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Giving Credit to West Virginia's Working Families

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Summary

Family economic insecurity is a problem of growing magnitude throughout the country. In West Virginia, an estimated 300,000 people live below the federal poverty level, including 87,000 children. The state's working families face wage stagnation, the soaring cost of basic necessities, and changes in the types of jobs available. Low-income families also pay a larger percentage of their income toward taxes than do higher income families. Together these factors increase the economic insecurity of many low- and moderate-income families in West Virginia, especially women and African Americans.

One means of addressing this growing insecurity is the creation of a refundable state Earned Income Tax Credit (SEITC) to replace the Family Tax Credit (FTC). A refundable SEITC would relieve the tax liability of low- to moderate-income workers and would provide many households with supplemental income in the form of a refund. An estimated 90,000 households in the state would be eligible for a SEITC, which provides particular benefit to working families with children and those with income hovering above the federal poverty level who still struggle to pay for basic needs.

Although West Virginia ranks poorly in its ability to generate revenue at the state and local level, this should not deter the state from creating a SEITC. Oklahoma, Louisiana and New Mexico have similar fiscal capacity and need to West Virginia, and have already enacted a refundable SEITC. The state should also examine ways in which other SEITCs have been funded.

In conjunction with the federal EITC, a West Virginia SEITC would serve as an effective anti-poverty tool. By giving many low- and moderate-income working families a refundable credit, a SEITC would promote greater economic security and would help these families make ends meet.

I. West Virginia's Working Families Struggle to Make Ends Meet

Many of West Virginia's working families have experienced rising economic insecurity over the past several decades. Stagnant wages, changes in the economy, the soaring costs of basic necessities, and a regressive tax structure have all contributed to the growing struggles faced by working families. As a result, more than 300,000 of the state's residents (17 percent) lived below the federal poverty threshold in 2008, including almost 87,000 children (23 percent of all children).¹ Many more residents hover above the threshold, not officially counted as poor but lacking sufficient income to maintain a basic standard of living.

Changes in the Economy and Wage Stagnation

Since 1979, West Virginia has experienced a sharp decline in goods-producing jobs (e.g. manufacturing, construction, mining), which typically had higher wages than occupational sectors like sales and service. In November 2009, about one-quarter of the state's employed workforce reported working in a goods-producing job, with the remaining three-quarters spread across service, sales and management occupations. Despite the growth of the management sector, which reported the highest mean hourly wages, there has also been a rise in employment in the sales and services sectors, which report lower mean wages. This is especially problematic for women and African Americans, whose mean wages are even lower in most occupational groups.

The real wages of many workers in West Virginia have declined or stagnated since 1979, meaning that workers actually bring home less money than they previously had.

TABLE 1

West Virginia Employment Statistics, by Occupational Group

	Percent of Total Employed ^{1,2}	Total Mean Hourly Wages	Percent within Women ³	Women's Mean Hourly Wages ⁴	Percent within African Americans ³	African Americans' Mean Hourly Wages ⁴
Management, Professional	29.0	\$24.81	35.4	\$21.61	22.0	\$16.26
Sales, Office	26.9	\$14.10	35.3	\$13.00	18.3	\$15.62
Service	18.4	\$11.02	23.6	\$10.55	30.5	\$9.16
Production, Transportation, Material-Moving	12.9	\$15.93	4.9	\$9.77	19.5	\$17.82
Construction, Maintenance	12.7	\$20.09	0.8	\$9.00	8.9	\$20.43

1 Weighted statistics derived from WVCBP analysis of November 2009 data from the Current Population Survey.

2 Comparable to 2006-2008 American Community Survey estimates. See Tables B24010A and B at the U.S. Census Bureau's American FactFinder.

3 Figures from the 2006-2008 American Community Survey. Calculations by the WVCBP.

4 Wage calculations by the WVCBP using Economic Analysis Research Network's data from the CPS, 2009.

TABLE 2

Real Wage Growth for West Virginia's Workers, 1979-2008
(in 2008 Dollars)

	1979 Hourly Wage	2008 Hourly Wage	Gain/Loss Per Hour
10th Percentile	\$8.17	\$8.00	-\$0.17
20th Percentile	\$9.10	\$8.48	-\$0.62
30th Percentile	\$10.60	\$10.06	-\$0.54
40th Percentile	\$12.74	\$11.84	-\$0.90
50th Percentile	\$15.45	\$13.82	-\$1.63

Source: Economic Policy Institute analysis of Current Population Survey data.

Soaring Costs Mean Half of Households Do Not Earn Enough to Cover Basic Necessities

Compounding the problem of declining real wages are the soaring costs of many basic necessities. Since 1999, the price of food increased 33 percent, transportation costs increased by 20 percent, and shelter costs for both renters and owners went up by 32 percent. In that same time period, the cost of gas utilities rose by 72 percent, while medical care costs grew by 44 percent.²

Many families in West Virginia are "out of poverty," but do not earn enough to cover all of their basic necessities such as housing, food, childcare, transportation, and health care. In 2008, a family of four (two parents, two children) in West Virginia needed \$45,143, on average, in order to pay for basic necessities.³ This figure is higher than 200 percent of the federal poverty level for a family of four (\$43,668).⁴ Furthermore, approximately 35 percent of families of this size and composition in West Virginia have

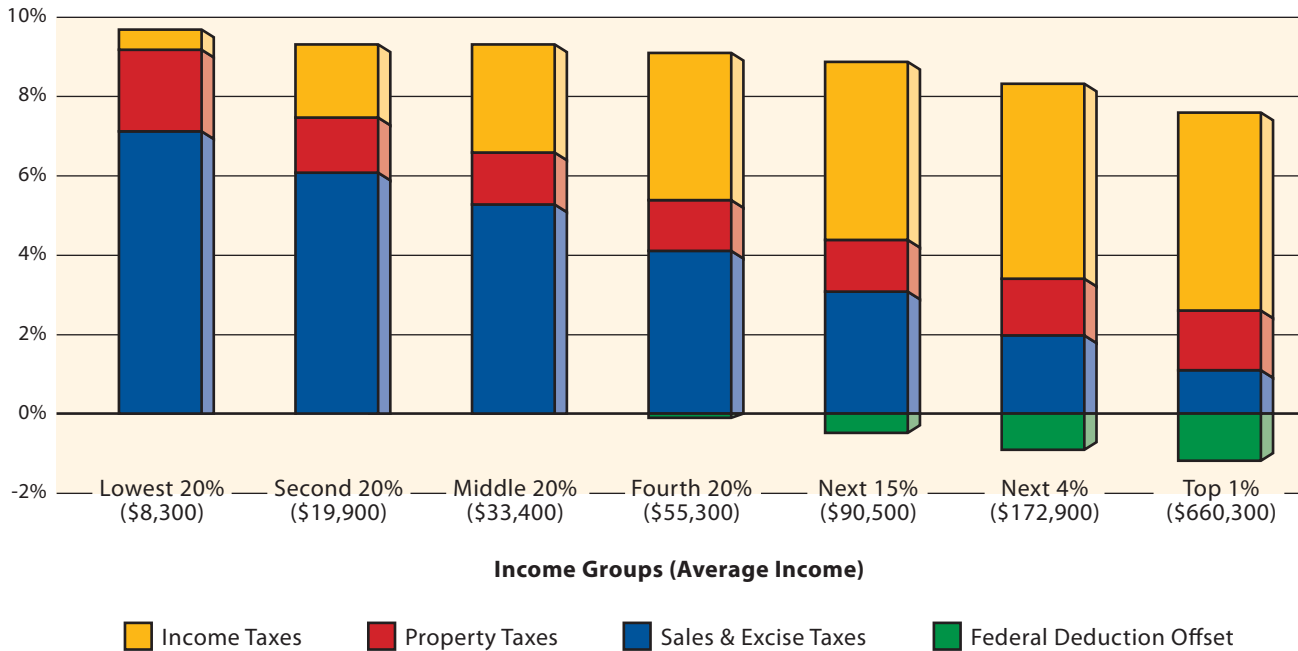
household incomes less than the corresponding basic budget.⁵ With comparable rates for other family sizes, about one-third of West Virginia's families appear to subsist on insufficient incomes.

Low- and Moderate-Income Families Pay Larger Portion of Income Toward Taxes

As illustrated in Figure 1, low- and moderate-income families in West Virginia contribute a larger percentage of their incomes toward state and local taxes than higher income groups. For example, families with incomes between \$14,000 and \$27,000 pay on average 9.3 percent of their incomes toward state and local taxes. In sharp contrast, those making over \$298,000 pay only 7.6 percent before any federal tax deductions, and only 6.5 percent after offsets. Low- and moderate-income families not only pay a higher percentage of their income toward taxes, but they also do not benefit from federal tax deductions like wealthier families do.

FIGURE 1

State and Local Taxes in West Virginia in 2007, by Income Group



Source: Institute on Taxation and Economic Policy. Who Pays? A Distributional Analysis of the Tax Systems in All 50 States. November 2009.

Spotlight on Racial Disparities in Earnings

The struggle to make ends meet is of particular concern for the African American population of West Virginia. Data from the American Community Survey show that poverty rates are nearly twice as high for African Americans as for whites, and that a wide gulf still exists between the median income and earnings of these two groups. Especially troubling is the 8 percent decrease in median earnings for African American males from the prior three-year estimates.

TABLE 3
Poverty, Income and Earnings by Race and Gender, West Virginia, 2006-2008

	Whites	African Americans
Percentage of Population Below Poverty Level	16.6%	29.5%
Male	14.5%	22.7%
Female	17.8%	30.3%
Median Household Income	\$38,411	\$24,145
Median Earnings		
Male, full-time	\$41,064 (+3.9%)*	\$27,560 (-8.0%)
Female, full-time	\$27,445 (+3.5%)	\$24,391 (+5.8%)
Male, other	\$10,994 (-0.04%)	\$7,404 (+3.4%)
Female, other	\$8,307 (-3.0%)	\$7,787 (-4.6%)

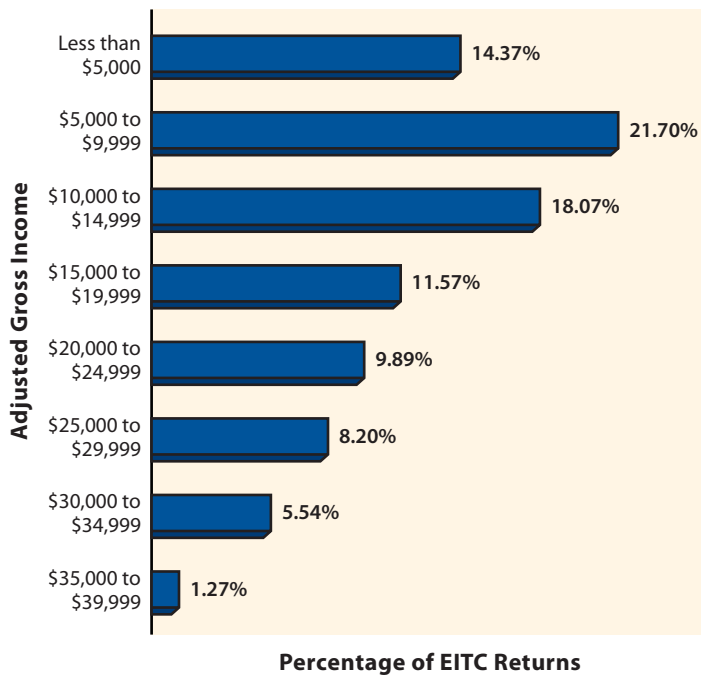
Source: U.S. Census Bureau, 2006-2008 American Community Survey. Analysis by the WVCPB.

* (%) = Percentage change from 2005-2007 Estimate.

II. The Need for a State Earned Income Tax Credit

The federal Earned Income Tax Credit (EITC) goes a long way toward addressing the economic challenges faced by West Virginia's working families.⁶ The nation's largest and most effective anti-poverty program targets low- and moderate-income working families with children and has played a significant role in enhancing their economic security. In 2007, approximately 19 percent of income tax filers in West Virginia claimed the EITC for tax year 2006, bringing over \$261 million into the state. As shown in Figure 2, the highest portion of claims in West Virginia were filed by families with adjusted gross incomes of less than \$15,000, or roughly the income of a full-time worker making the federal minimum wage of \$7.25. Despite its many positive effects, the federal EITC is only a partial remedy for the increased struggles of working families.

FIGURE 2
Who Benefits from the Federal EITC?



Source: The Brookings Institution's EITC Interactive. IRS 2006 tax year data.

A SEITC in West Virginia would further remedy the problem by supplementing incomes and improving tax fairness to a greater degree for low- to moderate-income workers. As of 2009, 24 states have adopted SEITC programs, with the majority set at a fixed percentage of the federal EITC – currently ranging from 3.5 percent to 40 percent. The amount of the credit is dependent upon the taxpayer's annual earnings (wages, salaries and tips) and family size. The state credit, despite its comparatively small size, could mean the difference between economic security and poverty for a number of working families in West Virginia.

How the SEITC Would Work

The SEITC is a tax credit that helps many working families requiring financial assistance, even those whose earned income exceeds the poverty threshold. States typically base the eligibility criteria for their credit on those of the federal EITC.

TABLE 4
Income Eligibility for the Federal EITC, Tax Year 2009

Number of Children	If Single	If Married
0	\$13,440 ¹	\$18,440
1	\$35,463	\$40,463
2	\$40,295	\$45,295
3 ²	\$43,279	\$48,279

Source: Internal Revenue Service. EITC Income Limits, Maximum Credit Amounts and Tax Law Updates. <http://www.irs.gov/individuals/article/0,,id=150513,00.html>

- Both earned income and adjusted gross income must each be below this amount.
- As part of the American Recovery and Reinvestment Act of 2009, families with three or more children temporarily will be a separate category and will receive higher benefits.

The families in West Virginia that qualify for the federal credit would also be eligible for the SEITC. In tax year 2006, approximately 19 percent of West Virginia's filers claimed the federal credit.⁷ Table 5 provides estimates of the number of households that would be eligible for the SEITC based on marital status and number of children.

TABLE 5
Estimates of SEITC Eligibility, by Household

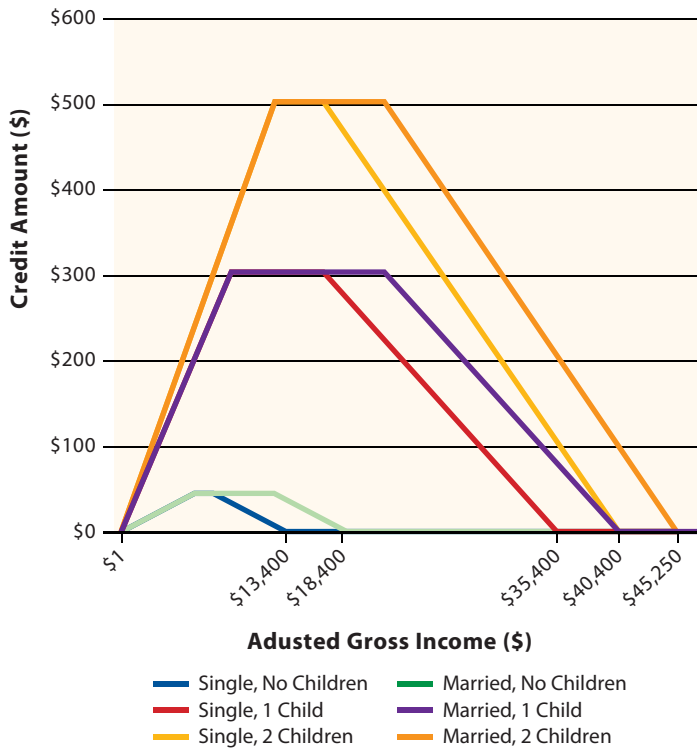
	Total in State	Total Employed	Eligible ¹
Single			
0 Children	282,623	102,164	11,450
1 Child	36,360	24,546	15,374
2 Children	20,220	14,252	9,768
3+ Children	8,230	5,266	3,962
Married			
0 Children	241,941	132,425	5,548
1 Child	67,507	60,271	14,617
2 Children	59,690	55,326	18,586
3+ Children	25,894	23,662	10,270
TOTAL	742,465	417,912	89,575

Source: U.S. Census Bureau. American Community Survey, 2006-2008. Analysis by the WVCPB.

- Since the ACS provides total household income, which is typically higher than either earned income or adjusted gross income, these numbers likely underestimate the number of households eligible for the SEITC. Some households may also be comprised of multiple families that are eligible in their own right.

As shown in Figure 3, the SEITC is structured in three phases: 1) the “phase in” range where the credit increases with earnings; 2) the “plateau range” where the maximum credit has been attained; and 3) the “phase out” range where the credit decreases as earnings increase.

FIGURE 3
A SEITC at 10 Percent, Tax Year 2009



Source: Internal Revenue Service, 1040 Forms and Instructions, 2009. Earned Income Credit (EIC) tables.

TABLE 6
Comparison of FTC with SEITC, Tax Year 2009 Estimates

	FTC ¹	SEITC ²	
		5%	10%
Percentage of All WV Returns	9.4%	19% ³	
Total Cost to the State	\$13,407,259	\$13,227,8984	\$26,455,797 ⁴
Average Benefit	\$176	\$99	\$198
Refundable?	No	Yes	
How Amount of Credit is Determined	Number of exemptions claimed on federal return	Household composition, so families with children benefit more	
Eligibility			
Must work?	No	Yes	
Income	Up to 120% FPL, approximately	Up to 200% FPL	

1 WV Tax Department. Tax Year 2008 data on file as of 1/07/2010: \$ adjusted for inflation of 3% and # adjusted for growth of .07%.

2 Based upon the methodology developed by the Center on Budget and Policy Priorities. (Accessed July 22, 2009) <http://www.cbpp.org/files/3-5-08sfp.pdf>

3 The Brookings Institution's EITC Interactive. 2006 tax year data.

4 This figure does not include the cost of adapting state tax forms or of processing and administering EITC claims; however, according to the CBPP, these costs are likely to increase the overall cost by less than one percent.

Comparing the SEITC to the West Virginia Family Tax Credit

Recognizing that low-income West Virginians pay a disproportionate share of state taxes, the State Legislature enacted a non-refundable Family Tax Credit (FTC) in 2007, which reduces or eliminates the state income tax liability of taxpayers below the federal poverty threshold. It also provides a partial credit to residents with incomes up to 120 percent of the poverty level.

Although the FTC is an important first step toward addressing the struggles of West Virginia's working families, a SEITC would help a larger percentage of the state, especially those families hovering above the federal poverty threshold who lack sufficient income to maintain a basic standard of living (see Table 7 for examples).

Despite the many positive attributes of a SEITC, some West Virginians would lose in the shift away from the FTC. The federal EITC was designed to provide the greatest assistance to families with children, so individuals without children do not receive as generous of a credit. As shown in Table 8, single individuals without qualifying children would benefit more from the FTC than from a SEITC set at either 5 or 10 percent of the federal credit.

Furthermore, a SEITC would follow the federal restrictions on the EITC. In order to receive the tax credit, applicants must have earned income from work or from self-employment. Workerless households would qualify for the FTC, but not for a SEITC. In addition, workers without qualifying children must be between the ages of 25 and 64 to receive benefits from the EITC, since the credit was designed for those who rely primarily on earnings. Childless workers outside of this age range would receive no credit from a SEITC at any level.

TABLE 7

Who Would Benefit from a SEITC in West Virginia, Tax Year 2009

Total Family Wages	Filing Jointly, One Child			Filing Jointly, Two Children		
	Federal EITC	State EITC		Federal EITC	State EITC	
		5%	10%		5%	10%
\$7.25/hour (\$15,080) [minimum wage worker]	\$3,043	\$152	\$304	\$5,028	\$251	\$503
\$10.00/hour (\$20,800)	\$3,043*	\$152	\$304	\$5,028	\$251	\$503
\$12.50/hour (\$26,000)	\$2,315**	\$116	\$232	\$4,069**	\$203	\$407
\$15.00/hour (\$31,200)	\$1,476**	\$74	\$148	\$2,974**	\$149	\$297
\$17.75/hour (\$36,920) [worker making enough to cover basic necessities for family of three]	\$565**	\$28	\$57	\$1,763**	\$88	\$176
\$20.00/hour (\$41,600) [just short of basic necessities wage of \$22.00/hour for family of four]	Not eligible			\$773**	\$39	\$77

Source: Federal EITC credit figures from the 2009 Internal Revenue Service's 1040 Forms and Instructions.

* Would only receive 10% of the West Virginia FTC.

** Would not receive anything from the West Virginia FTC.

TABLE 8

Comparisons of the FTC and the SEITC for One Person, Tax Year 2009

Adjusted Gross Income	West Virginia Tax	Family Tax Credit for 1 Person	State Earned Income Tax Credit, 5% Single	State Earned Income Tax Credit, 10% Single
\$10,830	\$334	\$334	\$10	\$20
\$12,100	\$386	\$193	\$5	\$10
\$13,000	\$422	\$84	< \$2	\$3
\$13,540	\$442	\$0	\$0	\$0

Source: West Virginia 2009 Personal Income Tax Forms and Instructions; Internal Revenue Service 2009 Form 1040 and Instructions. Analysis by the WVCPB.

TABLE 9

Comparisons of the FTC and the SEITC for Two People, Tax Year 2009

Adjusted Gross Income	West Virginia Tax	Family Tax Credit for 2 People	State Earned Income Tax Credit, 5%		State Earned Income Tax Credit, 10%	
			Single, One Child	Married, No Children	Single, One Child	Married, No Children
\$8,000	\$242	\$242	\$137	\$23	\$273	\$46
\$10,000	\$302	\$302	\$152	\$23	\$304	\$46
\$14,500	\$482	\$482	\$152	\$15	\$304	\$30
\$16,000	\$542	\$271	\$152	\$10	\$304	\$19
\$16,800	\$574	\$115	\$149	\$6	\$298	\$12
\$17,280	\$590	\$0	\$146	\$5	\$291	\$9

Source: West Virginia 2009 Personal Income Tax Forms and Instructions; Internal Revenue Service 2009 Form 1040 and Instructions. Analysis by the WVCPB.

TABLE 10

Comparisons of the FTC and the SEITC for Three People, Tax Year 2009

Adjusted Gross Income	West Virginia Tax	Family Tax Credit for 3 People	State Earned Income Tax Credit, 5%		State Earned Income Tax Credit, 10%	
			Single, Two Children	Married, One Child	Single, Two Children	Married, One Child
\$8,000	\$242	\$242	\$161	\$137	\$321	\$273
\$10,000	\$302	\$302	\$201	\$152	\$401	\$304
\$16,000	\$542	\$542	\$252	\$152	\$503	\$304
\$19,600	\$686	\$343	\$218	\$152	\$435	\$304
\$20,500	\$722	\$144	\$208	\$152	\$416	\$304
\$21,020	\$742	\$0	\$203	\$152	\$406	\$304
\$30,000	\$1,125	\$0	\$108	\$84	\$216	\$167

Source: West Virginia 2009 Personal Income Tax Forms and Instructions; Internal Revenue Service 2009 Form 1040 and Instructions. Analysis by the WVCBP.

Married couples with no children also benefit more from the FTC than from a SEITC (see Table 9). However, the situation becomes more complex when speaking about a single person with one child. If West Virginia set its SEITC at 10 percent, households of this type with adjusted gross income between \$10,000 and \$14,500 would benefit slightly less than they had under the FTC. Households with income above or below this range would receive a larger credit from a SEITC than from the FTC.

The results are comparable for three-person households. For single persons with two children whose adjusted gross income falls between \$15,000 and \$19,600, the FTC would be slightly larger. If adjusted gross income lies outside of this range, the SEITC would provide greater credit.

Married couples with one child whose income fell below \$19,600 would receive a moderately larger FTC than SEITC. Beyond that point, the SEITC for this household type soon outstrips the FTC. Furthermore, the FTC ceases at \$21,010, whereas the SEITC provides benefit to families with income as high as \$40,000.

The majority of households in West Virginia impacted by either tax credit fall into the ranges where the SEITC provides greater benefit. For example, for married couples with one child, 13,839 households have income between \$19,600 and \$40,463. In comparison, only 6,440 households of this type have income below \$19,600.

The Question of Refundability

West Virginia would need to determine whether to make the SEITC refundable, as the vast majority of states with such a program have done. If the credit is *refundable*, then it reduces the amount that a filer owes in taxes and provides a refund to the taxpayer if the credit is larger than what he or she owed. For example, as shown in Table 10, a single person with two children making \$10,000 would receive a SEITC of \$401 but would only owe West Virginia \$302 in taxes. If the SEITC were refundable, this family would receive a refund of \$99.

It is important to note that a *non-refundable* SEITC provides less benefit to many of the working families that the program is meant to help. Such a credit would only offset state income tax liabilities without providing any supplemental income to the family.

A Look at West Virginia's Tax Capacity

Fiscal capacity, in its most general form, can be defined as the ability of state and local governments to generate revenue. West Virginia ranks at the bottom of three commonly used indices of fiscal capacity: the Representative Tax System (RTS), Total Taxable Resources (TTR), and Per Capita Personal Income.⁸ The state also demonstrates a moderate fiscal need based on the Representative Expenditure System (see Tannenwald for detailed description).

Although on the surface these factors do not appear to bode well for the creation of a SEITC, one important item must be noted. West Virginia's fiscal capacity and fiscal need are comparable to those in three states that have already enacted

a refundable SEITC: Oklahoma, Louisiana and New Mexico.⁹ Moderate to high fiscal need and moderate to low fiscal capacity do not appear to be barriers to affording a SEITC.

Funding Strategies in Other States

Many states fund the bulk of their SEITC with General Purpose Revenue (GPR). Under federal law, states can also use TANF funding to cover the share of the SEITC that is refunded to claimants. Several states have used this provision to remove some of the state's liability. The examples of Wisconsin and Indiana exemplify this funding strategy.

- 1) When Wisconsin had a large TANF reserve, the state covered nearly 80 percent of the SEITC using TANF monies. A few years ago TANF funding was not adequate to meet the funding needs for the increased cash assistance caseload and child care subsidies, so funding was moved from the SEITC to these programs. Nonetheless, \$21.1 million of TANF funding covered the refundable portion of the SEITC in 2007-2008, or nearly 23 percent of the total cost of the credit.¹⁰
- 2) Indiana uses Maintenance of Effort (MOE) funds to cover families that are eligible for both TANF and the EITC. Of the \$52 million cost of the SEITC, about \$14-15 million are MOE monies (27 percent of the total).¹¹

End Notes

- 1 U.S. Census Bureau. 2008 American Community Survey. Table S1701. Poverty Status in the Past 12 Months.
- 2 Bureau of Labor Statistics. Consumer Price Index – All Urban Consumers. Data from the South Urban region, which includes West Virginia. Percent change methodology from: U.S. Department of Labor. *Understanding the Consumer Price Index: Answers to Some Questions*, 2004.
- 3 Economic Policy Institute. Basic Family Budget Calculator. 2007 Figure adjusted for 2008 dollars using the Consumer Price Index. http://www.epi.org/content/budget_calculator
- 4 U.S. Census Bureau. 2008 Federal Poverty Thresholds. <http://www.census.gov/hhes/www/poverty/threshld/thresh08.html>
- 5 U.S. Census Bureau. American Community Survey, 2008 PUMS data. Analysis by WVCPB.
- 6 See: A. Franco-Cook and T. Boettner. *Making Work Pay: A State Earned Income Tax Credit for West Virginia*. West Virginia Center on Budget and Policy, 2008.
- 7 The Brookings Institution's EITC Interactive. 2006 tax year data for West Virginia.
- 8 R. Tannenwald. *Fiscal Disparity Among the States Revisited*. New England Economic Review. July/August 1999.
& R. Tannenwald and N. Turner. *Interstate Fiscal Disparity in State Fiscal Year 1999*. Public Policy Discussion Papers, No. 04-9. Federal Reserve Bank of Boston.
- 9 *Ibid.*
- 10 Wisconsin Legislative Fiscal Bureau. Information Paper 3: Earned Income Tax Credit. January 2009. http://www.legis.state.wi.us/lfb/Informationalpapers/3_eitc.pdf
- 11 Response from Lisa Travis, Team Leader, CAA Network Support, Indiana Community Action Association (INCAP). November 30, 2009.

III. Conclusion

In the face of increasing economic insecurity for many of West Virginia's working families, a SEITC would serve as an effective tool to combat poverty. As basic necessities become increasingly more expensive and wages stagnate, working families need assistance in order to make ends meet. In conjunction with the federal EITC, a SEITC would relieve low- to moderate-income taxpayers of their tax liability and would provide many households with supplemental income in the form of a refund. Many working families in West Virginia who lack sufficient income to maintain a basic standard of living would benefit from the creation of a SEITC.

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The West Virginia Center on Budget and Policy is a nonpartisan, nonprofit research organization that focuses on how policy decisions affect all West Virginians, especially low- and moderate-income families. The report, Giving Credit to West Virginia's Working Families, is available at www.wvpolicy.org.