

## LIFTING THE TAX BURDEN AND REWARDING WORK

### HB 345 Refundable State Earned Income Tax Credit

#### BACKGROUND

A strong state tax system should reward work and provide economic opportunity for all its residents. Unfortunately, Utah's tax system drags low-income working families down. An ad hoc task force commissioned by the Utah Tax Review Commission reported that low-income families spend a disproportionately greater amount of their income on total taxes (income, sales and payroll taxes). For families struggling to leave welfare, the tax burden is compounded by declining assistance to create a perverse incentive to work.

The EITC mitigates these problems by:

- Providing an incentive to work and stay off welfare
- Increasing earnings to help stabilize low-income working Utahns
- Building on the success of welfare reform and its emphasis on moving people into jobs

For these reasons, the Tax Review Commission and The Revenue and Taxation Interim Committee have both endorsed a state earned income tax credit to build on the success of the federal EITC. The highest Republican leadership in the U.S. have supported the EITC, including George Bush, George W. Bush, and Ronald Reagan, who called the EITC "*the best anti-poverty, the best job creation, the best pro-family measure to come out of Congress.*"

#### REQUEST

We recognize and are extremely sensitive to the current fiscal situation in the state, and that there remain many worthy and competing interests for funding. We are asking that you support this legislation and let the funding process decide if it can be enacted.

#### FACTS AND QUESTIONS

*What is the tax burden on low-income working families?*

A 2002 study by the Institute on Taxation and Economic Policy showed that the lowest-paid fifth of Utah taxpayers—those who made less than \$16,000, paid 11.5% of their income in state and local taxes, which is more than twice the rate paid by Utah's richest taxpayers. The wealthiest taxpayers making over \$280,000 paid 5.5% of their income in state and local taxes in 2002.

*How would HB 345 work?*

Like the federal EITC, HB 345 is refundable. Refundability is key since the EITC was designed to offset payroll taxes, which are paid by all workers regardless of their income tax burden. For a detailed look at the credit breakdown, see the back of this sheet.

*Who would benefit from HB 345?*

Working families

Businesses

- The credit would pump \$13.5 million into Utah's rural counties and low- and moderate-income communities.
- Studies have shown that EITC recipients spend their added funds locally, supporting businesses in their neighborhood and regionally.

The Economy

- The EITC serves as a wage supplement, helping business find labor at affordable rates while workers earn enough to save, pay for housing, and plan for the future. In short, the EITC is a wage supplement that makes work pay.

For more information, please contact Tim Shultz at Utah Issues, 521.2035 x 114 or [tim@utahissues.org](mailto:tim@utahissues.org)

### HB 345 Credit Amounts for Different Family Types

| 2004<br>Household<br>Income | No Children    |         |                         | One Child      |         |                      | Two Children   |         |                      |
|-----------------------------|----------------|---------|-------------------------|----------------|---------|----------------------|----------------|---------|----------------------|
|                             | Not<br>Married | Married | % of<br>Federal<br>EITC | Not<br>Married | Married | %<br>Federal<br>EITC | Not<br>Married | Married | %<br>Federal<br>EITC |
| \$500                       | \$4            | \$4     | 10%                     | \$18           | \$18    | 10%                  | \$21           | \$21    | 10%                  |
| \$1,000                     | \$8            | \$8     | 10%                     | \$35           | \$35    | 10%                  | \$41           | \$41    | 10%                  |
| \$1,500                     | \$12           | \$12    | 10%                     | \$52           | \$52    | 10%                  | \$61           | \$61    | 10%                  |
| \$2,000                     | \$16           | \$16    | 10%                     | \$69           | \$69    | 10%                  | \$81           | \$81    | 10%                  |
| \$2,500                     | \$19           | \$19    | 10%                     | \$86           | \$86    | 10%                  | \$101          | \$101   | 10%                  |
| \$3,000                     | \$16           | \$16    | 7%                      | \$103          | \$103   | 10%                  | \$121          | \$121   | 10%                  |
| \$3,500                     | \$19           | \$19    | 7%                      | \$120          | \$120   | 10%                  | \$141          | \$141   | 10%                  |
| \$4,000                     | \$22           | \$22    | 7%                      | \$137          | \$137   | 10%                  | \$161          | \$161   | 10%                  |
| \$4,500                     | \$24           | \$24    | 7%                      | \$154          | \$154   | 10%                  | \$181          | \$181   | 10%                  |
| \$5,000                     | \$27           | \$27    | 7%                      | \$171          | \$171   | 10%                  | \$201          | \$201   | 10%                  |
| \$5,500                     | \$27           | \$27    | 7%                      | \$132          | \$132   | 7%                   | \$155          | \$155   | 7%                   |
| \$6,000                     | \$27           | \$27    | 7%                      | \$143          | \$143   | 7%                   | \$169          | \$169   | 7%                   |
| \$6,500                     | \$24           | \$27    | 7%                      | \$155          | \$155   | 7%                   | \$183          | \$183   | 7%                   |
| \$7,000                     | \$23           | \$27    | 7%                      | \$167          | \$167   | 7%                   | \$197          | \$197   | 7%                   |
| \$7,500                     | \$11           | \$14    | 7%                      | \$178          | \$178   | 7%                   | \$211          | \$211   | 7%                   |
| \$8,000                     | \$17           | \$13    | 4%                      | \$178          | \$178   | 7%                   | \$225          | \$225   | 7%                   |
| \$8,500                     | \$8            | \$11    | 4%                      | \$178          | \$178   | 7%                   | \$239          | \$239   | 7%                   |
| \$9,000                     | \$7            | \$10    | 4%                      | \$178          | \$178   | 7%                   | \$253          | \$253   | 7%                   |
| \$9,500                     | \$5            | \$8     | 4%                      | \$178          | \$178   | 7%                   | \$267          | \$267   | 7%                   |
| \$10,000                    | \$4            | \$7     | 4%                      | \$178          | \$178   | 7%                   | \$281          | \$281   | 7%                   |
| \$10,500                    | \$2            | \$5     | 4%                      | \$178          | \$178   | 7%                   | \$294          | \$294   | 7%                   |
| \$11,000                    | \$1            | \$4     | 4%                      | \$178          | \$178   | 7%                   | \$294          | \$294   | 7%                   |
| \$11,500                    | \$0            | \$2     | 4%                      | \$178          | \$178   | 7%                   | \$294          | \$294   | 7%                   |
| \$12,000                    | \$0            | \$1     | 4%                      | \$178          | \$178   | 7%                   | \$294          | \$294   | 7%                   |
| \$12,500                    | \$0            | \$0     | 4%                      | \$178          | \$178   | 7%                   | \$294          | \$294   | 7%                   |
| \$13,000                    | \$0            | \$0     |                         | \$178          | \$178   | 7%                   | \$294          | \$294   | 7%                   |
| \$13,500                    | \$0            | \$0     |                         | \$178          | \$178   | 7%                   | \$294          | \$294   | 7%                   |
| \$14,000                    | \$0            | \$0     |                         | \$175          | \$178   | 7%                   | \$290          | \$294   | 7%                   |
| \$14,500                    | \$0            | \$0     |                         | \$169          | \$178   | 7%                   | \$283          | \$294   | 7%                   |
| \$15,000                    | \$0            | \$0     |                         | \$164          | \$175   | 7%                   | \$275          | \$290   | 7%                   |
| \$15,500                    | \$0            | \$0     |                         | \$90           | \$97    | 4%                   | \$153          | \$161   | 4%                   |
| \$16,000                    | \$0            | \$0     |                         | \$87           | \$94    | 4%                   | \$149          | \$157   | 4%                   |
| \$16,500                    | \$0            | \$0     |                         | \$84           | \$90    | 4%                   | \$145          | \$153   | 4%                   |
| \$17,000                    | \$0            | \$0     |                         | \$81           | \$87    | 4%                   | \$140          | \$149   | 4%                   |
| \$17,500                    | \$0            | \$0     |                         | \$78           | \$84    | 4%                   | \$136          | \$145   | 4%                   |
| \$18,000                    | \$0            | \$0     |                         | \$74           | \$81    | 4%                   | \$132          | \$140   | 4%                   |
| \$18,500                    | \$0            | \$0     |                         | \$71           | \$78    | 4%                   | \$128          | \$136   | 4%                   |
| \$19,000                    | \$0            | \$0     |                         | \$68           | \$74    | 4%                   | \$124          | \$132   | 4%                   |
| \$20,000                    | \$0            | \$0     |                         | \$62           | \$68    | 4%                   | \$115          | \$124   | 4%                   |
| \$21,000                    | \$0            | \$0     |                         | \$55           | \$62    | 4%                   | \$107          | \$115   | 4%                   |
| \$22,000                    | \$0            | \$0     |                         | \$49           | \$55    | 4%                   | \$98           | \$107   | 4%                   |
| \$23,000                    | \$0            | \$0     |                         | \$42           | \$49    | 4%                   | \$90           | \$98    | 4%                   |
| \$24,000                    | \$0            | \$0     |                         | \$36           | \$42    | 4%                   | \$81           | \$90    | 4%                   |
| \$25,000                    | \$0            | \$0     |                         | \$30           | \$36    | 4%                   | \$73           | \$81    | 4%                   |