

# A State Earned Income Tax Credit in West Virginia?

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# Background

- **Our premise is a concern for fairness and justice for low income men and women, especially groups with special challenges, such as single mothers.**
- **We want to use transfer/safety net programs to help support these able-bodied men and women in the short run; we ultimately want to enable these men and women to become self-sufficient.**

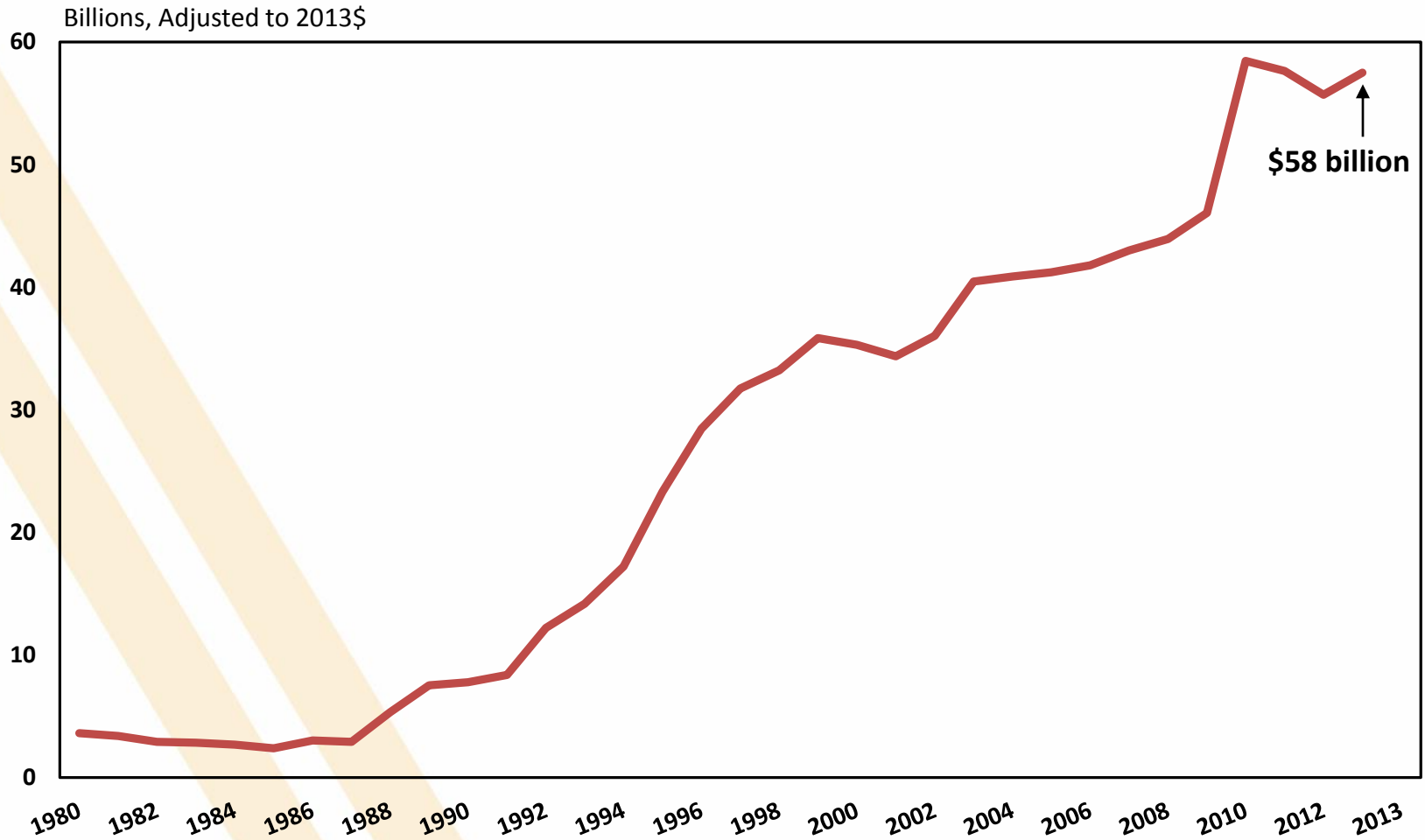
# Traditional Welfare

- **Concern over disincentive to enter the labor force**
  - **100 percent tax on earnings under traditional welfare, i.e., welfare benefits are reduced 1-for-1 with every dollar earned.**

# Negative Income Tax

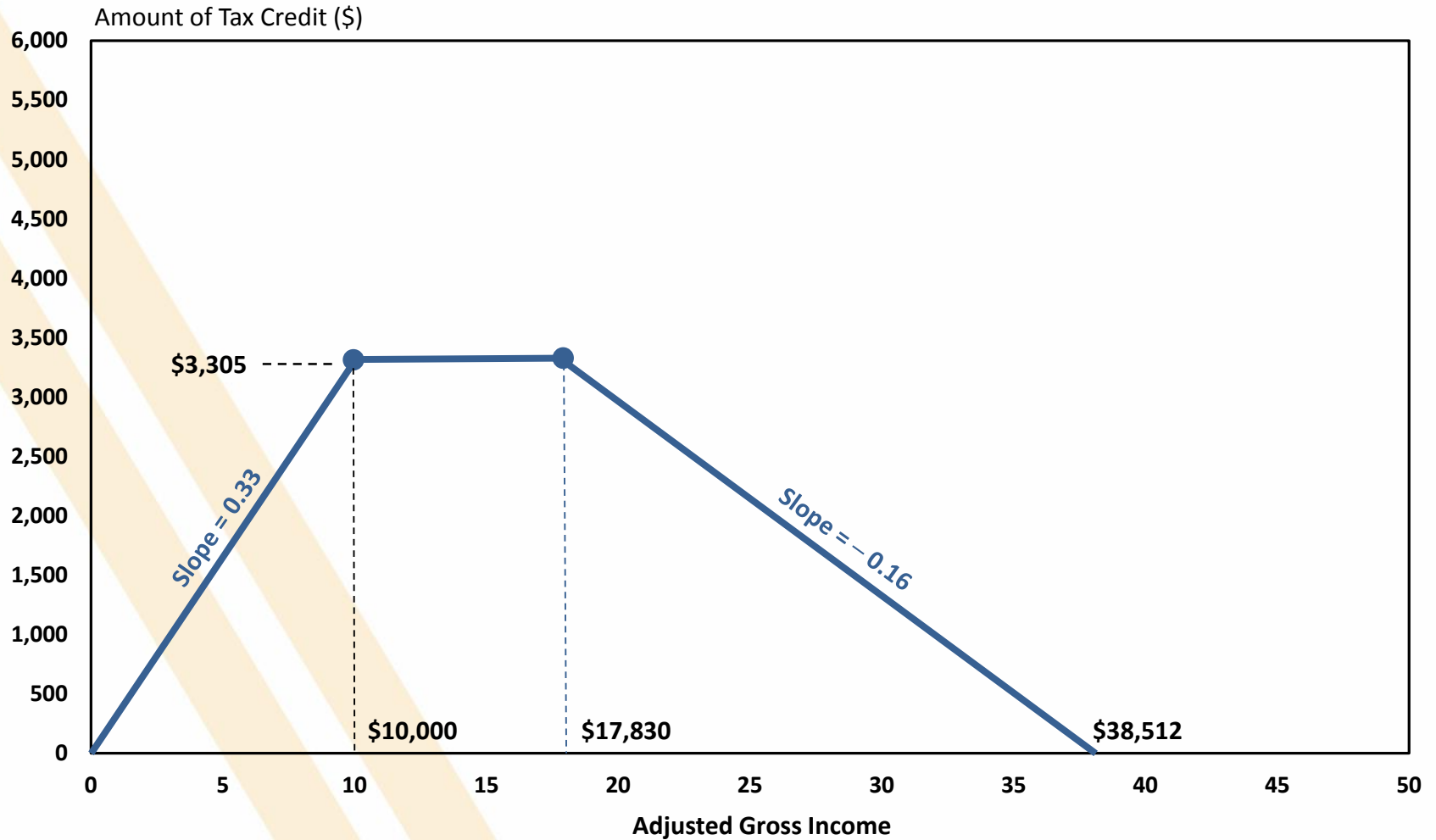
- **Nobel Laureate Milton Friedman, 1962**
  - Replace current welfare system with negative income tax – effectively a wage subsidy for low-income workers.
- **Provides a strong incentive to enter the labor force**
  - Sitting on the sidelines means that one foregoes \$1.40 dollars, rather than just \$1.
- **Weaker disincentive to work as hours worked increases**

# Spending on the Federal EITC



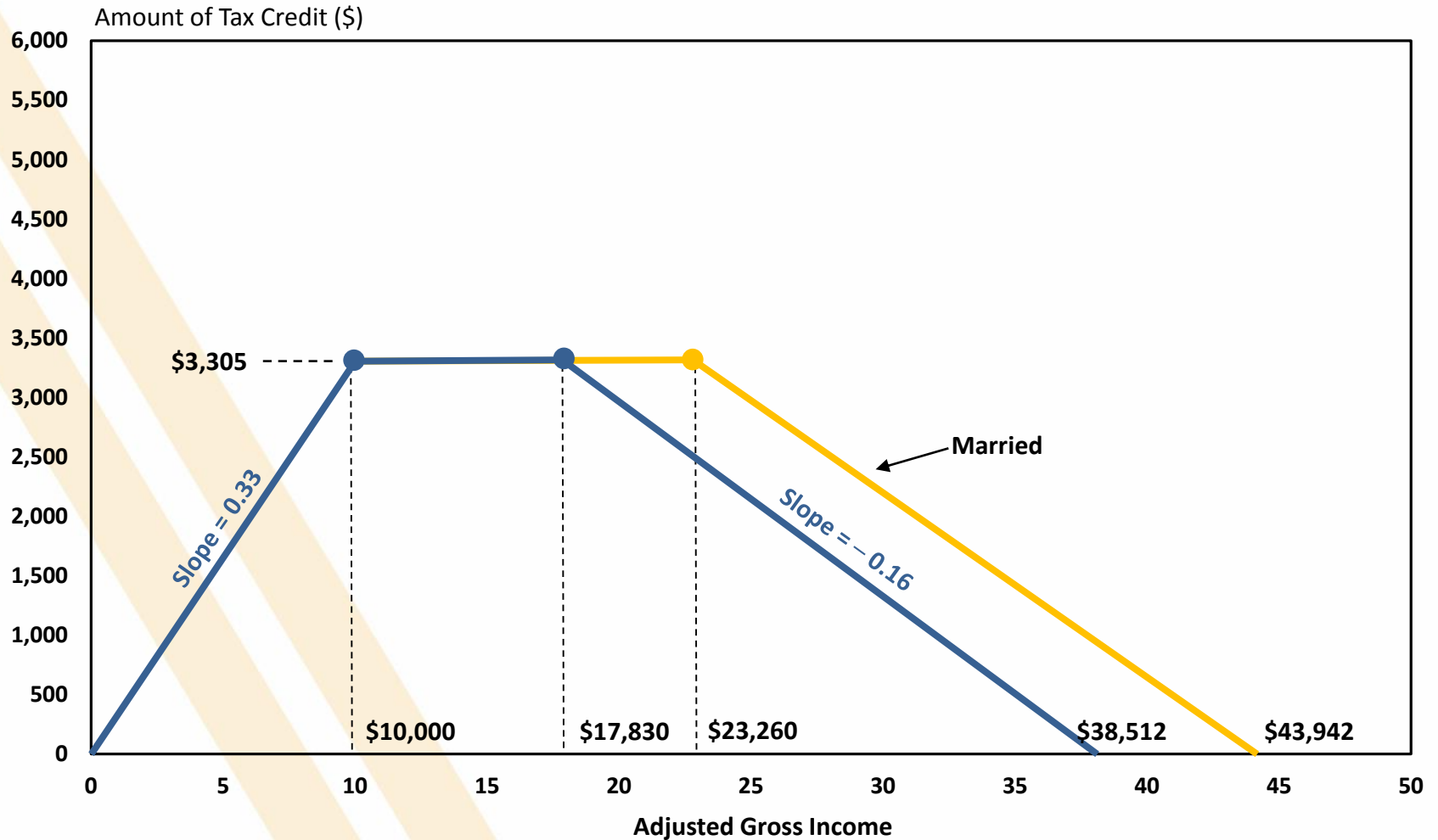
Source: Office of Management and Budget

# EITC Structure: Single with One Child



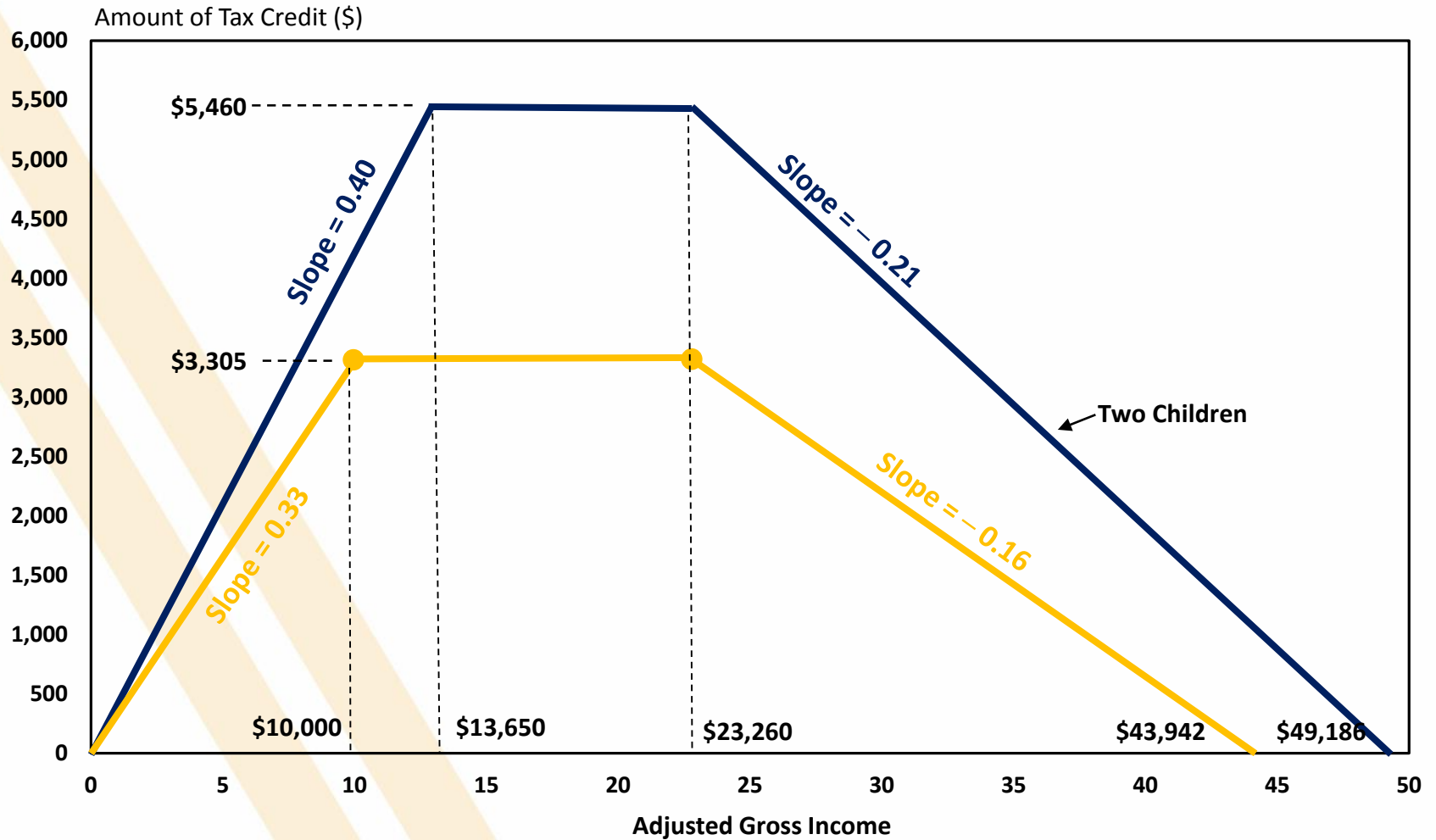
Source: Internal Revenue Service

# EITC Structure: Single versus Married, One Child



Source: Internal Revenue Service

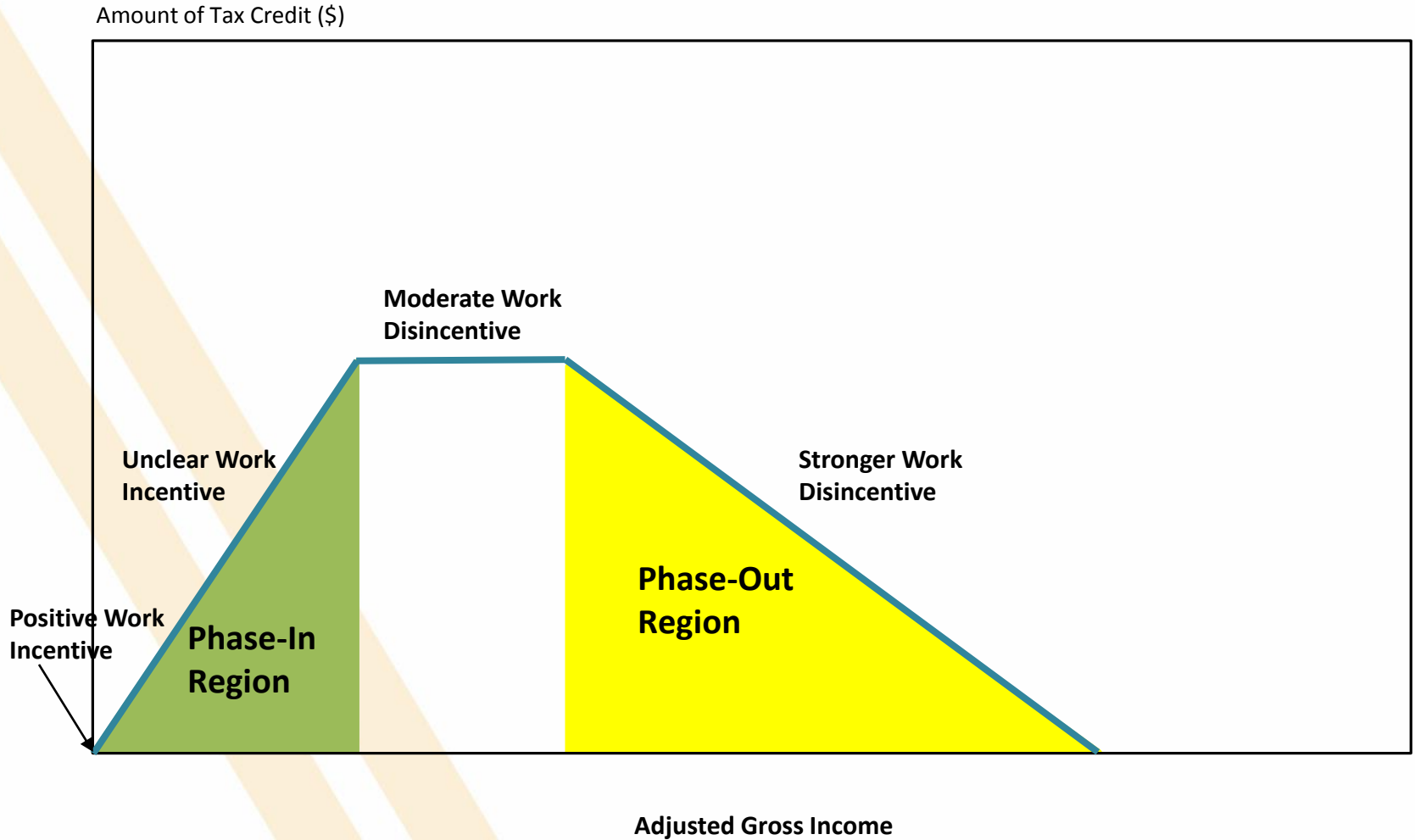
# EITC Structure: Married Household, One Child versus Two Children



Source: Internal Revenue Service



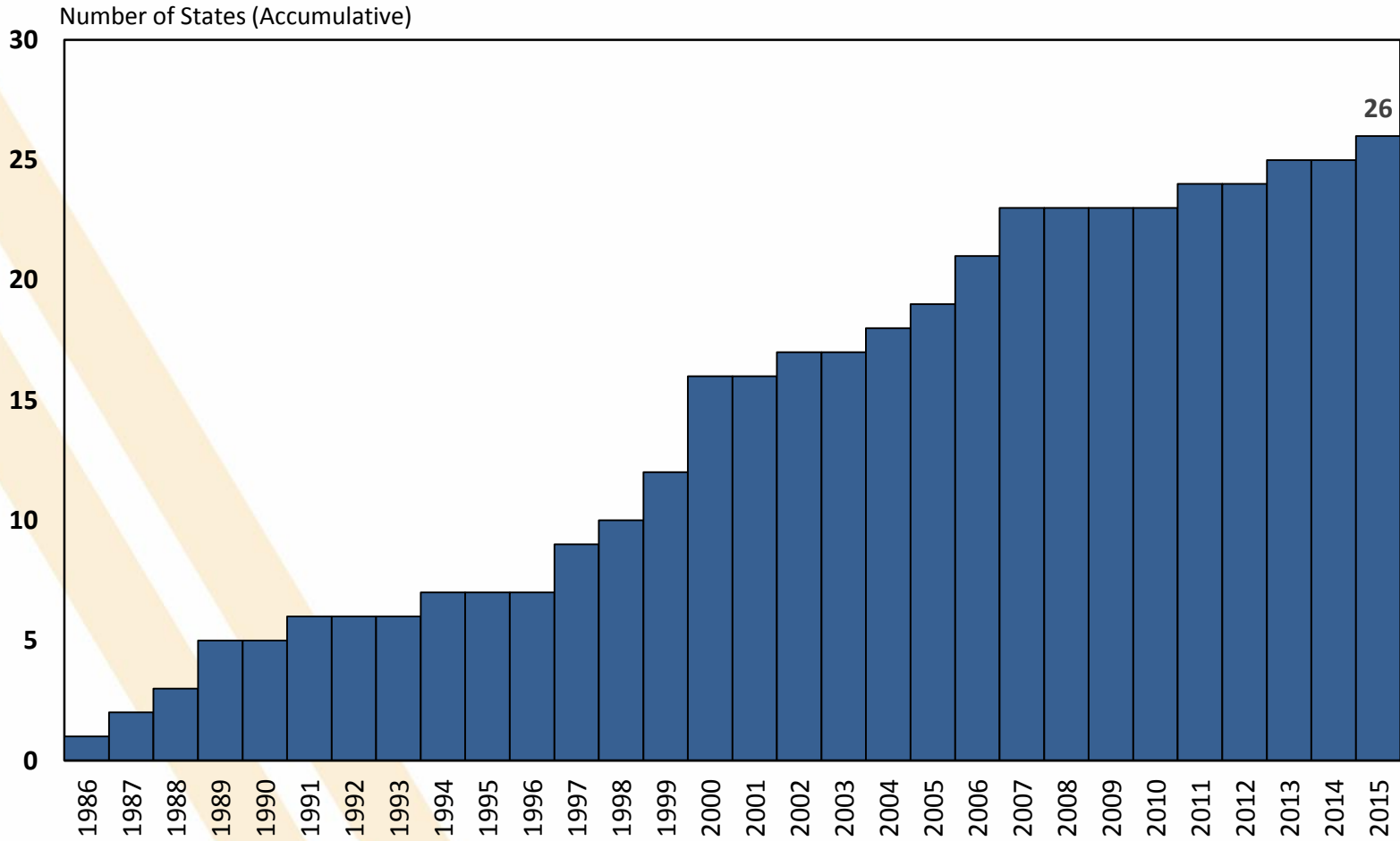
# EITC and Incentives to Work



# Empirical Evidence on the Federal EITC

- **Effect on labor force participation**
  - Evidence of an increase in labor force participation, especially among single mothers.
- **Effect on hours worked**
  - Little evidence of a reduction in hours worked among those already working.
- **Married couples**
  - Some negative effect on hours worked among married women.
- **Other benefits, such as improved health**

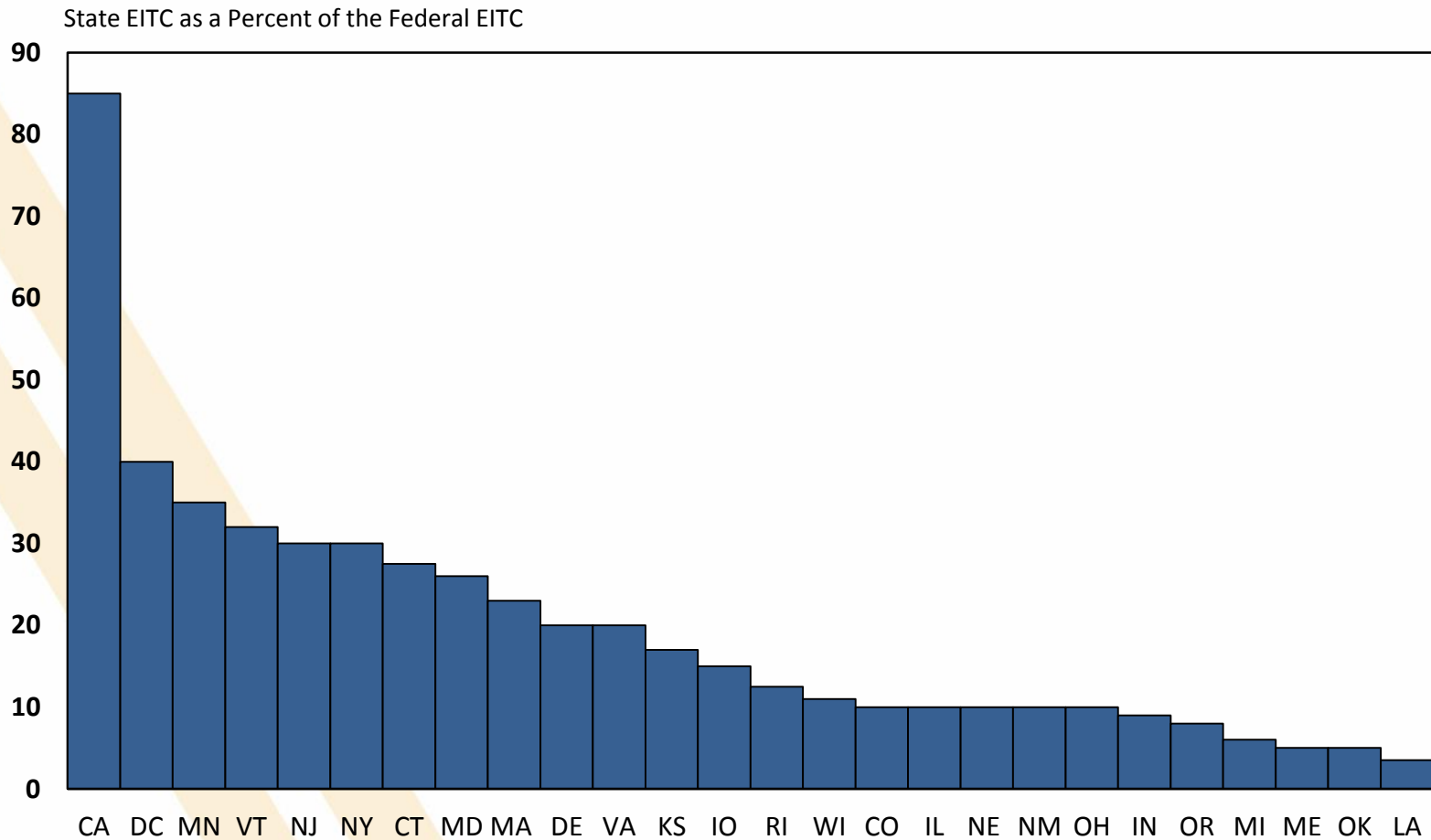
# Number of EITC States



Sources: Tax Credits for Working Families



# State EITCs – Expressed as Share of Federal EITC

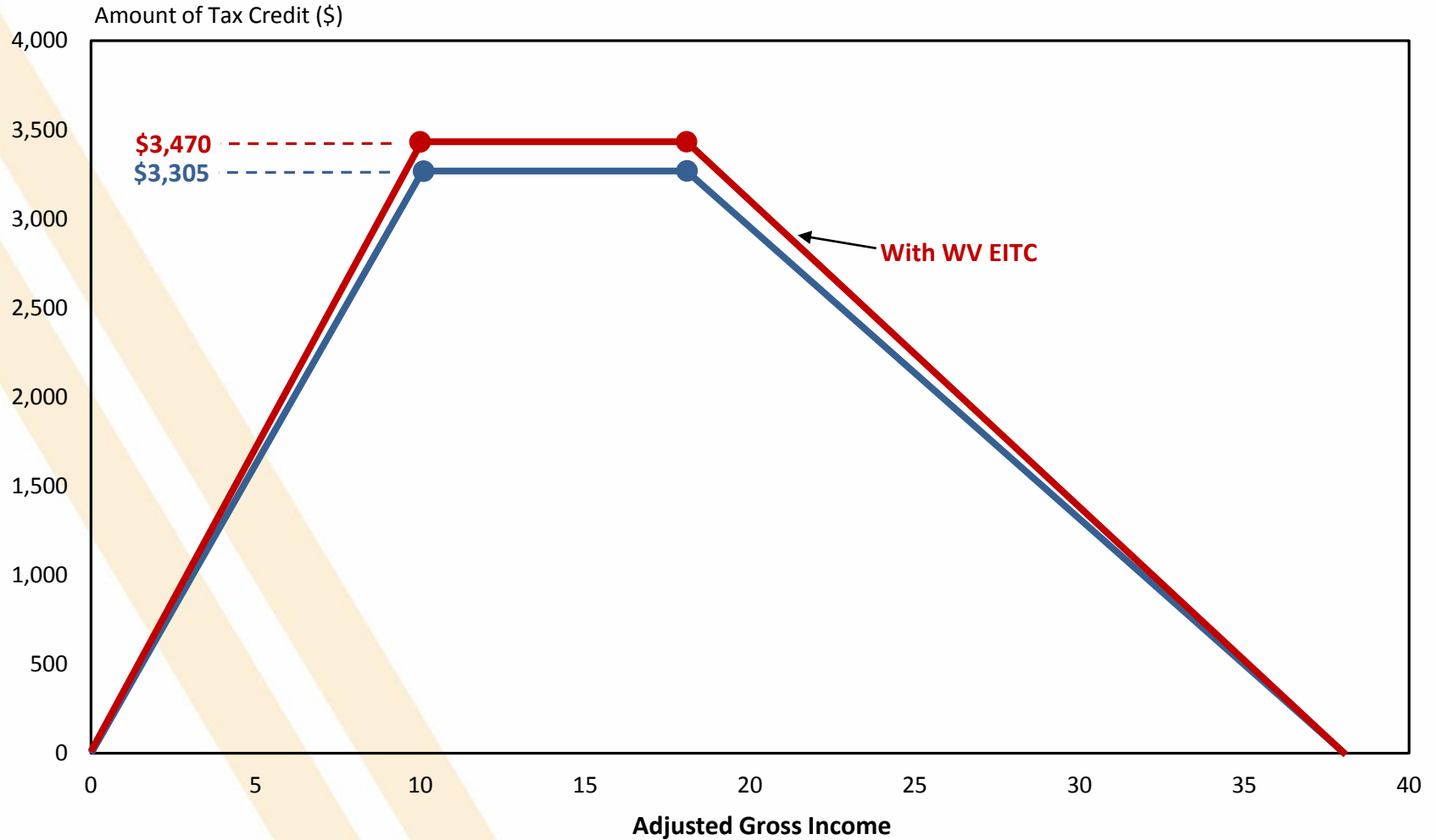


Notes: The State EITC rates are not always applicable across the board. For instance, the 85% rate in CA is only applicable to the Federal credit up to half of phase-in range, the MN rates differ based on number of children, CT rates range from 25 to 45, etc. For more detailed information, visit the data source at [taxcreditsforworkingfamily.org](http://taxcreditsforworkingfamily.org).

# Federal EITC in West Virginia, 2012

- **160 thousand tax returns claimed Federal EITC**
  - More than 20 percent of total
- **Total amount of EITC = \$341 million**
  - Average credit of \$2,130
- **Cost to West Virginia of an additional State EITC (back-of-the-envelope)**
  - At 5 percent of federal EITC = \$17 million
  - At 10 percent of federal EITC = \$34 million

# EITC Structure: Single, One Child, with Hypothetical 5% Additional West Virginia State EITC



Source: United States Center on Budget and Policy Priorities

# Special Considerations in West Virginia

- **West Virginia has the worst labor force participation rate in the nation**
  - Therefore we seem to need a state EITC severely.
- **But how much of our labor force participation deficit cannot be overcome by a state EITC?**
- **Our deficit can largely be explained by:**
  - Low education outcomes
  - High rates of disability
  - Transportation-based impediments in rural areas