

Virginia's Earned Income Credit Could Do More for Military Families

By Mitchell Cole, Sara Okos, and Michael J. Cassidy

A state tax credit that helps large numbers of active-duty military and veteran families in Virginia make ends meet is falling short of its full potential and could be significantly strengthened by state lawmakers.

Virginia's Earned Income Credit (EIC) lets working families that depend on low-wage jobs and pay taxes claim a modest credit against the state income taxes they owe. It is based on the federal Earned Income Tax Credit (EITC), but it lacks an important feature of the federal law: It is not refundable.

Making the EIC refundable would significantly help military and veteran families by allowing them to receive a tax refund if the amount of the credit exceeds the amount of state income tax they owe. These families also pay numerous other state and local taxes, including sales and property taxes, and making the EIC refundable would offset some of the bite those taxes take.

Tax credits like the EIC are proven tools for reducing poverty, especially among children. Virginia's EIC offers parents, who are doing their best to raise their families in difficult financial situations, temporary support to help them get by.

But it could go a lot farther. Virginia lawmakers can bring Virginia's credit to its full potential as a tool to help provide greater economic security to military families and veterans by making it refundable.

Virginia's Tax Credit and Military Families

In Virginia, about 56,000 military families currently get help making ends meet through the federal EITC or the low-income component of the Child Tax Credit. That's more than 10 percent of all federal credit recipients in the state.

Most state and local governments rely heavily on revenue from taxes – like sales and property taxes – that consume a larger

share of the earnings of lower-income families than higher-income households. To correct for this disproportionate impact on working families, many states have created their own state income tax credits based on the federal EITC. Virginia is among them.

Enacted in 2004 and first available in 2006, Virginia's EIC is one-fifth of the amount of the federal credit.

In order to claim the state credit, taxpayers first have to qualify for the federal credit. And a lot of them do.

About 1.5 million military families across the country receive the federal credit or the low-income component of the CTC. That means that about one in four military families with children nationwide benefit from these tax credits. On average these working families receive \$2,650 from the federal EITC, which offsets their income tax and contributions to programs like Social Security and Medicare.

The EITC and CTC help keep more than 140,000 military families out of poverty, including more than 300,000 of our service members' children, according to an analysis of Census data. And it helps minimize poverty for an additional 800,000 members of military families nationwide.

The EITC and CTC help keep more than 140,000 military families out of poverty, including more than 300,000 of our service members' children

The Good and the Bad

Virginia's credit allows low-income working families – and they have to be working to be eligible – to keep more of what they earn to pay for basic expenses.

Unlike the federal credit, however, Virginia's credit cannot exceed a family's income tax liability, sharply limiting its ability to help military families and kids. What this means is that to the extent that a family's credit is

larger than what they owe in income taxes, that remaining credit is lost.

A refundable credit would allow families to receive the full value of the credit as a refund when it exceeds their income tax liability. This would help lower the other taxes these families pay, like property, sales and excise taxes, all of which eat up a large chunk of what they earn and take a higher proportion of their income than of wealthier families' incomes.

Among the 26 states (including the District of Columbia) that have earned income credits, only four are non-refundable, including Virginia's . (Rhode Island has a partially refundable credit.) Because very low-income households have low tax liability, this quirk means that the credit falls short of its full potential to help Virginia families make ends meet, including many serving in the military.

Benefits for Families and Children

By boosting low incomes, refundable tax credits for working families not only keep many families and kids out of poverty, they can also improve their fortunes for years to come.

For example, children living in families receiving these tax credits are born healthier, with lower rates of premature and low-weight birth than kids in other low-income families. They also do better in school and earn higher incomes in adulthood . So not only do refundable tax credits reduce poverty right now, they also help the next generation break the cycle.

Our military members and veterans work hard, but many still struggle to provide for their families. Strengthening their economic security and future success by making the EIC refundable would show real support for these families that sacrifice so much for our country.

**Our military members
and veterans work hard,
but many still struggle to
provide for their families.**

The Commonwealth Institute

The Commonwealth Institute for Fiscal Analysis provides credible, independent and accessible information and analyses of state public policies with particular attention to the impacts on low- and moderate-income persons. Our products inform state economic, fiscal, and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Contact 804-396-2051 or go to www.thecommonwealthinstitute.org. This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Unported License.

