NATIONAL WOMEN'S LAW CENTER
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Kentucky Women Need Jobs and Support for Their Families

Extend middle class tax cuts and improvements in CTC, EITC – Not tax cuts for the rich

(September 2010)

Congress will soon decide which federal income tax provisions that expire at the end of this year should be renewed and which should be allowed to expire. These include tax cuts enacted in 2001 and 2003 and improvements to the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) that were included in the American Recovery and Reinvestment Act of 2009 (ARRA).

If Congress fails to extend the ARRA improvements in the CTC and EITC along with provisions of the 2001 and 2003 tax cuts that target individuals with incomes below $200,000 and couples with incomes below $250,000, thousands of Kentucky families will lose more than **$205 million** in tax credits next year.[1] If Congress extends the provisions of the 2001 and 2003 tax cuts that only benefit individuals with incomes above $200,000 and couples with incomes above $250,000, billions of dollars that could finance more effective measures to strengthen Kentucky's economy and families will be lost.

Failing to extend the CTC and EITC improvements in ARRA would hurt thousands of struggling Kentucky families.

- More than **232,000** Kentucky taxpayers will lose an estimated **$147.8 million** in tax credits if Congress fails to extend the CTC improvements. **99%** of this tax benefit goes to Kentucky families with low to moderate incomes (in the lowest two-fifths nationwide).[2]
- More than **216,000** Kentucky taxpayers will lose an estimated **$57.9 million** in tax credits if Congress fails to extend the EITC improvements. **92%** of the tax benefit goes to families who have low to moderate incomes.[3]
- **36% of single mothers in Kentucky will get nothing** if Congress extends only the 2001 and 2003 tax provisions targeting individuals with incomes below $200,000 or couples with incomes below $250,000 without extending the CTC and EITC improvements,[4] while households with incomes exceeding $1 million will receive an average tax break of $6,349, even if the provisions benefiting only the wealthiest taxpayers are allowed to expire. If Congress extends the high-income tax cuts, millionaire households will receive a break of nearly $104,000.[5]

Kentucky women and their families depend on the Child Tax Credit.

The CTC is a partially refundable federal income tax credit for families with children. Without the ARRA improvement, the first $12,850 of a taxpayer's income would not count towards the credit in 2011. With the ARRA improvement, all but the first $3,000 of income is counted, rewarding work and strengthening families. For example:

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- Sarah, a single mom with three kids, makes $14,450 per year working full time in a child care center in Lexington. If Congress fails to extend the CTC improvement, less than $2,000 of Sarah's income will be counted towards the credit and she will receive a CTC of only $240 – **$1,478 less** than the $1,718 credit she would receive under the ARRA provisions.
- Jane and Eric, a married couple who both work full-time at minimum wage jobs near Louisville, support their three children with their combined annual income of $28,900. If Congress fails to extend the CTC improvement, their CTC will drop from $3,000 to $2,408, a loss of **$592**.

Kentucky women and their families depend on the Earned Income Tax Credit.

The EITC is a refundable federal income tax credit for workers with low to moderate incomes. ARRA expanded the EITC to provide up to an additional $629 per year for families with three or more children and reduced the "marriage penalty" the EITC can otherwise impose. Many low-wage workers depend on both the EITC and CTC improvements to support their families. For example:

- Sarah would see her EITC drop by **$629** without the ARRA changes to the EITC. If the improvements to both credits expired, she would **lose $2,107** in tax credits.
- Jane and Eric will **lose $1,059** if the EITC expansion is not continued. If improvements to both credits expired, they would **lose $1,651** in tax credits.

Kentucky women urgently need help finding jobs and supporting their families – not more tax cuts for the very rich.

Allowing the provisions of the 2001 and 2003 tax cuts that benefit only the wealthiest 2 percent of households (i.e., individuals with incomes of $200,000 and up, couples with incomes of $250,000 or more) to expire on schedule would increase federal revenue by about **$40 billion** in 2011 alone.[6] Analysis by the nonpartisan Congressional Budget Office (CBO) and many economists indicates that extending the top tier tax cuts would do little to stimulate the economy – generating 40 cents or less in GDP growth for every government dollar spent – because the wealthiest tend to save rather than spend.[7] The revenues produced by allowing these cuts to expire could be used for measures that more effectively create jobs, spur economic growth, and provide immediate assistance to vulnerable women and families.

- In July 2010, Kentucky's unemployment rate was **9.9%**.[8] During the last week of July, more than **44,000** workers were receiving unemployment benefits.[9] According to the CBO, these benefits are up to **19 times more effective stimulus** than extending tax cuts for the rich,[10] because families generally spend them quickly to meet basic needs.

- In May 2010, nearly **779,000** Kentucky residents were receiving Supplemental Nutrition Assistance Program (SNAP) benefits, formerly known as food stamps – up 9.6% from the previous year.[11] Economists Alan Blinder and Mark Zandi identified food stamps as the **most effective stimulus measure** out of 18 they evaluated, adding $1.74 to GDP for every dollar invested.[12]

- The recession has had a severe negative impact on state government revenues, and Kentucky – like most other states – has tried to balance its budget by making spending cuts that hurt families and reduce needed services. Since 2008, Kentucky has imposed furloughs or pay cuts for state employees and cut funding for K-12 and higher education.[13] The CBO's analysis indicates that just **$13 billion** spent on fiscal relief for states is **more effective stimulus than $40 billion** in tax cuts for the wealthy.[14]

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[1] NWLC calculations based on 2008 American Community Survey data and data retrieved from the Tax Policy Center, Table T10-0008 (Jan. 12, 2010), *available at* http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=2597, and Table T10-0101 (March 9, 2010), *available at* http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=2696.

[2] NWLC calculations based on 2008 American Community Survey data and data retrieved from the Tax Policy Center, Table T10-0008. Income adjusted for family size.

[3] NWLC calculations based on 2008 American Community Survey data and data retrieved from the Tax Policy Center, Table T10-0101. Income adjusted for family size.

[4] NWLC calculations based on 2008 American Community Survey data and data retrieved from the Tax Policy Center, Table T10-0204 (Aug. 12, 2010), *available at* http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=2792.

[5] Chuck Marr and Gillian Brunet, Ctr. on Budget and Policy Priorities, High-Income People Would Benefit Significantly from Extension of "Middle-Class" Tax Cuts (Aug. 13, 2010), *available at* http://www.cbpp.org/cms/index.cfm?fa=view&id=3263.

[6] Chuck Marr, Ctr. on Budget and Policy Priorities, Letting High-Income Tax Cuts Expire Is Proper Response to Nation's Short- and Long-Term Challenges (July 26, 2010), *available at* http://www.cbpp.org/cms/index.cfm?fa=view&id=3241#_ftn6.

[7] Cong. Budget Office, Policies for Increasing Econ. Growth and Employment in 2010 and 2011, at 18 (Jan. 2010), *available at* http://www.cbo.gov/ftpdocs/108xx/doc10803/01-14-Employment.pdf ; *see also, e.g.*, Alan S. Blinder and Mark Zandi, How the Great Recession Was Brought to an End, at 16 (July 27, 2010), *available at* http://www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf.

[8] U.S. Bureau of Labor Statistics, States and Selected Areas: Employment Status of the Civilian Noninstitutional Population, January 1976 to Date, Seasonally Adjusted (last visited Sept. 2, 2010), *available at* http://www.bls.gov/lau/ststdsadata.txt.

[9] U.S. Dep't of Labor, Insured Unemployment for Week Ended July 31, 2010, *available at* http://www.workforcesecurity.doleta.gov/unemploy/page8/2010/080710.html.

[10] Cong. Budget Office at 18.

[11] U.S. Dep't of Agric. Food and Nutrition Service, Supplemental Nutrition Assistance Program: Number of Persons Participating (updated Aug. 3, 2010), *available at* http://www.fns.usda.gov/pd/29SNAPcurrPP.htm.

[12] Blinder and Zandi at 16.

[13] Nicholas Johnson, Phil Oliff and Erica Williams, Ctr on Budget and Policy Priorities, An Update on State Budget Cuts (Aug. 4, 2010), *available at* http://www.cbpp.org/cms/index.cfm?fa=view&id=1214.

[14] John Podesta and Robert Greenstein, Bush Tax Cuts for the Rich Must Go, Fin. Times (Aug. 24, 2010), *available at* http://www.ft.com/cms/s/0/41ed6e4c-afad-11df-b45b-00144feabdc0.html; *see also* Cong. Budget Office at 18.