

A STATE EARNED INCOME TAX CREDIT: A BOOST FOR MISSISSIPPI FAMILIES

Mississippi families are struggling to make ends meet despite working hard and playing by the rules. The federal Earned Income Tax Credit (EITC) gives many of these families the boost they need to be more financially secure.

Mississippi can also enact a refundable state EITC to leverage the federal credit's track record of encouraging work, reducing taxes, improving children's lives, and strengthening local businesses and economies. Due in large part to the demonstrated success of the federal EITC, twenty-five states and the District of Columbia have created their own EITCs that enhance the benefits of the federal credit. The proposed Mississippi Working Families Tax Credit is a step in the right direction, but it is too limited to build on the federal credit's biggest successes.

Mississippians are Struggling Despite Work

Two-thirds of working families in Mississippi struggle to provide the basic necessities for their families every month¹. The number of jobs in the state is still lower than it was before the recession. Costs for basics like utilities and groceries, as well as larger costs like college tuition, are rising while wages have virtually remained the same. Families in Mississippi have actually seen their spending power decrease over the last ten years.²

When Mississippians struggle to provide the basic necessities for their families, they are often unable to invest the time and money necessary to move up the economic ladder and ensure their children's success. In addition, families living paycheck to paycheck can be crippled by one medical bill or one car repair.

The EITC Increases Work, Boosts Income, and More

A state credit in Mississippi modeled on the federal EITC would amplify the federal credit's ability to:

- **Encourage work and boost wages**

- Only working families and individuals are eligible for the credit, and research has shown that the EITC increases work participation. In fact, it moved nearly 500,000 single mothers into the workforce in the 1990s. That is because it provides an incentive for low-earning families to keep working and to work more hours, despite low pay, by letting them keep more of what they earn to make ends meet.

¹Two-thirds of working families earn less than double the federal poverty level threshold (Working Poor Families Project). For a family of four with two adults and two children, this equals about \$47,000 (U.S. Census Bureau).

²Inflation-adjusted median household income in Mississippi decreased by \$2,000 from 2004 to 2013 (U.S. Census Bureau Current Population Survey).

■ Reduce taxes for low-earning families

- Mississippi levies income taxes on people living in poverty and has one of the highest sales taxes on groceries in the country. These taxes eat up a sizeable share of income for households with low- and moderate-incomes. A refundable state EITC that offsets the income taxes these households owe, as well as part of the sales taxes they pay, would reduce the full-range of taxes paid by low-income working families.

■ Improve children’s life chances

- The federal EITC is the single most effective tool the nation has to keep children out of poverty and provides added benefits like improving their performance in school, increasing their chances of postsecondary education, and boosting their earnings later in life. A strong state EITC can build on those effects.

■ Strengthen local economies

- The federal EITC put \$1.07 billion into the pockets of more than one-third (34% or 390,000) of Mississippi’s federal income tax filers and it provided more in related economic benefits than its actual dollar value. A state EITC can further stimulate local economies as working families spend their earnings on necessities at local businesses.

Who Would it Help?

Like the federal credit, a state EITC would only go to individuals and families who work. Eligibility for the credit and the amount of the EITC families receive depends on their income, marital status, and number of children. In 2013, working families with children and annual incomes up to \$51,600 (depending on family size and marital status) were eligible for the federal EITC. People without children who have very low incomes (below \$14,300 for a single person and \$19,700 for a married couple) were also eligible for a very small EITC.

For families with very low earnings, the credit increases with each additional dollar earned, encouraging them to work more. The largest benefits go to working families with children that earn \$10,000 to \$23,000 annually. EITC benefits then phase out for working families as their incomes increase. The average federal EITC for Mississippi tax filers is \$2,751.

Governor Phil Bryant has proposed creating a Mississippi Working Families Tax Credit based on the federal EITC in his 2016 Executive Budget Recommendation. This proposal is a step in the right direction—it would provide Mississippi’s working families with a state tax credit equal to 15% of their federal EITC. However, unlike the federal EITC, it would be non-refundable. This means that if a family is paid too little to owe income taxes, they would not be eligible for the credit, despite the fact that they pay a substantial share of their income in other types of taxes.

What the Mississippi Working Families Tax Credit Would Look Like For This Family

The table below shows what a credit would look like for a single parent family with two children under Governor Bryant’s plan and with a refundable credit that rebates a portion of sales taxes paid that would cost the same as the Governor’s plan overall.

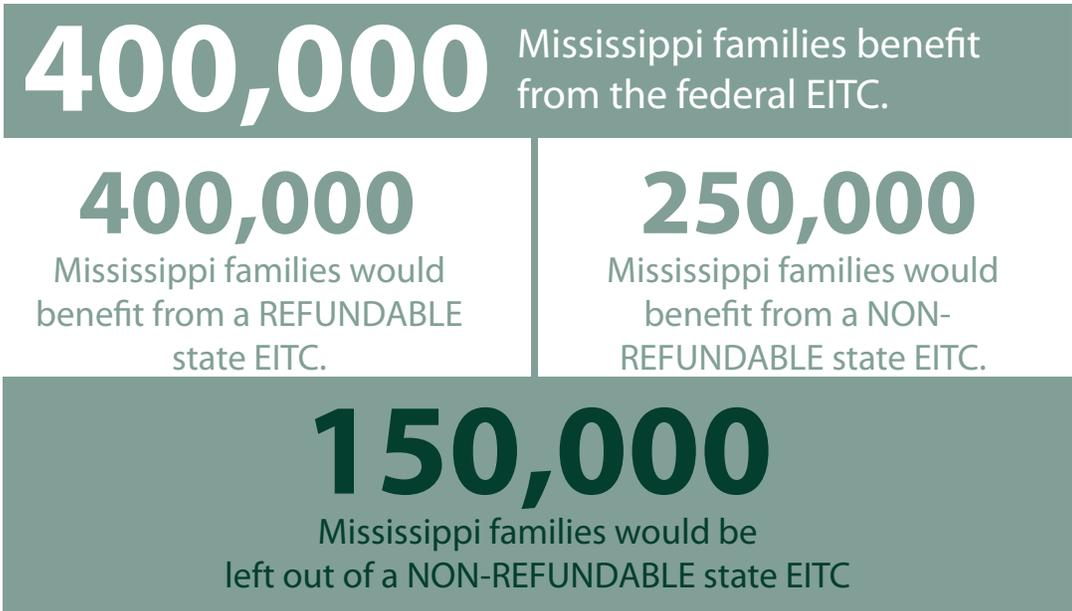


INCOME	STATE INCOME TAX	SALES TAX	15% STATE EITC NON-REFUNDABLE	8% STATE EITC (REFUNDABLE)
\$15,080 (minimum wage)	\$0	\$724	\$0	\$430
\$18,769 (poverty level)	\$86	\$901	\$86	\$409
\$37,538 (200% poverty level)	\$931	\$1,577	\$174	\$93

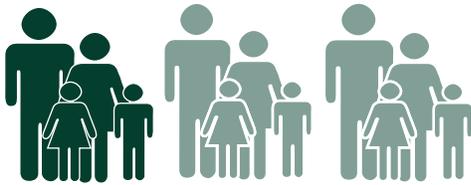
Source: MEPC analysis of data from the Internal Revenue Service, Institute on Taxation and Economic Policy and Mississippi Code

Mississippi's lowest-income workers would get no help from the Working Families Tax Credit—this includes families living on the full-time salary of one minimum-wage worker. In fact, an estimated 150,000 working Mississippi households that currently get the federal credit would not benefit from the proposed Working Families Tax Credit.³

The Working Families Tax Credit proposal estimates that the 15% non-refundable credit would cost about \$78.7 million annually. A refundable state credit set at 8% of the federal credit that would partially rebate sales taxes as well as income taxes would cost approximately the same amount, and yet help many more of Mississippi's working families and better target the credit to the workers paid the least.



1 in 3
Mississippi EITC Families would not benefit from a non-refundable EITC



Source: MEPC analysis of data from the Institute on Taxation and Economic Policy
MISSISSIPPI ECONOMIC POLICY CENTER

³Institute on Taxation and Economic Policy data

Design is Key

States with their own version of the EITC typically calculate the state credit as a percentage of the federal EITC. In all but four states, the credits not only offset income taxes owed by low-income working families, but also some of the other taxes the family pays, like the sales tax. This is done by making the credit refundable. A refundable credit means that if the amount of the credit is more than the income taxes owed, the difference is refunded to the taxpayer. State EITCs that simply piggyback on the federal credit are the easiest to administer and require the addition of just one line to the state income tax form.

How A Refundable Tax Credit Works

A refundable tax credit either increases the amount of a taxpayer’s tax refund or allows them to get a refund when they wouldn’t have otherwise if the amount of the credit is greater than the the taxes owed. The refund allows the credit to offset some of the other taxes paid, like sales taxes. The example below shows how a non-refundable and refundable credit would look for a family earning poverty level wages (\$18,769 for a single family of three).

INCOME	15% STATE EITC NON-REFUNDABLE	8% STATE EITC (REFUNDABLE)
Eligible EITC Amount	\$767	\$409
State Income Taxes	\$86	\$86
EITC Refund	\$0	\$323

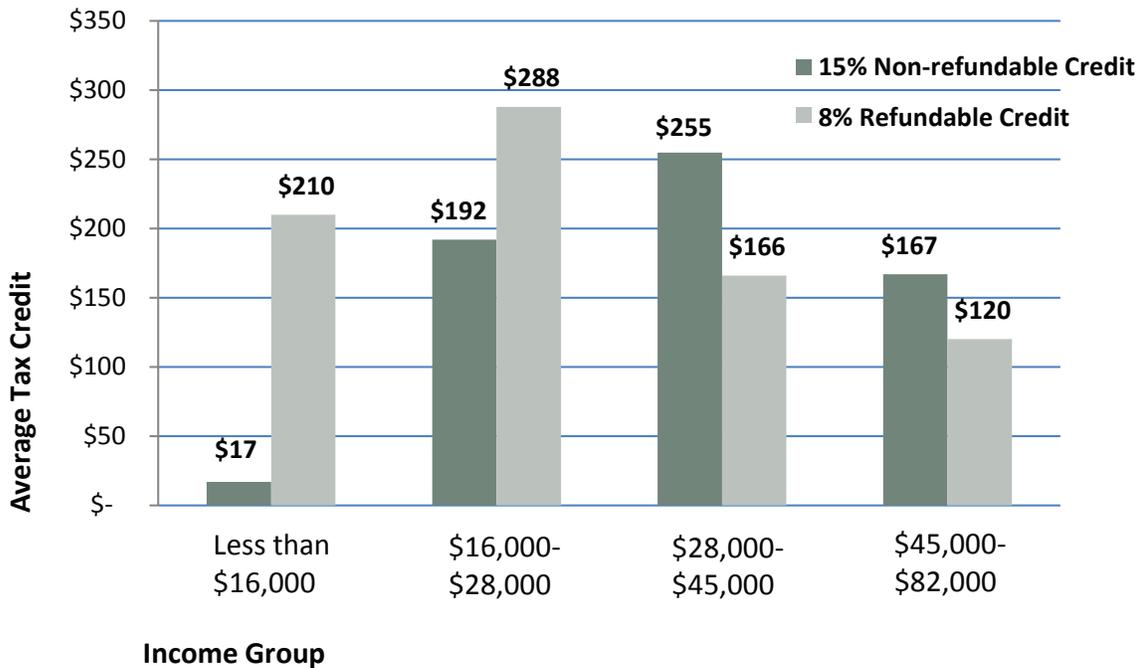
Source: MEPC analysis of data from the Internal Revenue Service, Institute on Taxation and Economic Policy and Mississippi Code

Making a state credit refundable is key to ensuring that it builds on the successes of the federal credit and targets the working families who need it most. The EITC increases workforce participation and reduces poverty, especially among children, because it encourages work and allows families to keep more of what they earn to meet basic needs and to reduce the taxes they pay overall. These successes are a direct result of the credit’s design.

In addition to making the credit refundable, it is also important for working families to be able to count on the credit when times are the toughest. The Mississippi Working Families Tax Credit as proposed would only be available in times when state revenue is growing and the state’s rainy day fund is full. These requirements may not be met in years when the state’s economy is struggling causing the credit to be unavailable when working families and local businesses need a boost the most.

The figure below shows how much the Governor’s proposal and a refundable 8% credit that partially rebates sales taxes as well as income taxes would provide on average for families at different income levels.

Average Tax Credit by Income Group with 15% Non-refundable or 8% Refundable State EITC



Source: Institute on Taxation and Economic Policy
 Note: Shows average credit size of those who would receive the credit.

A state EITC for Mississippi modeled on the federal credit is a good idea. It would allow Mississippi to encourage and reward work, reduce the full-range of state and local taxes low-earning families pay, improve the future of Mississippi’s children, and give local businesses a boost. But to leverage the full benefits of the federal EITC, a Mississippi credit must be fully refundable. Mississippi can do this without spending more than is proposed for the Mississippi Working Families Tax Credit.



The Mississippi Economic Policy Center (MEPC) is a nonprofit, nonpartisan organization that conducts independent research on issues affecting all Mississippians. MEPC uses its analysis to inform the policy discussion and create economic opportunity for people and communities who need it most. MEPC is an initiative of HOPE.

HOPE (Hope Enterprise Corporation and Hope Credit Union) provides affordable financial services; leverages private, public and philanthropic resources; and engages in policy analysis in order to fulfill its mission of strengthening communities, building assets and improving lives in economically distressed parts of the Mid South.