



A State Earned Income Tax Credit: A Hand Up for Mississippi’s Working Families

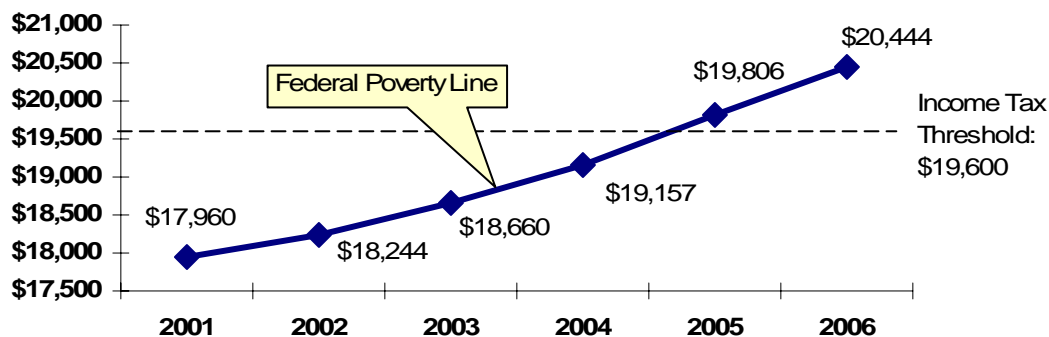
A State Earned Income Tax Credit (EITC) for Mississippi would reduce the income taxes owed and provide a wage supplement for over 366,000 working families living in or near poverty in Mississippi. Twenty states and the District of Columbia have enacted state Earned Income Tax Credits.

Benefits of State Earned Income Tax Credits

- Rewards work effort with a wage supplement for hard working Mississippians who don’t make enough to sustain a living for their families
- Offsets state income taxes owed by persons living below the poverty threshold with a targeted tax credit
- Easy to administer because it is tied to the federal earned income tax credit

With a State EITC equal to 10% of the federal EITC, in 2006 a family of four with two children whose gross earnings were \$20,444 (equal to the federal poverty threshold) would have received a credit of \$378. Their state income tax liability would have been \$25, and they would have received a refund from the credit of \$353.

State Income Tax Threshold and Federal Poverty Line for a Family of Four with Two Children (2001-2006)



Source: MEPC Analysis and Center on Budget and Policy Priorities, “The Impact of State Income Taxes on Low-Income Families in 2006”

In 2005, Mississippi’s state income tax threshold, the income amount at which persons start having to pay income taxes, fell below the federal poverty line. Each year the poverty line increases due to increases in the cost of living. Mississippi’s income tax threshold, however does not adjust for inflation. Without adjustment, the gap between the threshold and the

poverty line will increase annually, requiring an increasing number of persons living below the poverty line to pay income taxes. A state EITC that is tied to the federal EITC is automatically adjusted and would eliminate the tax threshold / poverty line gap.

Estimated Cost of a State EITC in Mississippi

The cost of a State EITC in Mississippi depends upon the percent of the federal EITC selected for the credit.

Estimated Cost of a State Earned Income Tax Credit in Mississippi for FY 2008 - FY2011

	5% OF Federal Credit	10% of Federal Credit	20% of Federal Credit
FY 2008	\$38,400,000	\$76,800,000	\$153,700,000
FY 2009	\$39,100,000	\$78,300,000	\$156,500,000
FY 2010	\$40,000,000	\$80,100,000	\$160,100,000
FY 2011	\$41,400,000	\$82,700,000	\$165,500,000

Note: The FY cost is associated with the previous tax year. For example the FY 2008 cost would be realized if the credit were enacted for the 2007 tax year.

Source: MEPC Analysis of data from the Center on Budget and Policy Priorities, "How Much Would a State Earned Income Tax Credit Cost in 2008?"

How a State EITC Works

Calculated as a percentage of the Federal Earned Income Tax Credit, the credit is subtracted from taxes owed. If the amount of the credit is more than the taxes owed, the difference is refunded to the taxpayer to be used as a wage supplement.