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Small Improvement to Earned Income Credit Brings Broad Economic Benefits

Budget Amendment Could Make the Difference

RICHMOND, VA – Virginia’s Earned Income Credit (EIC) – a tax credit available to low-income tax filers in Virginia who qualify for the federal Earned Income Tax Credit (EITC) – gives a modest boost to the work effort and earnings of working families across the commonwealth.

But one simple improvement to the state credit would help strengthen it not only for Virginia’s families but also for the state’s businesses and economy, according to analysis released today by The Commonwealth Institute for Fiscal Analysis, an independent fiscal and economic policy group in Richmond.

The state EIC is based on the federal EITC. But unlike the federal credit, the state credit is not refundable. That means that if the amount of the credit is greater than the amount of state income tax owed, the income tax is eliminated but the rest of the credit is lost. A budget amendment introduced by Sen. Donald McEachin would change that, making the credit refundable.

“Working families who don’t owe income tax still pay a lot in other taxes, like state sales and gas taxes,” says Michael Cassidy, President of the Institute. “Those taxes consume a greater share of their income than they do for higher-income families. Making the credit refundable would dramatically enhance the difference the credit makes to these families and to the businesses that serve them and their communities.”

Key findings of the report include:

- More than half of the refunds that come from the federal credit go toward paying bills and other basic necessities like electricity and phone service. And more than a third is socked away as initial savings, according to the report.
- The refundable federal credit along with the Child Tax credit – another credit helping low-income families offset the cost of raising kids – helps lift 165,000 Virginians out of poverty each year, including 85,000 children.

- The federal and state credits can only be claimed by Virginians who work, and they are structured to encourage people to work more hours.
- Making the credit refundable would help lower the substantial state and local taxes paid by working families with low earnings, including the recently increased statewide sales tax.
- People who claim the refundable federal credit use their refunds mostly for basic expenses and things that make work possible including: car repair, education, overdue bills, and childcare.

“People who work hard would be able to support their families and stay out of poverty,” says Cassidy. “Making the state EIC refundable would give working families more resources to ensure they can get to their jobs, keep the lights on, and put food on the table.”

The full report, *Shared Credit*, is available at www.thecommonwealthinstitute.org.

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About The Commonwealth Institute

The Commonwealth Institute for Fiscal Analysis provides credible, independent and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons. Our products inform fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Visit www.thecommonwealthinstitute.org for more information.