



## Earned Income Credit Fact Sheet

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House Bill 377, Printer's Number 2849 proposes a Pennsylvania Earned Income Credit (EIC) equal to 15% of the federal Earned Income Credit in 2008. The credit increases to 30% beginning 2009. The Pennsylvania EIC would help to move low-income working families out of poverty and make Pennsylvania's tax system fairer. It would also help to offset a proposed one-half percent increase in the state's sales tax. Without this program, low-income families, who are much less likely to own homes, would be disproportionately affected by the increased cost of sales tax to finance property tax relief.

- The proposed Pennsylvania EIC is based on the highly successful and time-tested federal EIC.
  - The EIC encourages work. Studies have found that the federal EIC helps increase workforce participation, particularly among single mothers.
  - Federal EIC benefits are available to families with incomes up to \$34,000 for one child and \$38,000 for two or more children. Income levels are adjusted each year to reflect inflation.
  - To be eligible for the Pennsylvania EIC, taxpayers must receive EIC from the federal government and have one or more dependents. Over 765,000 Pennsylvanians received the federal EIC in 2005.
  - In Pennsylvania, eligible taxpayers could receive a credit equal to 15% of their federal EIC in 2008, and 30% thereafter, to be used against Pennsylvania Personal Income Tax (PIT) liabilities.
  - The average federal EIC award in 2005 was \$1,678. In 2008, the Pennsylvania EIC would be equal to 15% of this, or \$252. Beginning 2009, when the Pennsylvania EIC increases to 30% of the federal amount, the Pennsylvania EIC would equal \$503.
  - The Pennsylvania EIC is refundable. That means if credit is larger than the tax due, the taxpayer receives the difference back.
  - The proposed EIC does not replace the popular Tax Forgiveness plan. A taxpayer may take the Pennsylvania EIC or Tax Forgiveness, whichever is larger, but not both.
  - Tax Forgiveness provided 1.3 million Pennsylvanians tax relief in 2005. On average, the amount of tax forgiven was \$240.
  - The Pennsylvania EIC would be most beneficial to families with children earning incomes less than \$25,000. Approximately 424,000 families would benefit from choosing a 30% Pennsylvania EIC. Fewer families would benefit from the 15% EIC compared to Tax Forgiveness.
  - The 15% Pennsylvania EIC would cost approximately \$100 million in 2008-09 and increase to \$265 million in 2009-10 as the Pennsylvania EIC increases to 30% of the federal award. These costs are in addition to the cost of the Tax Forgiveness program (projected to be \$276 million in 2008-09).
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