

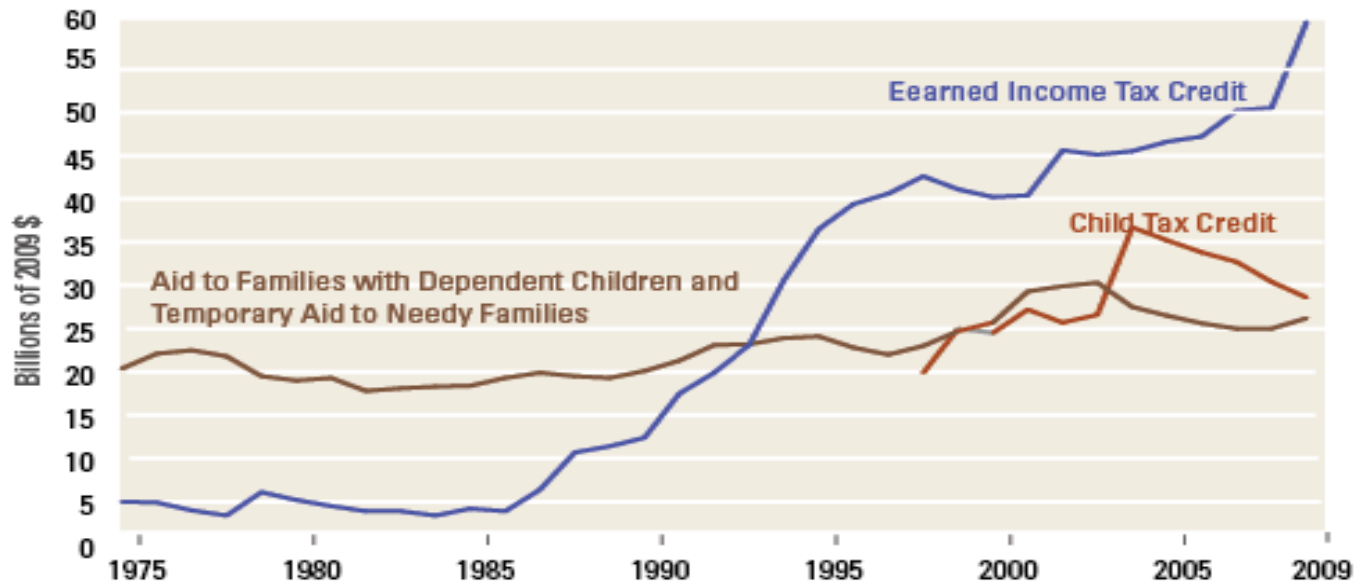
# Earned Income Tax Credit and the Child Tax Credit

Friday November 16,2012  
IABG Conference  
I Hotel & Conference Center, 1900 South First Street,  
Champaign, IL

# Federal Spending on Tax Credits

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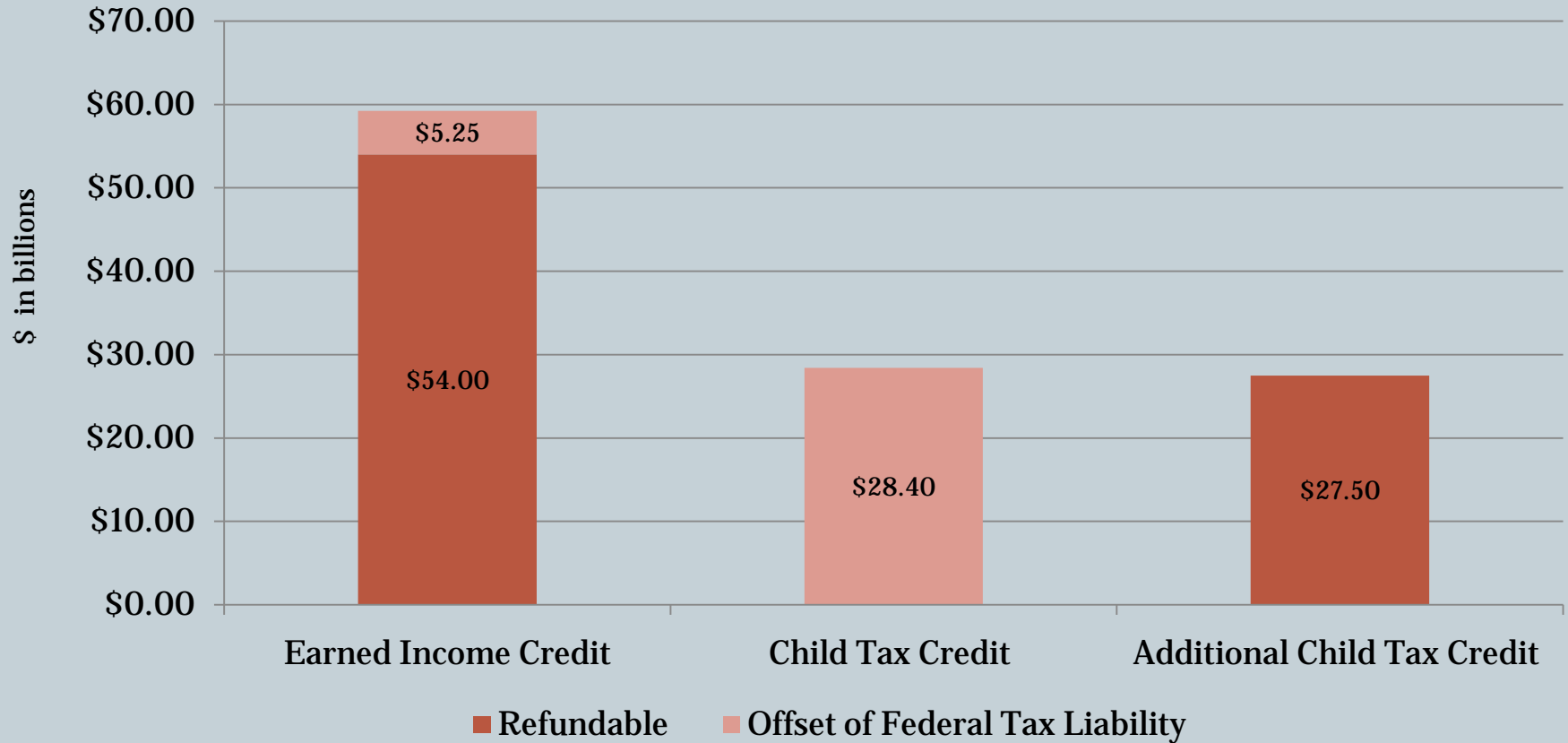
Figure 1. Real Federal Spending on EITC, CTC, and Welfare, 1975-2009



Source: Budget of the United States Government, Fiscal Year 2012, for AFDC/TANF; Internal Revenue Service Statistics of Income, various years for EITC and CTC; Bureau of Labor Statistics for CPI Deflator.

# Total amount spent on Tax Credits in FY2009

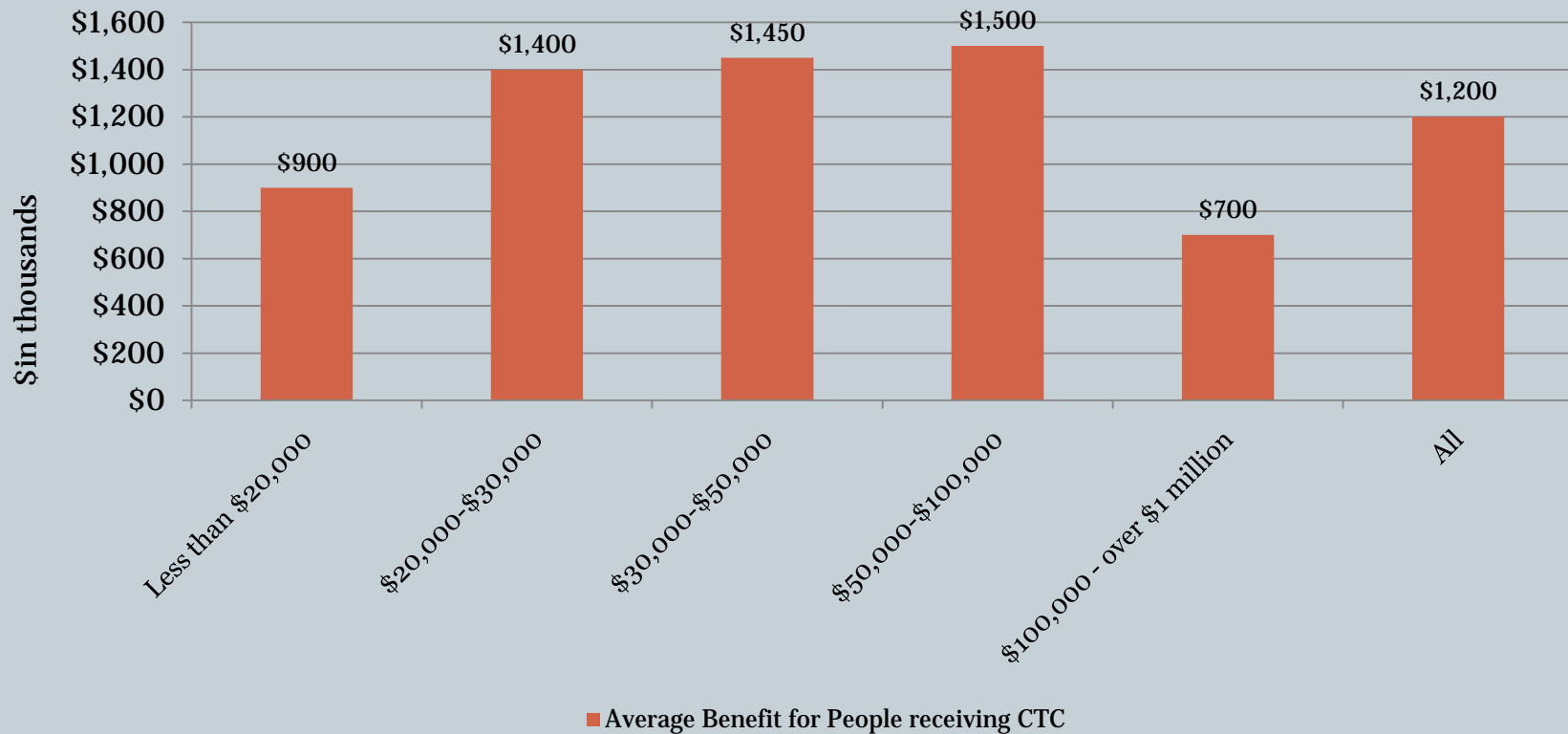
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Source: Internal Revenue Service Statistics of Income, FY 2009

# Federal Child Tax Credit Benefit

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Source: Tax Policy Center Budget Briefing Book

# Federal Child Tax Credit by Adjusted Gross Income (Tax Year 2009) (\$in thousands)

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Size of AGI	# of Returns	Amount
No AGI	3,203	\$2,323
\$1 under \$5,000	2,001	\$119
\$5,000 under \$10,000	6,055	\$657
\$10,000 under \$15,000	86,600	\$9,437
\$15,000 under \$20,000	838,676	\$181,027
\$20,000 under \$25,000	1,601,079	\$685,417
\$25,000 under \$30,000	1,912,560	\$1,207,424
\$30,000 under \$40,000	3,569,611	\$3,150,049
\$40,000 under \$50,000	2,834,047	\$3,394,528
\$50,000 under \$75,000	5,539,324	\$8,691,799
\$75,000 under \$100,000	3,895,003	\$6,649,977
\$100,000 under \$200,000	3,273,460	\$4,443,471
\$200,000 under \$500,000	1,392	\$579
\$500,000 under \$1,000,000	0	\$0
\$1,000,000 under \$1,500,000	0	\$0
\$1,500,000 under \$2,000,000	0	\$0
\$2,000,000 under \$5,000,000	0	\$0
\$5,000,000 under \$10,000,000	0	\$0
\$10,000,000 or more	0	\$0
<b>Total</b>	<b>23,563,011</b>	<b>\$28,416,807</b>

# Federal Earned Income Credit by Adjusted Gross Income (Tax Year 2009) (\$in thousands)

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Size of Adjusted Gross Income	Number of Returns	Amount of Credit
\$10,000 and under	8,118,257	\$10,219,715
\$10,000 to \$20000	8,942,909	\$27,699,375
\$20,000 to \$40,000	9,282,555	\$20,862,579
\$40,000 and up	697,777	\$457,792

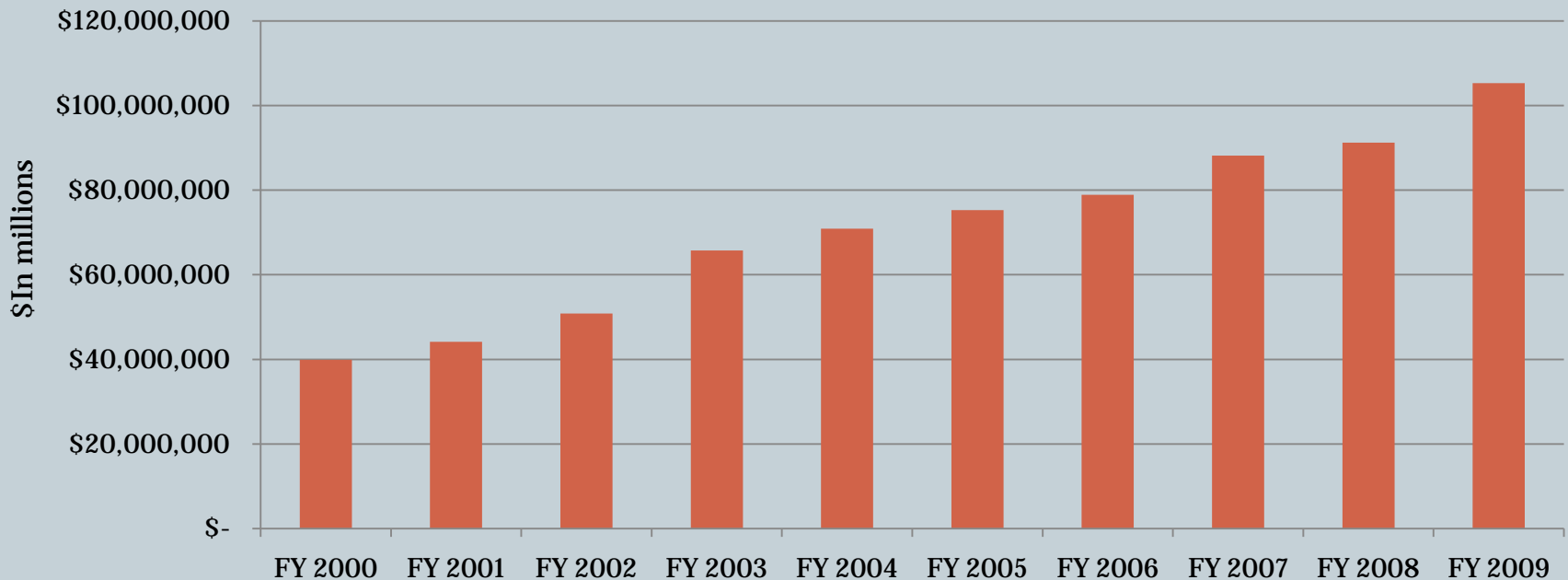
Source: Internal Revenue Service SOI Bulletin Fall 2011

# State Fiscal Impact

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- In 2009 the EITC cost the state of Illinois \$105.3 million at 5% of federal. In 2012 the percentage went to 7.5% of federal. The total cost would amount to approximately \$157.95 million when using 2009 data.

## Credit Amount



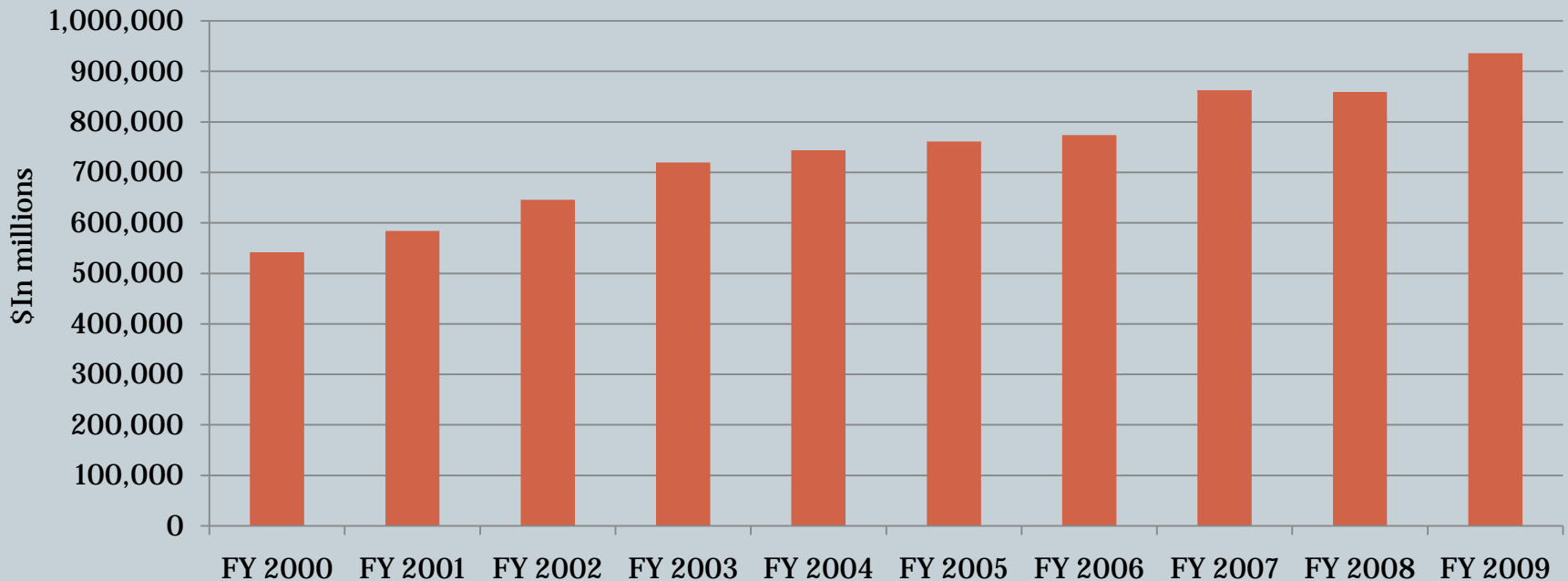
Source: Illinois Department of Revenue Annual Report FY2010

# Who gets this credit?

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In tax year 2009, 935,751 **working** taxpayers who qualified for the Illinois EITC, received a total of more than \$105 million in direct tax relief. That averages out to \$112.55 per return.

**Number of EITC Returns**



Source: Illinois Department of Revenue Annual Report FY2010



# Federal EITC : Tax Year 2011 Limits and Max Amount

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Number of Qualifying Children	For Single/Head of Household or Qualifying Widow(er), Income Must be Less Than	For Married Filing Jointly, Income Must be Less Than	Max EITC
No Child	\$13,660	\$18,740	\$475
One Child	\$36,052	\$41,132	\$3,169
Two Children	\$40,964	\$46,044	\$5,236
Three or More Children	\$43,998	\$49,078	\$5,891

Source: irs.gov; Preview of 2012 Tax Year EITC Income Limits

# Illinois EITC: Tax Year 2011 Limits and Max Amount

Number of Qualifying Children	For Single/Head of Household or Qualifying Widow(er), Income Must be Less Than	For Married Filing Jointly, Income Must be Less Than	FY 2011 (Estimate) Max EITC at 5% of Federal	FY 2012 (Estimate) Max EITC at 7.5% of Federal	FY 2013 (Estimate) Max EITC at 10% of Federal
No Child	\$13,980	\$19,190	\$23.75	\$35.63	\$47.50
One Child	\$36,920	\$42,130	\$158.45	\$237.68	\$316.90
Two Children	\$41,952	\$47,162	\$261.80	\$392.70	\$523.60
Three or More Children	\$45,060	\$50,270	\$294.55	\$441.83	\$589.10

# Possible Federal Reform for the EITC and CTC in 2013

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- On January 2, 2013, if Congress and the President do not enact legislation cancelling them or delaying them, automatic spending cuts will begin through a process called sequestration.
- While the EITC and the CTC programs themselves are exempt from sequestration, certain reform measures put in place in 2009 to help more low-income families will expire.
- These include:
  - For the EITC- The increase in the maximum EITC for families with three or more children and reduction in the marriage penalty to families will expire.
  - For the CTC- the minimum earnings eligibility threshold of its refundable version, the ACTC, will move from \$3,000 to \$13,350.

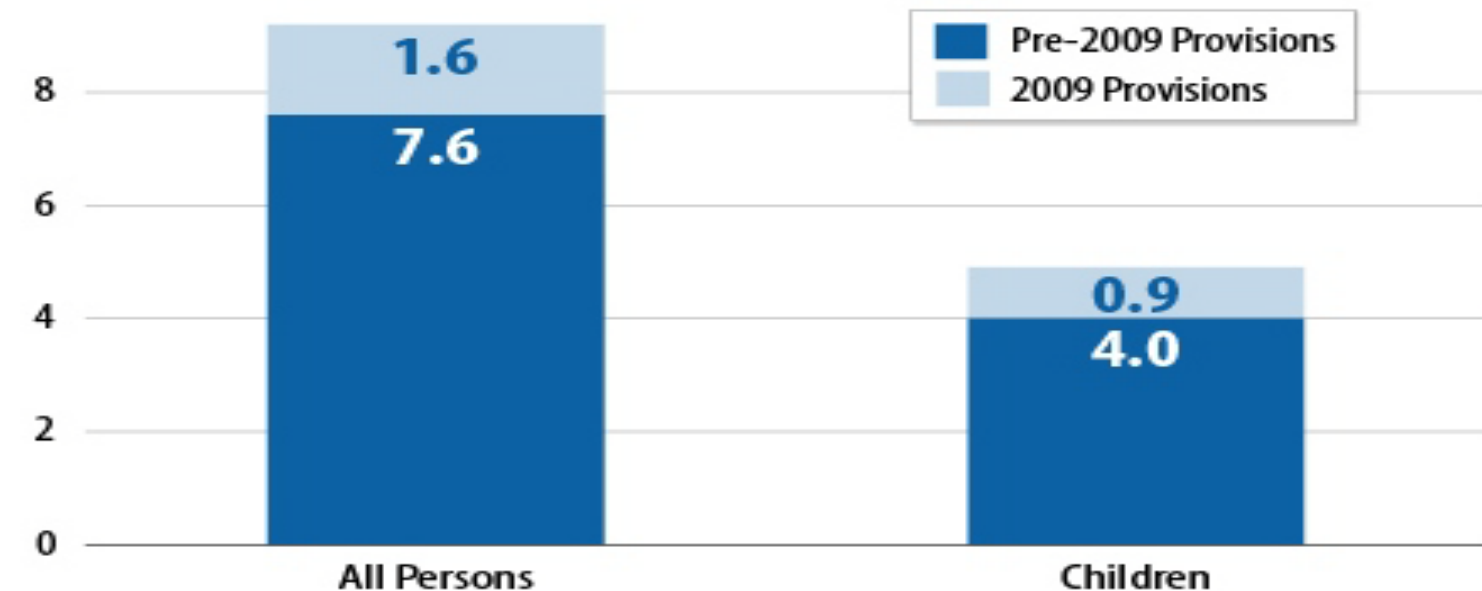
# Effects of 2009 ARRA Legislation Nationally

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## Earned Income Tax Credit and Child Tax Credit Lift Millions out of Poverty

Persons lifted above the poverty line (using the National Academy of Sciences definition) by the EITC and the CTC, 2010

10 million



Note: Unlike the Census Bureau's official poverty measure, the NAS poverty measure counts the effect of government benefit programs and tax credits.

Source: CBPP analysis of Census Bureau's March 2011 Current Population Survey

# Risks to working families if 2009 ARRA changes expire.

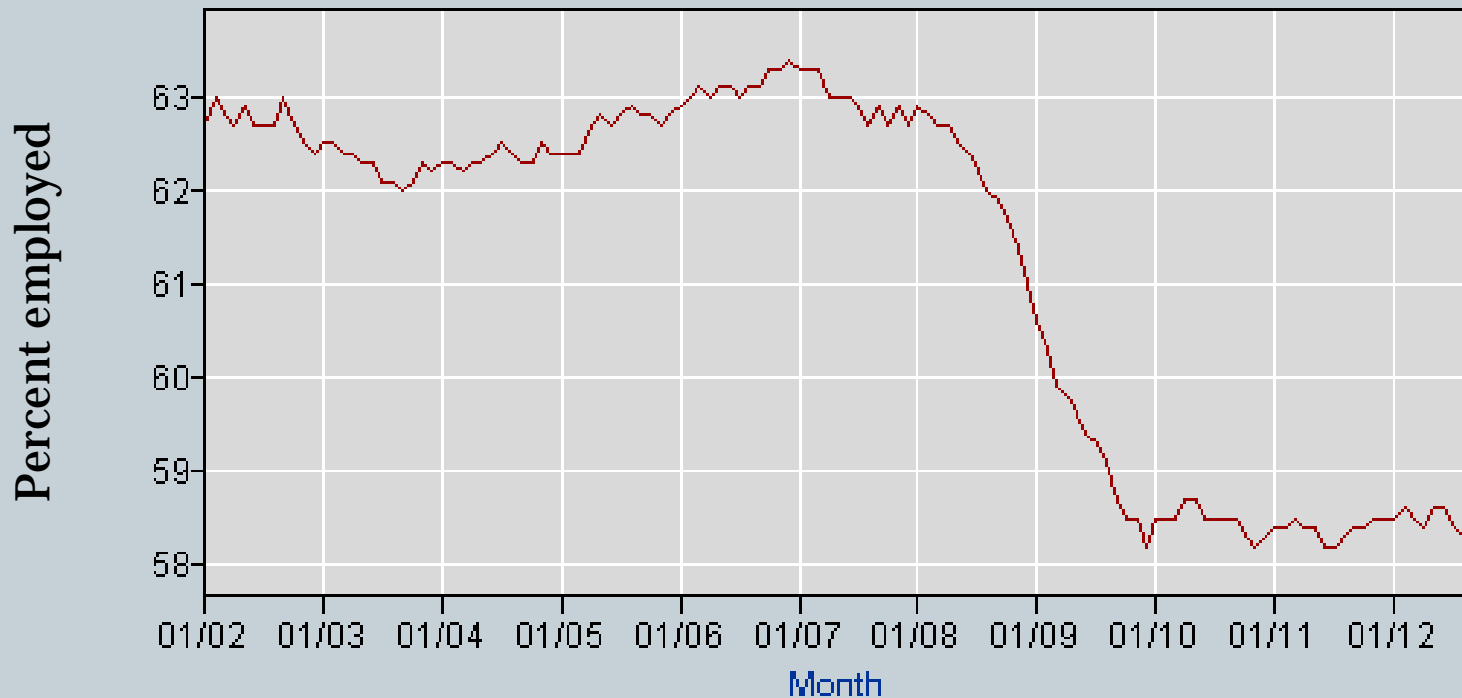
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- **What's at risk?**
  - If the Child Tax Credit ARRA improvements expire, a working family would not qualify for even a partial credit in 2013 unless it had more than \$13,350 in earnings. The Brookings Institute Tax Policy Center estimates that 7 million children in working families earning less than \$13,350 would lose the CTC entirely.
  - A substantial amount of low income married couples will face larger marriage penalties.
  - Families with three or more children will lose up to \$699 in EITC benefits.
- **Conclusion: Nationally, failure to extend the ARRA improvements would increase the number of people living in poverty by 1.6 million and increase the number of children living in poverty by 900,000.**

# Employment rate is sharply down nationally

Employment-population ratio, age 16+ (percent)

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Source: Bureau of Labor Statistics

# And unemployment rate in Illinois is up

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Rank	State	Rate (as of 10/2012)
1	North Dakota	3.0
2	Nebraska	3.9
4	Iowa	5.2
11	Minnesota	5.8
19	Missouri	6.9
21	Ohio	7.0
	<b>NATIONAL</b>	<b>7.9</b>
30	Indiana	8.2
40	Illinois	8.8
50	Nevada	11.8

Source: Bureau of Labor Statistics, Last Modified October 19, 2012

# FY 2013 Enacted General Fund Appropriations (\$in millions)

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Category		Appropriation Amount
<b>(i)</b>	Total General Fund Appropriations for Capped Items	\$34,309
<b>(ii)</b>	Total Hard Costs	\$9,320
	Debt Service (Pension & Capital Bonds)	\$2,168
	Other Statutory Transfers Out (including \$151 million for FY 2013 Medicaid bill repayment)	\$2,052
	Pension Contributions	\$5,099
<b>(iii)</b>	Repayment of Bills	\$800
	Medicaid	\$500*
	Backlog of Other Unpaid Bills from 2012	\$300
<b>(iv)</b>	General Fund Services Approps Gross	\$24,189
	Pre K-12	\$6,542
	Higher Education	\$1,980
	Medicaid (FY2013 Services)	\$6,639
	Human Services	\$5,086
	Public Safety	\$1,606
	Group Health Insurance	\$1,171
	Other	\$1,165
<b>(v)</b>	Unspent Appropriations	\$650
<b>(vi)</b>	Net General Fund Service Approps for FY2013	\$23,539

Sources: HR706, SB2348, SB24132, SB2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative Staff.

Note that the FY2013 Enacted Budget will spend \$786 million less on services than what the Governor proposed in April.



# FY 2013 Accumulated Deficit (\$ in billions)

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Category		FY 2013 Actual
(i)	Projected FY2013 Revenue	\$33.72
(ii)	FY2013 Hard Costs	\$9.32
(iii)	Deficit Carry Forward from FY 2012	\$9.00
(iv)	Net FY2013 General Fund Revenue Available for Services	\$15.40
(v)	General Fund Service Appropriations in Enacted G.F. Budget (Net of "Unspent Appropriations")	\$23.54
(vi)	Minimum FY2013 General Fund Deficit	<b>(\$8.14)</b>
(vii)	Deficit as a Percentage of General Fund Service Approps	<b>-34.6%</b>

Sources: FY2013 Budget as passed in HR706, SB2348, SB2413, SB2443, SB2454, SB2474, SB2332, SB2378, SB2409, and June 2012 Communications with Legislative staff; Revenue from Amendment No. 1 to HR707 adopted March 1, 2012, and Senate Floor Amendment No. 1 to SR 586 adopted March 7, 2012; and unpaid bills from April 2012 Quarterly Report from the Comptroller.

**FY 2013 Accumulated Deficit  
(\$ Billions)**

# Primary Causal Factors

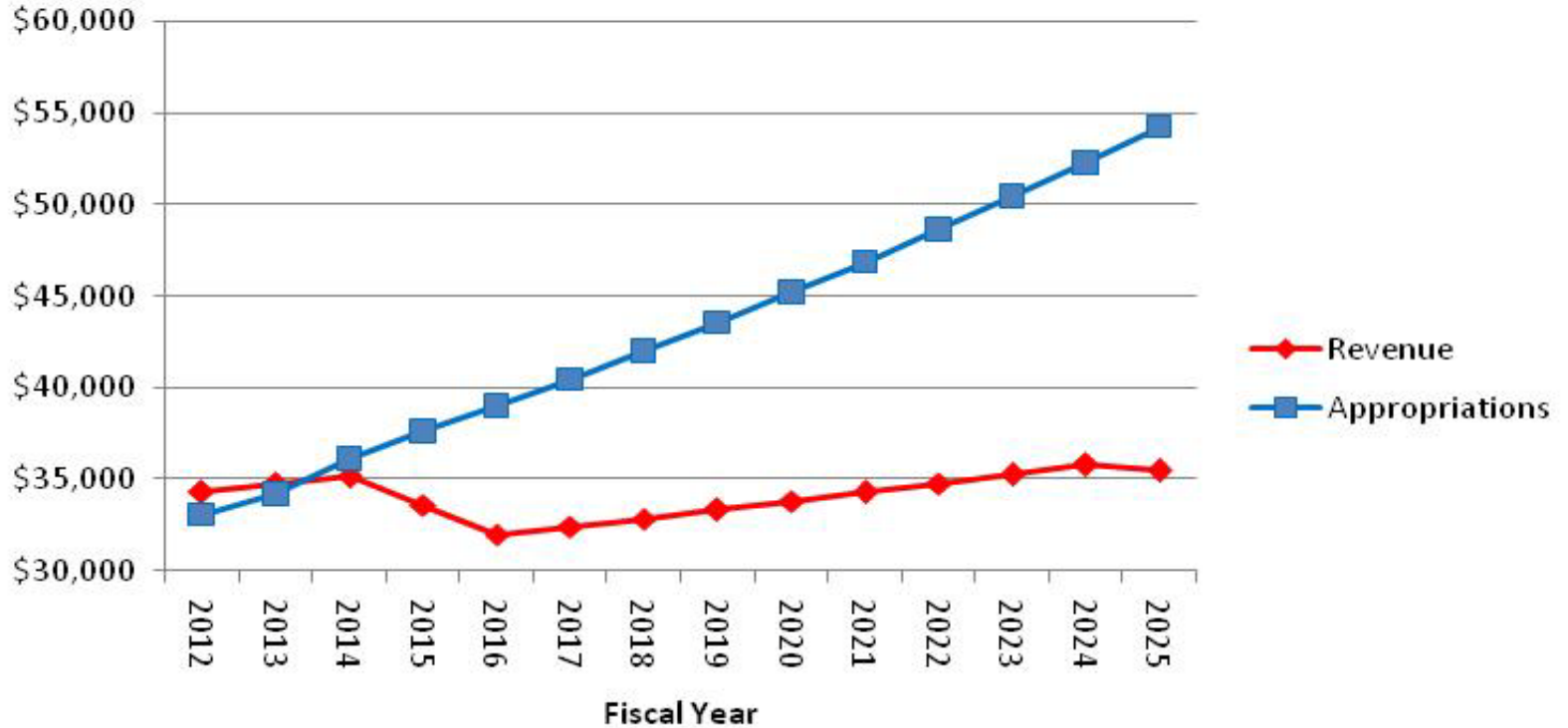
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- **Flawed Tax Policy**
- **Irresponsible Fiscal practices**
- **NOT The “Great Recession” of 2008-2009**

# Which Creates a Structural Deficit

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## General Fund Revenue and Appropriations (\$ millions)



Adam Smith, the father of modern capitalism, contended that for a tax system to be fair it has to be progressive

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According to Smith:

"The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state .... [As Henry Home (Lorde Kames) has written, a goal of taxation should be to] 'remedy inequality of riches as much as possible, by relieving the poor and burdening the rich.'"

# Was Adam Smith right?

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The long-term trends in income distribution in America demonstrate that his reasoning was solidly on target.

Distribution of US Income Growth Over Time	
Families	1947— 1979
Top 10%	34.10%
Bottom 90%	65.90%

Distribution of US Income Growth Over Time	
Families	1979 — 2007
Top 10%	63.70%
Bottom 90%	36.30%

Source: Piketty and Saez, "Striking it Richer: The Evolution of Top Incomes in the United States (Update with 2007 estimates)," August 5, 2009, U.C. Berkeley; Calculations from John Schmidt, *Challenge*, September-October 2010.

# Illinois State & Local Taxes Paid as a Share of Family Income for Non-Elderly Taxpayers

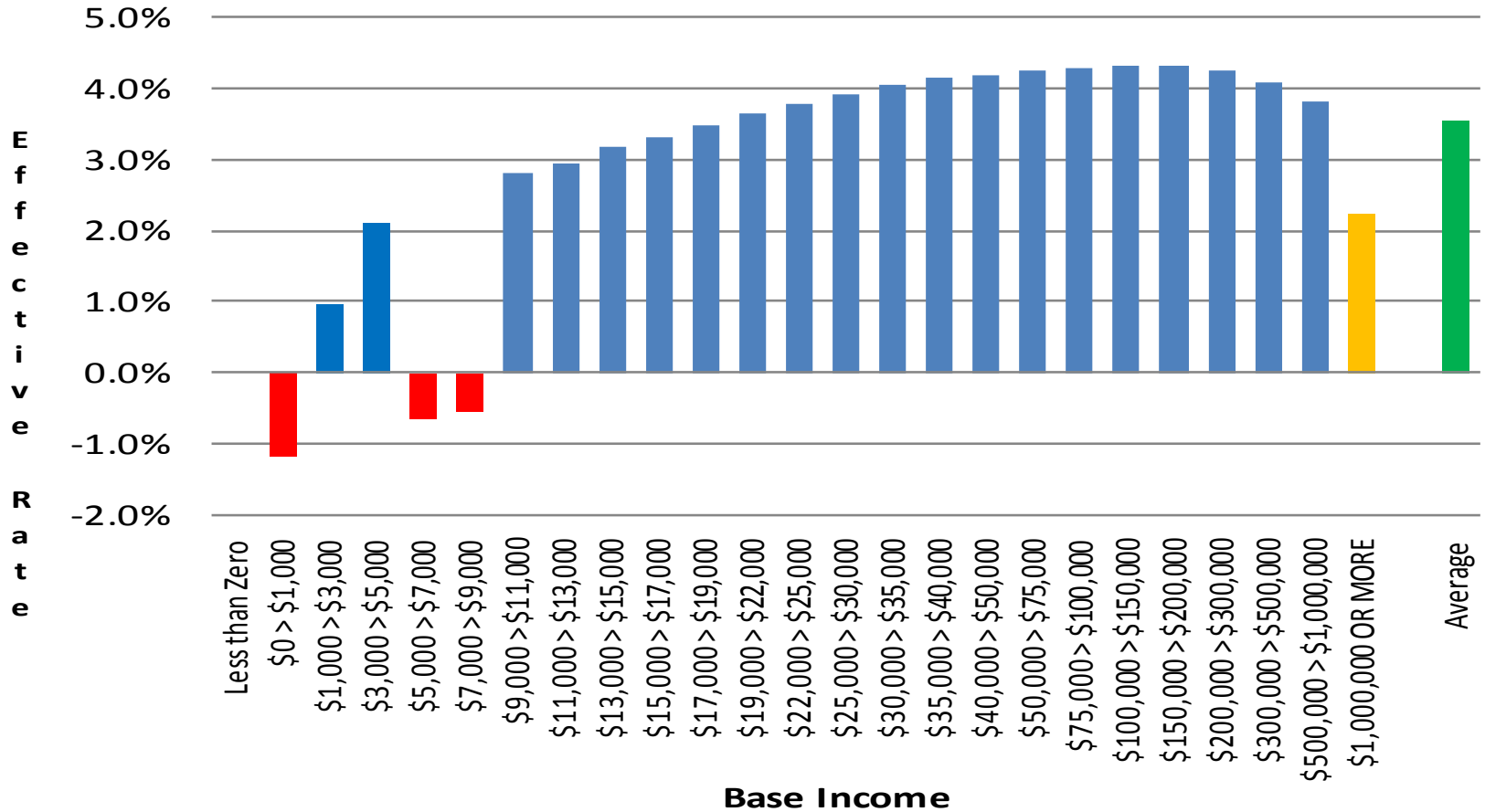
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Income Group	Top 20%						
	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income	Less than \$18,000	\$18,000 – \$36,000	\$36,000 – \$58,000	\$58,000 – \$95,000	\$95,000 – \$196,000	\$196,000– \$500,000	\$500,000 or more
Average Income in Group	\$10,100	\$26,600	\$47,000	\$74,700	\$128,900	\$300,700	\$2,084,700
Sales & Excise Taxes	6.9%	5.5%	4.4%	3.6%	2.7%	1.7%	0.8%
Property Taxes	4.8%	3.6%	3.7%	3.7%	3.9%	3.1%	1.5%
Income Taxes	2.0%	3.2%	3.9%	4.0%	4.1%	4.1%	4.2%
<b>TOTAL TAXES</b>	<b>13.7%</b>	<b>12.3%</b>	<b>12.0%</b>	<b>11.4%</b>	<b>10.7%</b>	<b>8.9%</b>	<b>6.5%</b>
Federal Deduction Offset	-0.0%	-0.1%	-0.4%	-0.7%	-1.1%	-0.8%	-1.2%
<b>TOTAL AFTER OFFSET</b>	<b>13.7%</b>	<b>12.2%</b>	<b>11.6%</b>	<b>10.7%</b>	<b>9.5%</b>	<b>8.0%</b>	<b>5.3%</b>

Source: Institute on Taxation & Economic Policy, *Who Pays? A Distributional Analysis of Tax Systems in All 50 States*, p. 42, Third Edition, November 2009. Note: This table shows 2007 data updated to reflect permanent changes in Illinois tax law enacted through January, 2012.

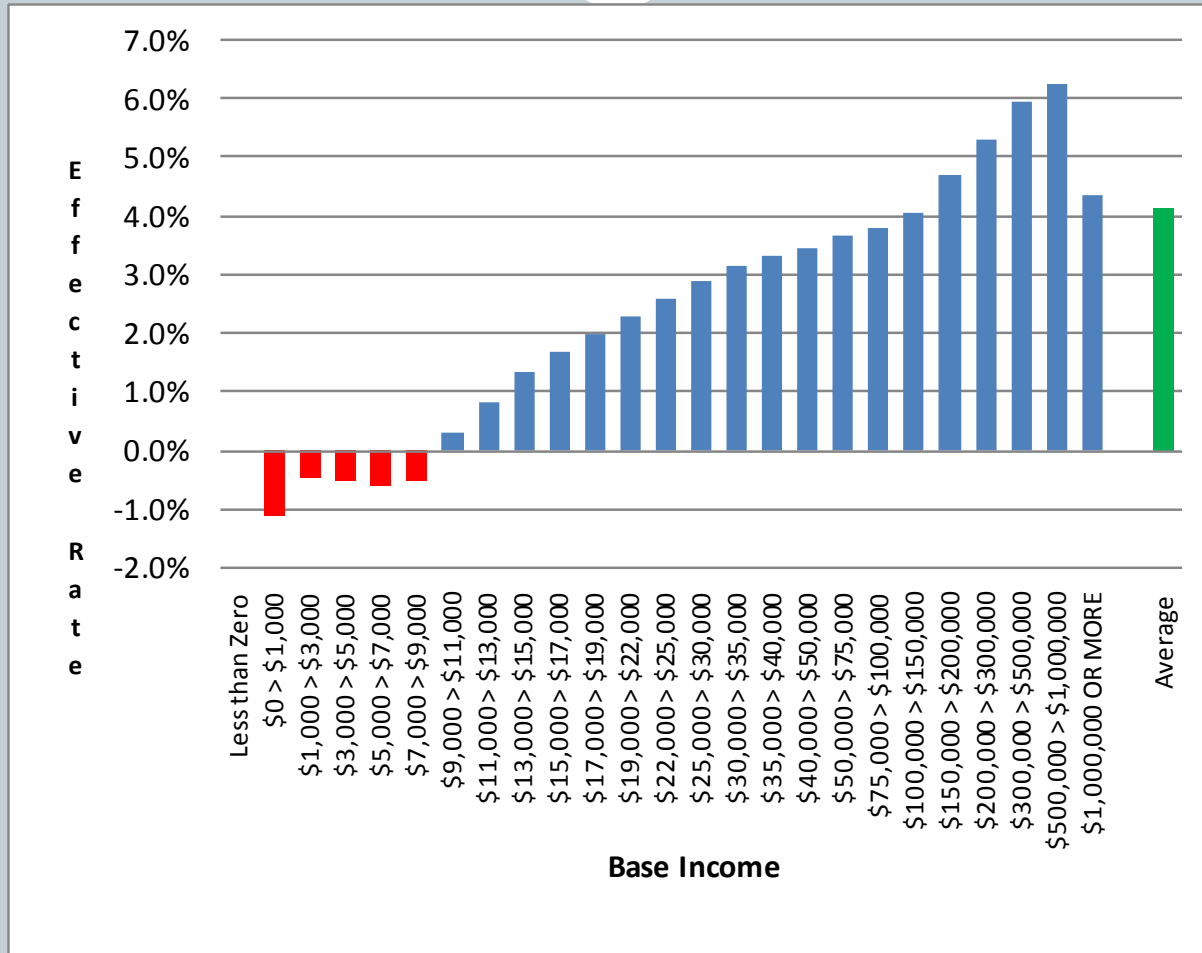
# Effective Tax Rates By Base Income Under Illinois' Current 5% Flat Tax

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# Effective Tax Rates by Base Income with Graduated Income Tax

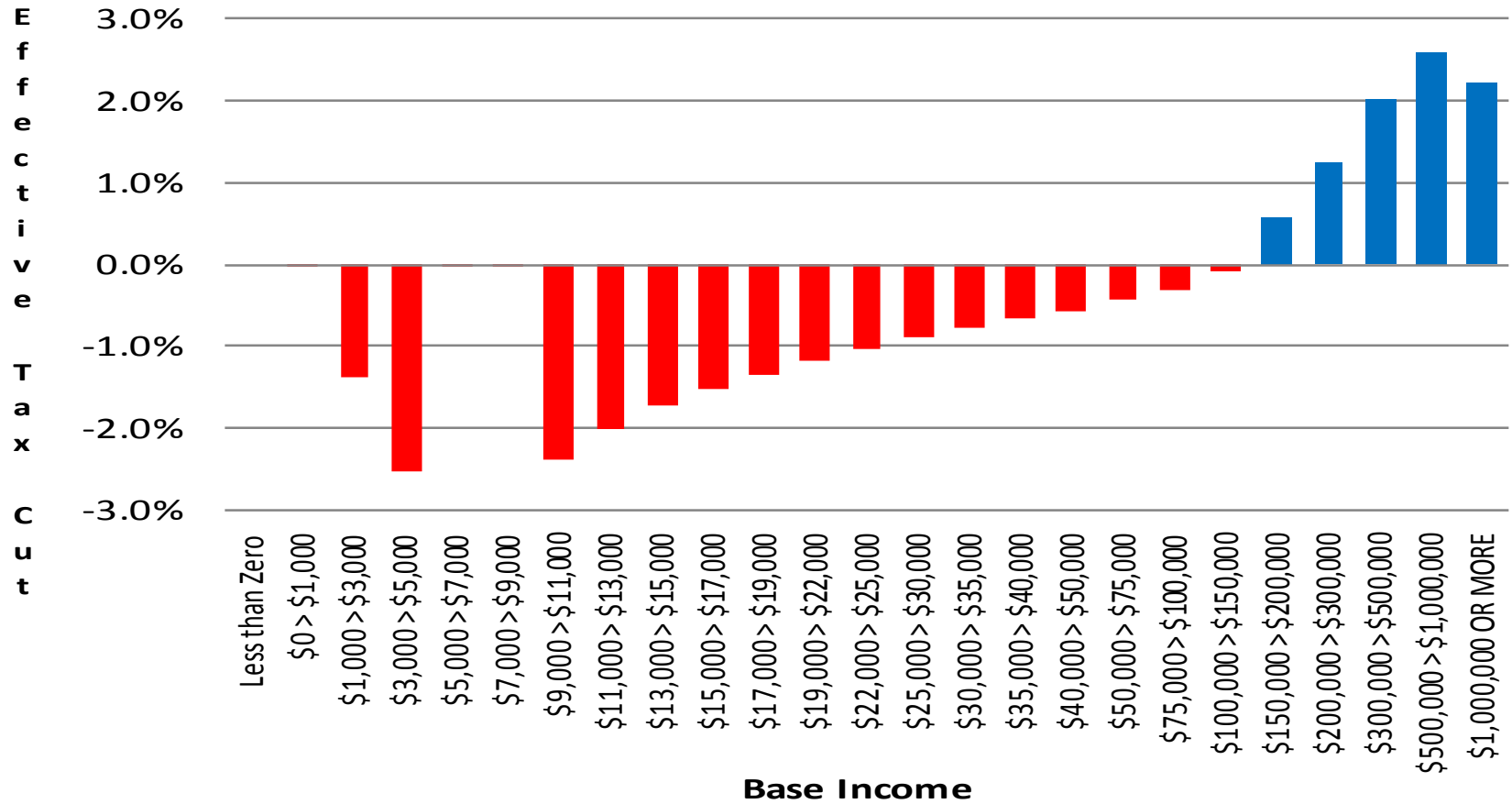
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# Potential Effective Tax Rate Changes in Illinois with Graduated Individual Income Tax Structure

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# From 2000 - 2010

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**9 states with highest graduated income tax rate structures had:**

- Better growth in state GDP per capita
- Better change in median wage
- Identical unemployment rate

**Than the 9 states with NO income tax**

Source: Institute on Tax and Economic Policy