

Investing in Montana's Working Families: A Montana Earned Income Tax Credit (EITC)

Why Does Montana Need a State Earned Income Tax Credit?

- *Montana's Income Tax System Pushes Working Families Further into Poverty*

Montana is one of the few states in the country to impose income taxes on working families living in poverty. **We begin taxing a single worker with two children at a lower annual income than any other state in the country.**¹ By enacting a state EITC, Montana can help supplement the hard-earned but insufficient income of low-income households.

"States that enact EITCs can reduce child poverty, cut taxes, and increase the incentive to work for families struggling to make ends meet."

Center for Budget and Policy Priorities ("State Earned Income Tax Credits," October 2008).

- *Economic Trends are Making It Even Harder for Montana Families to Make Ends Meet*

A full-time working parent earning minimum wage in 2008 made approximately \$13,300, or \$4,300 under the federal poverty line. **Over 16,000 Montana families are working, but poor (almost 7%).**² Unfortunately, Montana's income tax makes it even harder for many of these families to purchase basic necessities. A state EITC would help these families secure housing, groceries, child care, transportation, and medical care during these economically challenging times.

- *Tax Credits for Low-Income Families Offer Effective Stimulus during Recessions*

Putting more money in the hands of low-income families is particularly good policy during an economic downturn. One of the basic tenets of economic policy is that increased demand for goods and services is necessary to bring an economy out of recession.

Credits targeted at low-income households are an efficient way to achieve increased demand for goods and services because low-income families are likely to spend the entire credit, resulting in an immediate boost to the economy.

"Lower-income households are . . . more likely to be among those with the highest propensity to spend. Therefore, policies aimed at lower-income households tend to have greater stimulative effects."

Congressional Budget Office ("Options for Responding to Short-Term Economic Weakness," January, 2008).

How Would a Montana Earned Income Tax Credit Work?

A state EITC would give workers a refundable tax credit equal to a percentage of the federal EITC. **A state EITC**

set at 20% of the federal EITC would result in a maximum benefit of \$965 for low-income working families, with a total cost to the state of approximately \$24 million per year.

¹ Center on Budget and Policy Priorities, "The Impact of State Income Taxes on Low-Income Families," October 2008.

² U.S. Census Bureau.

What is the Federal EITC?

The federal EITC was created in 1975 and has long enjoyed bipartisan support. The federal EITC supplements income for low-income working families. Only people who work are eligible for the EITC. The maximum benefit is \$4824 for 2008. The EITC is administered as a refundable tax credit meaning that recipients receive a refund when their credit amount is greater than their total tax liability. Presidents Reagan, George H.W. Bush and Clinton all proposed expansions of the federal EITC.

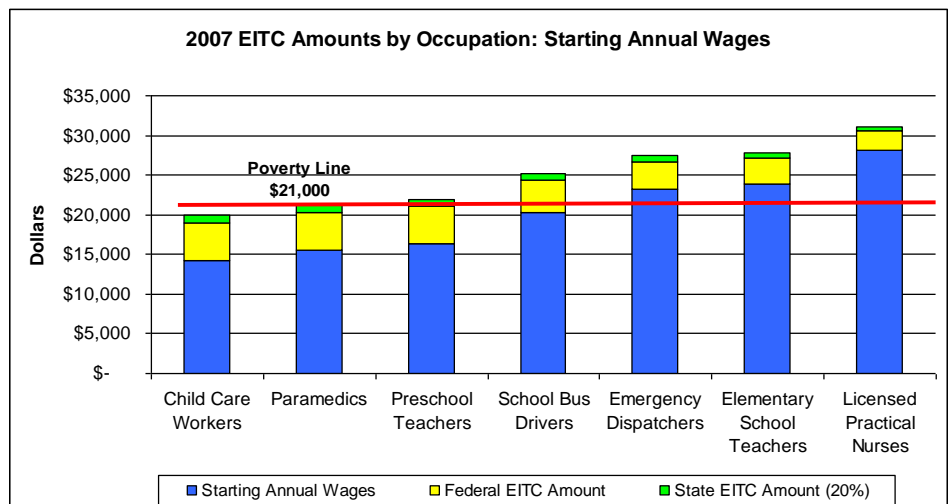
Has the Federal EITC Worked? Yes.

- **The federal EITC lifts more than 4 million people and 2 million children out of poverty each year.**³
- Expansions of the federal EITC have been found to increase workplace participation among single parents.⁴
- Research shows that families use the EITC to pay for basic needs, home repair, commuting expenses, education and training, and other expenditures to improve employability.⁵
- Recognizing the effectiveness of the federal EITC, twenty-four states have enacted state EITCs to further supplement the income of working families.⁶

"[The EITC is] the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress."
-Former President Ronald Reagan

Who Would Benefit from a Montana EITC?

Individuals and Families. Over 72,000 Montana households (16.6%) received the federal EITC in 2005 and would therefore benefit from a state EITC. Child care workers, paramedics, preschool teachers, school bus drivers, emergency dispatchers, elementary school teachers, licensed practical nurses, and workers in numerous other occupations would be eligible for the EITC at the start of their careers.⁷



The Economy. The Federal EITC is expected to bring \$135 million into the Montana economy in 2009. A state EITC at 20% of the federal would pump more than \$24 million into Montana's communities.⁸ By placing the money in the hands of the people most likely to spend it, a state EITC would increase demand for goods and services and boost the economy.

³ Center on Budget and Policy Priorities. "Earned Income Tax Credit," January 2008.

⁴ Nada Eissa and J.B. Liebman. "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics*, Vol. 111 No. 2 (May 1996) pp. 605-637.

⁵ Timothy M. Smeeding, K.R. Phillips and M. O'Connor. "The EITC: Expectation, Knowledge, Use and Economic and Social Mobility." *The National Tax Journal*, Vol. 53, No. 4, Part 12 (December 2000) pp1187-1210.

⁶ Jason A. Levitis and Andrew C. Nicholas. "The Impact of State Income Taxes on Low-Income Families in 2007," Center for Budget and Policy Priorities, October 2008

⁷ IRS, the Center for Policy and Budget Priorities, and the Montana Dept. of Labor and Industries.

⁸ Thale Dillon. "Summary of Economic Estimates of the State and Federal Earned Income Tax Credits for Montana." Bureau of Economic and Business Research, University of Montana (2008).

Appendix A: EITC Returns by Montana State House District, 2005 Tax Year

House District	Total returns	EITC returns	% of Returns with EITC	EITC amt (\$)
District 1	3,740	773	20.68%	1,361,103
District 2	4,050	788	19.45%	1,357,107
District 3	5,763	1,000	17.36%	1,840,479
District 4	5,008	680	13.57%	1,091,436
District 5	4,281	708	16.54%	1,269,612
District 6	4,494	714	15.88%	1,197,871
District 7	4,173	687	16.45%	1,192,775
District 8	4,827	794	16.45%	1,379,851
District 9	4,681	672	14.37%	1,133,148
District 10	7,495	1,314	17.54%	2,252,966
District 11	4,608	841	18.24%	1,509,427
District 12	3,783	937	24.77%	1,732,430
District 13	4,139	823	19.88%	1,453,732
District 14	4,591	808	17.61%	1,375,422
District 15	4,071	1,500	36.84%	2,944,068
District 16	3,430	1,401	40.85%	2,838,196
District 17	3,885	574	14.76%	880,890
District 18	4,182	590	14.10%	991,824
District 19	4,279	672	15.70%	1,115,809
District 20	4,449	843	18.94%	1,458,688
District 21	4,469	843	18.86%	1,446,584
District 22	4,862	973	20.01%	1,622,905
District 23	3,527	713	20.20%	1,214,705
District 24	2,821	547	19.41%	973,338
District 25	4,135	570	13.79%	962,819
District 26	4,610	671	14.54%	1,151,962
District 27	4,630	663	14.32%	1,174,094
District 28	3,948	510	12.91%	865,661
District 29	3,949	596	15.10%	984,911
District 30	4,373	713	16.31%	1,218,579
District 31	3,388	1,291	38.10%	2,635,909
District 32	3,003	1,167	38.86%	2,337,019
District 33	3,934	641	16.28%	1,162,748
District 34	3,944	796	20.19%	1,452,176
District 35	4,280	679	15.86%	1,144,872
District 36	4,193	639	15.23%	1,106,459
District 37	4,627	610	13.18%	1,042,880
District 38	4,047	538	13.28%	908,825
District 39	4,022	571	14.19%	944,706
District 40	4,545	817	17.98%	1,380,415
District 41	2,890	1,208	41.80%	2,467,964
District 42	3,288	1,388	42.22%	2,960,211
District 43	4,455	644	14.45%	1,163,148
District 44	3,314	755	22.78%	1,293,620
District 45	3,685	636	17.27%	1,067,007
District 46	4,675	557	11.92%	997,722
District 47	4,450	600	13.48%	1,101,299
District 48	4,967	667	13.44%	1,225,439
District 49	4,918	964	19.60%	1,638,996
District 50	4,197	490	11.68%	808,989
District 51	5,390	1,061	19.68%	1,797,715
District 52	4,270	650	15.22%	1,090,819

House District	Total returns	EITC returns	% of Returns with EITC	EITC amt (\$)
District 53	4,146	666	16.06%	1,121,203
District 54	4,644	788	16.96%	1,288,407
District 55	4,306	474	11.02%	779,454
District 56	4,310	471	10.93%	774,436
District 57	4,911	475	9.68%	806,675
District 58	4,079	531	13.02%	925,634
District 59	4,276	602	14.09%	1,006,255
District 60	4,185	497	11.88%	808,539
District 61	4,926	703	14.27%	1,051,962
District 62	4,313	674	15.63%	1,034,320
District 63	3,979	412	10.36%	498,999
District 64	5,453	591	10.84%	786,496
District 65	3,377	349	10.35%	408,075
District 66	6,009	632	10.51%	774,388
District 67	6,786	928	13.68%	1,493,815
District 68	4,765	685	14.38%	1,117,243
District 69	5,280	689	13.05%	1,105,718
District 70	6,301	706	11.20%	916,351
District 71	4,741	722	15.23%	1,175,843
District 72	3,945	643	16.30%	1,139,133
District 73	3,976	654	16.44%	1,109,627
District 74	3,286	550	16.73%	941,941
District 75	3,597	602	16.73%	1,031,112
District 76	3,956	662	16.74%	1,137,616
District 77	3,972	410	10.33%	678,162
District 78	4,448	725	16.31%	1,242,777
District 79	5,801	791	13.63%	1,242,357
District 80	4,399	598	13.60%	964,921
District 81	4,205	582	13.83%	901,959
District 82	4,190	567	13.52%	907,176
District 83	4,181	598	14.29%	1,022,478
District 84	3,959	540	13.65%	901,588
District 85	3,080	582	18.89%	915,905
District 86	4,016	663	16.50%	1,111,309
District 87	3,805	682	17.92%	1,171,843
District 88	4,726	865	18.30%	1,582,232
District 89	4,300	776	18.05%	1,378,674
District 90	4,234	642	15.17%	1,124,950
District 91	4,079	703	17.23%	1,069,291
District 92	4,081	734	18.00%	1,047,400
District 93	3,357	498	14.82%	737,794
District 94	4,654	665	14.29%	993,969
District 95	5,861	875	14.94%	1,287,575
District 96	4,279	693	16.20%	1,014,979
District 97	4,530	748	16.51%	1,098,968
District 98	5,431	865	15.93%	1,364,762
District 99	5,637	961	17.05%	1,362,970
District 100	4,439	687	15.48%	1,114,514

Source: Brookings Institute