



Growing the Earned Income Tax Credit: A cost-effective approach to reducing poverty & stimulating the economy

Forty-six million Americans lived in poverty in 2010, the most ever. Over 19 percent of children in Illinois lived in poverty. Today, low- and moderate-income families in this state face a perfect storm of hardship: earnings are declining, costs of basic necessities are rising, and their disproportionately large share of state and local taxes has grown even larger – all at a time when critical services on which struggling families rely are being slashed or eliminated.

Now is the right time to increase the size of the state's Earned Income Tax Credit

What is the Illinois EITC?

It's a tax credit that helps keep families out of poverty and lifts up those struggling to escape poverty. It helps more than 935,000 working families make ends meet by allowing them to keep more of their hard-earned money at tax time. It is one of the most cost-effective, targeted tax policies available to ease poverty, offering support to families who need it most.

It is also an economic stimulus: the EITC puts money back into local economies and boosts consumer spending.

Who benefits?

To claim the EITC, taxpayers must be both low-income and working. Families qualify on a sliding scale, with earnings up to \$45,350 this year (for two parents, two children). The EITC is primarily targeted to families with children.

The EITC should be increased

While the EITC already acts as an important anti-poverty tool for working families, it's too limited. Set at only 5 percent of the federal EITC, Illinois' credit provided a maximum of \$283 for a family raising three children this year. In tax year 2009, the average credit was only \$112. Legislators should act today to increase the size of the credit in order to maximize its value and help families afford basic items.

- **The EITC has a long history of bipartisan support because policymakers recognize it as an economic stimulus that can help maintain jobs and empower struggling working families to remain self-sufficient.**
By boosting after-tax income for working families and stimulating consumer spending, the EITC creates important ripple effects for local businesses and communities.
- **The EITC is a work incentive.**
It is structured to encourage and reward work by allowing struggling families to keep more of what they earn. A substantial body of research shows that the EITC encourages labor force participation of single parents by "making work pay." For those with very low earnings, additional hours of work yield both more wages and a larger EITC.
- **Strengthening the state EITC will help lift Illinoisans out of poverty.**
It is one of the most cost-effective, most targeted approaches to reducing poverty among children and families.
- **Growing Illinois' EITC will help offset the disproportionate share of state and local taxes that our lowest-income workers pay.**
Low-income families were disproportionately affected by the increase in the state's income tax rate. While the increase was an essential step towards resolving the state's prolonged fiscal crisis, the revenue legislation included no provisions to improve tax fairness.