center for family policy & research

THE EARNED INCOME TAX CREDIT: Lifting Working Families Out of Poverty

Children raised in poverty face numerous challenges that have potential negative impacts on both their social-emotional and cognitive development. Despite dramatic drops in the welfare rolls, many working Missourians with children remain in poverty

policy brief

What is the Earned Income Tax Credit (EITC)?

The EITC is a special tax benefit for working people who earn low or moderate incomes. It has several important purposes:

- to reduce their tax burden
- to supplement wages
- to make work more attractive than welfare

Why Implement a State EITC?

- ***The most important reason to introduce the State EITC is to reduce child poverty in the state of Missouri.*** 22% of Missouri's young children live under the poverty level. Research shows that a child's development is affected negatively by circumstances of poverty. Children raised in poverty are more likely to have poorer physical health and growth, poorer academic achievement, more behavior problems at home and at school, increased rates of anxiety and depression, and diminished self-esteem.

- Welfare reform was not intended to bring families out of poverty; it was created to reduce welfare rolls. It has helped families in Missouri begin to make progress toward self-sufficiency, but many families transitioning off TANF remain among the working poor.

- Welfare rolls have dropped by 61% since August, 1996. Two-thirds of those families remain in poverty 2 years after entering the workforce. Nationally, approximately 8.2 million children in working families live in poverty.

- The Federal EITC provides assistance for the working poor as an incentive to work and as a method to raise their income level above minimal poverty lines. A refundable tax credit of this type is currently being extended at the state level in 20 other states. Three other states offer non-refundable tax credits.

- State and Federal EITC's have been credited with reducing poverty levels for children and increasing the number of single mothers in the workforce.

- Experimental welfare programs that increase family income through employment and earnings supplements have shown positive effects on children's academic achievement, physical health, and behavior. Moreover, programs that provide larger supplements to families income, demonstrate larger positive effects on children.

1400 Rock Quarry Rd • University of Missouri • Columbia, MO 65211• phone: (573) 882-9998• fax: (573) 884-0598

How Will Missouri Benefit From a State EITC For Low-Income Families?

A Missouri EITC will reduce taxes paid by families with low to moderate incomes.

- Sales, excise and property taxes are more burdensome to these families than to families with higher incomes. Any increases in these taxes create additional hardships for low-income families. Missouri is among the 12 states with the greatest tax burden on working poor families. An EITC will provide substantial tax relief for these families during an economic slowdown.

A Missouri EITC will reduce poverty among working families with children.

- 73% of Missouri's poor families with children are working poor families, yet even with the combination of work and the federal EITC these families' income remain below the poverty line.
- A State EITC will reduce the gap between family income and the poverty line and will lift some families out of poverty potentially reducing the developmental effects of poverty on these children. Research indicates that families frequently use their EITC to make improvements in their standard of living by paying child care, transportation or housing costs.

A Missouri EITC will boost the incomes of families that are transitioning from welfare to work by:
- Encouraging parents to enter the labor force, thus supporting welfare reform.
- Assisting with work related expenses such as transportation and child care.
- Assisting families with unexpected expenses that may otherwise force them back onto welfare.

Policy Recommendations
- ➢ Implement a refundable earned income tax credit in the state of Missouri to support working families.
- ➢ Provide a credit that is sufficient to not only boost a family's income over the poverty level but to reduce their income-to-need ratio.

(Sheila Brookes, Valerie Lane & Amy Watson, Jan 2003; updated 2008)

Selected Sources

Cauthen, N. (2002). Earned income tax credits: Policy Brief 2. The National Center for Children in Poverty: Columbia, New York.

Koulish, J & Levitis, J. (2008). How much would a state earned income tax credit cost in 2009? Center on Budgets and Policy Priorities. Retrieved May 21, 2008 from http://www.cbpp.org/3-5-08sfp.htm

Children's Defense Fund Annual Yearbook (1999). Children's Defense Press: Washington, DC.

Holtzblatt, J., McCubbin, J., & Gillette, R. (1997). Promoting work through the EITC. Office of Tax Analysis, US Department of Treasury: Washington, DC.

Johnson, N., et al., (2002). State Income tax burdens on low-income families in 2001. Center on Budget and Policy Priorities: Washington, D.C.

Johnson, N. (2001). A hand up: how state earned income tax credits help working families escape poverty in 2001. Center on Budget and Policy Priorities: Washington, D.C.

Lazere, E. (1998). State earned income tax credits build on the strengths of the Federal EITC. Center on Budget and Policy Priorities: Washington, D.C.

National Center for Children in Poverty (Summer, 2001). States use Earned Income Credits to lift children from poverty. News & Issues, 11, 4-5.

National Center for Children in Poverty (2008). United States: Demographics of poor children. Retrieved May 21, 2008 from http://www.nccp.org/profiles/state_profile.php?state=US&id=7

U.S. Census Bureau (2008). Small area income and poverty estimates. Retrieved May 19, 2008 from http://www.census.gov/hhes/www/saipe/county.html

For a complete list of references or more information about this topic, contact the Center for Family Policy and Research.

The Center for Family Policy & Research is housed in the Department of Human Development and Family Studies at the University of Missouri. The Center's mission is to create and disseminate research-based analyses to promote the well-being of families through informed public policy and program development.

Visit us on the web at http://cfpr.missouri.edu/