **The federal EITC reduces poverty.**  
In 2003, the EITC was responsible for 4.4 million fewer families living in poverty. More children are lifted out of poverty by the EITC than by any other program.<sup>6</sup>
- **“The EITC has become a powerful force in dramatically raising the employment of low-income women in recent years.”<sup>7</sup>**  
“[C]hanges in EITC and other taxes played a dominant role in the employment increases of single mothers between 1984 and 1996. This suggests that policies that “make work pay” are effective in increasing work by single mothers.”<sup>8</sup>
- **The federal EITC helps low-income mothers in two-parent families stay at home.<sup>9</sup>**

- **The federal EITC represents a significant investment in local communities.**<sup>10</sup>

In Tax Year 2006, 23 percent of federal tax returns from South Carolina claimed the Earned Income Tax Credit – 446,367 returns. Those returns covered \$903 million in tax credits, of which \$825 million was refunded to low-income, working South Carolinians.<sup>11</sup>

No area of South Carolina is untouched by the federal EITC. Every state House district in South Carolina received at least \$2.1 million in federal tax credits under the EITC program in Tax Year 2005, the most recent year for which data at this level is available. No S.C. Senate district received less than \$11 million in that year.<sup>12</sup> (See [\*\*Significant Federal EITC Dollars Go to Every South Carolina Senate and House District?\*\*](#))

Dollars returned to South Carolina communities through an EITC are more likely to remain in local communities, feeding further economic growth, than are tax cut dollars targeted to wealthier citizens. Dollars spent in Pelion help more than dollars spent in Paris; purchases made in Walhalla help more than purchases made in Vail.

### **Recent tax changes in South Carolina have shifted an increasing share of the state tax burden to the poor and working poor.**

Act 388 of 2006 – the property tax relief act – increased sales taxes on renters with no reduction in property taxes. Low-income homeowners received a smaller percent of their income in property tax reductions than did owners with higher incomes and more expensive homes.<sup>13</sup>

In 2007, South Carolina cut \$86 million in income taxes by eliminating the bottom tax bracket and \$108 million in sales taxes on groceries included in Act 115 of 2007.<sup>14</sup> The Institute on Taxation and Economic Policy estimated that only 22 % of the benefit of the income tax cut went to the bottom 40 % of families by income.<sup>15</sup>

Exemptions for groceries have only a small effect on the overall distributional fairness of a tax plan.<sup>16</sup> “The poorest 40 percent of taxpayers typically receive only about 25 percent of the benefit from exempting groceries. The rest goes to wealthier taxpayers for whom sales taxes on food are not especially burdensome.”<sup>17</sup> This makes sense. Very poor taxpayers buying food with Food Stamps were not paying sales tax on food purchases. Further, the sales tax on low-price foods is lower. Compare a sales tax on baloney to a sales tax on steak.

## Working and Still Poor – South Carolina’s Poor Families with Children are Usually Working Families

The stereotype of the poor as folks who don’t work is simply wrong. A strong majority of South Carolina families living below the federal poverty level – itself an inadequate measure of a family’s ability to meet basic needs – are working families. These families are “playing by the rules” and still living below the poverty line.

Work is not enough in low-wage economies. In this country, one-third of families living below the poverty line include someone who works full-time and year round.<sup>19</sup>

The high level of EITC receipt throughout the South also reminds us that increased work alone cannot eradicate working poverty. In many parts of the country, low-wage economies and limited job opportunities mean that working families struggle greatly to get by on earnings alone. Raising employment and reducing teen births are key strategies for combating poverty, but targeted wage supplements like the EITC remain critical tools for helping workers and their families subsist on low-paying jobs.

Berube and Tiffany (2004)<sup>18</sup>

- Of the 133,563 South Carolina families with 2006 income below the federal poverty level, two-thirds had one or more workers.
- In 2006, 22% of South Carolina’s children lived in poverty – below \$20,444 for a two-parent family with 2 children.
- Forty-four percent of South Carolina children in 2006 lived in families with incomes below 200% of the federal poverty level.

U.S. Census Bureau, *American Community Survey 2006, Tables B17014, C17006 and C05010* at

[http://factfinder.census.gov/servlet/DTSUBJECTKEYWORDServlet?\\_ts=236872841676](http://factfinder.census.gov/servlet/DTSUBJECTKEYWORDServlet?_ts=236872841676)

## **State EITCs**

The majority of states with an income tax have enacted a state EITC – 24 of 42 states, including the District of Columbia. Five states have enacted Earned Income Tax Credits since late 2006 – Washington, North Carolina, Louisiana, New Mexico and Michigan. In the same time period, eight states have improved their credits: Illinois, Indiana, Iowa, Kansas, Nebraska, New Jersey, Oregon, and the District of Columbia.<sup>20</sup>

Most states have tied their EITC to a percentage of the federal EITC – at between 3.5% (North Carolina) and 43% (Wisconsin with 3 children) of the federal credit for 2008.

Tying the state EITC to the federal credit simplifies both the process of claiming the state EITC and enforcement.

<b>How Much Would a South Carolina EITC Cost?*</b>	
<b>% of Federal EITC</b>	<b>Cost</b>
5 %	\$46 million
10 %	\$92 million
15 %	\$138 million
20 %	\$184 million
* Estimates provided by Institute on Taxation & Economic Policy, July 2008.	

## **A South Carolina Working Families Tax Credit**

By creating a state Earned Income Tax Credit pegged to the federal EITC, South Carolina could further leverage a tax credit which helps lift South Carolinians out of poverty, effectively rewards work and invests hundreds of millions of dollars into South Carolina communities. At the same time a South Carolina EITC would help balance significant shifts in relative tax burdens from upper income to lower income tax payers in recent years.

Although the General Assembly is looking at tight times in FY2009-2010, creation of a South Carolina Working Families Tax Credit should have high priority – and certainly higher priority than other proposed tax cuts – when the state's fiscal outlook improves.

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**Significant Federal EITC Dollars Go to Every South Carolina Senate and House District?**

<b>Federal Earned Income Tax Credits by S.C. Senate District – 2005</b>									
<b>District</b>	<b>Current Senator</b>	<b>Total returns</b>	<b>EITC returns</b>	<b>EITC amt (\$)</b>	<b>District</b>	<b>Current Senator</b>	<b>Total returns</b>	<b>EITC returns</b>	<b>EITC amt (\$)</b>
1	Alexander	35,480	6,105	11,008,160	24	Ryberg	39,581	7,667	15,247,210
2	Martin	39,448	7,835	14,568,134	25	Massey	36,703	10,122	20,347,700
3	Bryant	40,920	8,297	15,678,532	26	Setzler	37,457	8,861	17,480,629
4	O'Dell	37,268	9,300	17,996,946	27	Sheheen	35,557	10,235	20,549,116
5	Vaughn	42,563	6,625	12,165,941	28	Elliott	42,777	11,952	24,312,326
6	Fair	38,488	7,414	13,927,239	29	Malloy	33,472	12,120	25,579,202
7	Anderson	35,154	8,828	17,321,895	30	Williams	35,830	14,491	31,002,769
8	Thomas	47,851	7,103	12,772,106	31	Leatherman	39,528	10,326	20,895,664
9	Verdin	36,289	9,408	18,671,227	32	McGill	33,158	13,037	28,421,140
10	Drummond	34,299	9,541	19,149,140	33	Rankin	48,571	9,772	18,261,407
11	Reese	40,884	9,900	19,578,491	34	Cleary	52,106	8,272	15,513,418
12	Hawkins	41,977	8,433	16,132,223	35	Leventis	35,355	11,090	23,171,105
13	Ritchie	35,453	7,346	14,114,024	36	Land	31,757	11,551	24,788,259
14	Peeler	39,109	9,765	18,952,780	37	Grooms	43,252	8,962	18,027,294
15	Hayes	48,784	8,795	16,593,838	38	Scott	49,570	9,843	19,450,318
16	Gregory	41,524	8,735	16,791,433	39	Matthews	35,183	12,905	27,286,193
17	Short	36,950	11,422	22,718,191	40	Hutto	34,383	12,238	25,850,718
18	Cromer	38,895	6,913	13,479,901	41	McConnell	45,922	7,021	12,810,702
19	Patterson	41,900	11,332	22,798,702	42	Ford	33,461	10,247	21,154,119
20	Courson	42,873	7,118	13,336,984	43	Campsen	43,719	7,343	14,038,290
21	Jackson	34,682	9,091	18,184,489	44	Campbell	42,491	8,623	16,798,258
22	Lourie	51,393	9,517	18,082,552	45	Pinckney	34,977	11,527	24,453,546
23	Knotts	43,703	7,294	13,684,239	46	Ceips	53,175	6,946	13,106,227

**Source:** The Brookings Institution, Metropolitan Policy Center <http://www.brookings.edu/metro/pubs/2007SC.xls>

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Federal Earned Income Tax Credits by S.C. House District – 2005															
Current	EITC	EITC		Current	EITC	EITC		Current	EITC	EITC		Current	EITC	EITC	
Dist	Repr.	Returns	Amount	Dist	Repr.	Returns	Amount	Dist	Repr.	Returns	Amount	Dist	Repr.	Returns	Amount
1	Whitmire	2,573	4,745,356	32	W. D. Smith	3,091	6,001,211	63	Crawford	3,965	7,857,294	94	Hutson	3,528	6,831,875
2	Sandifer	2,791	5,016,864	33	Littlejohn	2,687	5,225,731	64	Harvin	4,995	10,887,677	95	Govan	4,329	8,961,189
3	Skelton	1,469	2,570,052	34	Talley	3,267	6,428,057	65	Lucas	3,442	7,077,144	96	Spires	4,023	8,074,251
4	Hiott	2,888	5,334,835	35	Kelly	2,921	5,565,799	66	Cobb-Hunter	5,389	11,484,329	97	Knight	3,780	7,671,470
5	Owens	2,913	5,455,110	36	Mahaffey	3,234	6,125,356	67	G. M. Smith	4,328	9,027,190	98	Young	3,541	7,061,639
6	White	3,195	6,101,375	37	Davenport	3,003	5,698,690	68	Viers	3,762	6,988,309	99	Merrill	3,683	7,293,017
7	Gambrell	3,145	6,044,461	38	Walker	2,998	5,711,228	69	E. H. Pitts	2,566	4,746,339	100	Umphlett	3,115	6,176,641
8	Bowen	3,319	6,176,121	39	Frye	3,391	6,712,265	70	J. H. Neal	3,868	7,909,255	101	Kennedy	5,134	11,458,344
9	Thompson	3,208	6,277,650	40	McLeod	3,273	6,530,085	71	Ballentine	2,187	4,011,531	102	Jefferson	4,044	8,358,757
10	Cooper	2,861	5,423,108	41	Coleman	4,364	8,955,476	72	J. E. Smith	3,346	6,241,774	103	Anderson	4,454	9,686,181
11	Agnew	3,823	7,733,068	42	Anthony	3,672	7,150,206	73	Hart	4,074	8,390,884	104	Edge	4,060	7,410,626
12	Parks	4,031	8,149,504	43	Delleney	4,004	7,784,110	74	Rutherford	3,551	7,062,542	105	Witherspoon	4,537	9,259,237
13	Pinson	3,265	6,489,987	44	J. M. Neal	3,406	6,705,832	75	Harrison	2,510	4,795,870	106	Hardwick	2,646	4,535,975
14	M. A. Pitts	3,572	6,930,674	45	Mulvaney	3,717	7,158,920	76	Howard	3,915	7,690,423	107	Clemmons	3,397	5,870,428
15	Duncan	3,628	7,554,353	46	Simrill	3,447	6,536,258	77	Scott	3,688	7,399,274	108	Miller	3,649	7,419,196
16	Taylor	3,445	6,739,931	47	Kirsh	3,022	5,704,057	78	Brady	3,043	5,809,722	109	Mack	4,074	8,342,781
17	Cato	2,861	5,354,042	48	Gullick	2,508	4,455,504	79	Cotty	3,634	6,808,758	110	Limehouse	1,318	2,068,500
18	Shoopman	2,530	4,649,767	49	Moody	3,658	7,045,891	80	Bales	3,561	7,169,733	111	Breeland	3,172	6,366,227
19	Loftis	2,763	5,338,918	50	G. Brown	4,543	9,870,922	81	Perry	3,171	5,995,697	112	Hagood	1,549	2,568,954
20	Hamilton	2,308	4,186,858	51	Weeks	4,296	9,137,377	82	Clyburn	3,642	7,394,017	113	Whipper	4,576	9,848,701
21	Leach	1,677	2,903,085	52	Funderburk	3,662	7,111,909	83	D. C. Smith	2,972	6,094,932	114	Harrell	2,695	5,007,603
22	Haskins	2,236	3,886,054	53	Vick	4,316	8,858,068	84	J. R. Smith	3,535	7,256,669	115	Scarborough	2,149	3,545,139
23	F. N. Smith	3,573	6,931,825	54	Jennings	5,396	11,290,617	85	Huggins	2,001	3,794,055	116	R. Brown	4,017	8,365,857
24	Bannister	3,605	6,726,208	55	Hayes	5,802	12,893,838	86	Stewart	3,085	6,023,404	117	Dantzler	3,287	6,467,127
25	Allen	3,284	6,482,821	56	Neilson	4,869	10,152,882	87	Haley	2,215	3,979,947	118	Herbkersman	2,781	5,265,853
26	Rice	3,338	6,631,160	57	Battle	5,249	11,234,522	88	Toole	3,078	5,994,461	119	Stavrinakis	2,954	5,420,511
27	G. R. Smith	1,903	3,339,301	58	Barfield	4,152	8,360,542	89	Bingham	2,851	5,338,606	120	Bowers	4,558	9,675,948
28	Bedingfield	2,787	5,128,833	59	Alexander	4,432	9,289,036	90	Sellers	4,617	9,898,281	121	Hodges	4,321	9,076,833
29	Moss	3,499	6,788,891	60	Lowe	4,272	8,925,873	91	Hosey	4,675	9,961,368	122	Brantley	4,378	9,409,175
30	Phillips	3,778	7,412,238	61	Branham	4,604	9,782,732	92	Daning	3,316	6,403,746	123	Chalk	1,268	2,069,960
31	Mitchell	4,167	8,595,499	62	Williams	4,495	9,316,413	93	Ott	3,728	7,625,464	124	Erickson	3,359	6,748,730
Source: The Brookings Institution, Metropolitan Policy Center <a href="http://www.brookings.edu/metro/pubs/2007SC.xls">http://www.brookings.edu/metro/pubs/2007SC.xls</a>															

**Source:** The Brookings Institution, Metropolitan Policy Center <http://www.brookings.edu/metro/pubs/2007SC.xls>



## SOUTH CAROLINA FAIR SHARE POLICY PERSPECTIVES

Since 1987, South Carolina Fair Share has worked to advance the health, safety and well-being of everyday people in the Palmetto State. A core part of that work is educating citizens and policy makers on important issues affecting our state. The purpose of this *Policy Perspective* is to educate South Carolinians about an important policy issue and to begin the discussion on moving towards a state EITC.

### Sources

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<sup>3</sup> Steve Holt, *The Earned Income Tax Credit at Age 30: What We Know*, [http://www.brookings.edu/metro/pubs/20060209\\_Holt.pdf](http://www.brookings.edu/metro/pubs/20060209_Holt.pdf).

<sup>4</sup> The Bell Policy Center, *The Earned Income Tax Credit Helps Military Families* at <http://www.stateeitc.com/research/Military%20Families%20and%20the%20EITC%20Report.pdf>.

<sup>5</sup> See the literature review in Steve Holt, *The Earned Income Tax Credit at Age 30: What We Know*, [http://www.brookings.edu/metro/pubs/20060209\\_Holt.pdf](http://www.brookings.edu/metro/pubs/20060209_Holt.pdf).

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<sup>7</sup> Committee for Economic Development, *Welfare Reform and Beyond: Making Work Work* (2000), 7 at [http://www.ced.org/docs/report/report\\_welfare.pdf](http://www.ced.org/docs/report/report_welfare.pdf).

<sup>8</sup> Bruce D. Meyer, *Taxes, Welfare, and Work by Single Mothers*, NBER Reporter Online (Fall 2001) at <http://www.nber.org/reporter/fall01/meyer.html>.

<sup>9</sup> Nada Eissaa and Hilary Williamson Hoynes, *Taxes and the Labor Market Participation of Married Couples: The Earned Income Tax Credit*, *Journal of Public Economics* 88 (2004) 1931– 1958

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<sup>13</sup> Ellen W. Saltzman, *The South Carolina Tax Swap: The Estimated Impact of Act 388 on Homeowners and Renters*, Strom Thurmond Institute of Government & Public Affairs STI Policy Briefs (July 20, 2006), 4 at <http://www.strom.clemson.edu/publications/saltzman/sctaxswap7-06.pdf>.

<sup>14</sup> South Carolina Board of Economic Advisors, *Statement of Estimated State Revenue Impact, SB 656 as Amended June 20, 2007 by the Conference Committee* (June 21, 2007) at [http://www.bcb.sc.gov/webfiles/BCB\\_BEASenate%20Fiscal%20Impact/SB\\_656\\_amended\\_6\\_20\\_07.pdf](http://www.bcb.sc.gov/webfiles/BCB_BEASenate%20Fiscal%20Impact/SB_656_amended_6_20_07.pdf).

<sup>15</sup> Institute on Taxation and Economic Policy, *Impact of Changes to South Carolina's Income Tax Rate Structure: All South Carolinians, 2007 levels* (May 2007) in possession of South Carolina Fair Share.



<sup>16</sup> Daniel R. Feenberg, Andrew W. Mitrusi and James M. Poterba, *Distributional Effects of Adopting a National Retail Sales Tax*, NBER Working Paper Series No. 5885 (January 1997), 34 at

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<sup>20</sup> Jason Levitis and Jeremy Koulisch, *State Earned Income Tax Credits: 2008 Legislative Update*, Center on Budget and Policy Priorities (June 6, 2008) at <http://www.cbpp.org/6-6-08sfp.htm>.



**Yes, I want to join South Carolina Fair Share and work for health care for everyone and a better future for our children, fight lenders who charge 391 % APR and learn more about how our state government works and how I can make change happen.**

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