

Helping Kentucky's Veterans, Disabled, & Low-Income Workers Removing Barriers to Employment

Co-Sponsor and Support HB 592

State WOTC — Offers Employers Incentives to Hire Unemployed, Disadvantaged Persons
State Refundable EITC — Helping Kentucky's Poorest and Providing an Incentive to Work

What the Bill Does

- ◆ Provides employers an incentive to employ workers with barriers to employment
- ◆ Provides low-income employees an incentive to work by giving them a refund of state taxes based on income and family size

Kentucky Worker Opportunity Tax Credit

The Kentucky WOTC is one tool in a diverse toolbox of flexible strategies designed to help move people into gainful employment and obtain on-the-job experience. It joins other tax credits, education, and job training programs that help Kentucky workers with barriers to employment prepare for good jobs, ease their transition from job to job, and create high performance workplaces.

Like the federal WOTC, it is an incentive for employers to hire regular as well as long-term welfare recipients. It provides employers a tax credit of 5% of the first \$6,000 in wages paid to eligible workers.

This would provide up to \$12 million in incentives to Kentucky employers. More information about the federal WOTC is found at: <http://www.doleta.gov/business/Incentives/opptax/>

Kentucky Earned Income Tax Credit

Like the federal Earned Income Tax Credit (EITC), the Kentucky EITC seeks to offset the burden of taxes for the poorest working wage earners. In addition to federal and state income taxes, Kentuckians are subject to sales, excise, and property taxes.

Many Kentuckians who work are poor and need help meeting the basic necessities of living. Kentucky is the 9th poorest state. Over 680,000 Kentuckians live below the poverty level, (currently \$16,000 for a family of three or about \$21,000 for a family of four). Of Kentucky's poor families, 62 % have at least one working member.

A Kentucky EITC would allow the poorest workers in Kentucky an additional credit of 5% of the federal amount for which they are eligible. This would provide a return of \$30 million to Kentucky's poorest workers.

Kentucky Retail Federation • Catholic Conference of KY • Community Action Kentucky
Homeless and Housing Coalition of Kentucky • Kentucky Equal Justice Center • Kentucky AFL-CIO
Kentucky Association of Manufacturers • Homebuilders Association of Kentucky • Coal Operators and Associates
AARP • Kentucky Council of Churches • Kentucky Restaurant Association • Kentucky Youth Advocates
Kentucky Domestic Violence Association • Kentucky Thoroughbred Association • Kentucky Chamber of Commerce
Joint Executive Council of Veteran Organizations of Kentucky (JECVO) • Kentucky Mental Health Coalition

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Who Benefits under the Kentucky WOTC

The new employee must belong to a target group that includes:

- ◆ Temporary Assistance to Needy Families family members
- ◆ Food Stamp recipient;
- ◆ Resident of or summer Youth Employee of federally designated Empowerment Zones (EZ), Enterprise Communities (EC), Renewal Communities (RC);
- ◆ Veteran who is a member of a family that is receiving Food Stamps;
- ◆ Vocational Rehabilitation Referral who completed or is completing rehabilitative services from a State certified agency, an Employment Network, or the U.S. Department of Veterans Affairs;
- ◆ Ex-felon
- ◆ Recipient of Supplemental Security Income benefits.

Kentucky EZs, ECs & RCs

The following complete counties are federally designated Empowerment Zones, Enterprise Communities, or Renewal Communities: **Breathitt, Clinton, Jackson, Lee, Owsley and Wolfe.**

Parts of the following counties are federally designated EZs, ECs, or RCs: **part of the City of Bowling Green in Warren, and a western section of Wayne.**

Residents in these areas are members of the target group.

In addition, residents in the following federally designated Rural Renewal Counties (RRCs) are members of the target group: **Bell, Caldwell, Floyd, Harlan, Hickman, Leslie, Letcher, Pike, and Union.**

What Other States Have Done

There are at least six states with state Worker Opportunity Tax Credit Laws: North Carolina, New York, Maryland, Pennsylvania, South Carolina, and Texas.

The amount of the credit, who qualifies and how the credit is distributed varies from state to state. Some are linked to the federal WOTC law and some are completely separate. All are intended to help reduce poverty by providing employment opportunities to low-income persons

Who benefits under the KY EITC

In *A State Earned Income Tax Credit: Issues and Options for Kentucky*, published by the University of Kentucky Center for Poverty Research, Erica Meade and Dr. James P. Ziliak report that "Kentucky is one of the few states in which near poor families must pay income taxes. In 2006, Kentucky levied the highest income tax on families of four with incomes at 125% of the poverty line.⁹ This occurs as a result of the quick phase out of the Commonwealth's family size tax credit just above the poverty threshold." (⁹According to the Center on Budget and Policy Priorities, a Kentucky family of four with an income at 125 percent of the poverty line (\$25,769) had an income tax liability of \$891— the highest in the Nation for the year 2006. <<http://www.cbpp.org/states/3-27-07sfpfact-ky.pdf>.)

Does the Federal EITC Work?

Again, Erica Meade and Dr. James Ziliak report in their research that "The federal Earned Income Tax Credit (EITC) has proven to be the most effective anti-poverty program for working low-income families in the United States." They continue, "Much of its success stems from the expanded parameters of the credit in the 1990s that presented families with a strong incentive to work and file taxes. Despite its accomplishments, the federal EITC alone is not enough to eradicate poverty among many working families with very low incomes."

What Else Can Be Done?

To build on the success of the federal EITC, 22 states and the District of Columbia have reformed their tax codes to include a state EITC to offset state income tax liability, provide an additional financial boost to low-income working families, and lift families out of poverty while also offering an incentive to work. As Meade and Ziliak point out, "Piggybacking on the federal EITC's framework provides for ease of administration and understanding while leaving states the power to determine credit rates, eligibility requirements, family size adjustments, refundability, and advance payment options."

STATES WITH EITC LAW

Colorado	Iowa	Michigan	Oklahoma
Delaware	Kansas	Minnesota	Oregon
District Columbia	Louisiana	Nebraska	Rhode Island
Illinois	Maine	New Jersey	Vermont
Indiana	Maryland	New Mexico	Virginia
	Massachusetts	New York	Wisconsin

Doesn't This Cost the State a Lot of Money?

"Tax filers who claim the refundable EITC often spend their refunds within their local communities to meet to meet short- to medium-term needs,"¹¹ note Meade and Ziliak. "This spending creates a multiplier effect with the money put back into the local area, benefiting the community as a whole and producing economic activity that may reduce the cost to the state of providing the credit." (¹¹Berube, Alan. 2006. "Using the Earned Income Tax Credit to Stimulate Local Economies." The Brookings Institution. <<http://www3.brookings.edu/metro/pubs/Berube20061101eitc.pdf>.)

The Bottom Line

"It is estimated that over 360,000 residents claiming the federal EITC could be helped by the introduction of an EITC in Kentucky. A credit that is made refundable will be more effective in eradicating poverty than a nonrefundable credit. Although a refundable state EITC is not a panacea for all forms that poverty takes among Kentuckians, the credit could effectively reduce financial hardship among many in the Commonwealth who remain poor even though they are employed."

*A State Earned Income Tax Credit
Issues and Options for Kentucky*

Erica Meade and James P. Ziliak, Ph.D.

Erica Meade is an undergraduate major in economics at the University of Kentucky. James P. Ziliak is director of the University of Kentucky Center for Poverty Research (UKCPR) and is the Carol Martin Gatton Endowed Chair in Microeconomics in the Department of Economics at the University of Kentucky