

EARNED INCOME TAX CREDIT IN ARKANSAS

EXECUTIVE SUMMARY

STATEMENT OF PURPOSE

Arkansas Advocates for Children and Families and Children's HealthWatch have conducted the following Health Impact Assessment to estimate the potential health-related impacts of creating a state-level, refundable Earned Income Tax Credit for the approximately 300,000 qualifying low-income Arkansas households. This Health Impact Assessment also identifies appropriate actions to manage those effects.

BACKGROUND

What is a Health Impact Assessment?

The International Association of Impact Assessment defines Health Impact Assessment (HIA) as “a combination of procedures, methods and tools that systematically judges the potential, and sometimes unintended, effects of a policy, plan, program or project on the health of a population and the distribution of those effects within the population. HIA identifies appropriate actions to manage those effects.”¹ The HIA process consists of six steps:

1. Screening determines the need for and value of a health impact assessment.
2. Scoping determines which health impacts to evaluate, analysis methods, a work plan, and generates a pathway diagram.
3. Assessment profiles existing health conditions and evaluates potential health impacts.
4. Recommendations are provided to identify strategies to address health impacts.

5. Reporting includes the development of the health impact assessment report.
6. Monitoring tracks how the health impact assessment influences decision-making processes and decisions, as well as the effects on health.

Source: Human Impact Partners²

What is the Earned Income Tax Credit?

The Earned Income Tax Credit (EITC) is a federal tax credit that rewards low-income working families for their work effort.³ The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches its maximum, which is paid until earnings reach a specified level, after which it declines with each additional dollar of income until no credit is available.

What is a State-Level Earned Income Tax Credit?

In addition to the federal EITC, 29 states, the District of Columbia, Guam and Puerto Rico have state-level EITCs. Most of these states “piggyback” on the federal EITC by using the same eligibility requirements and set state-level credits at some percentage of the federal EITC. Recipients in these states receive both the federal and state credit.

Health Impact Assessment Methodology

Arkansas Advocates for Children and Families and Children’s HealthWatch, informed by an advisory committee and other stakeholders, completed a systematic literature review. We focused our review of the existing literature to ascertain the baseline health conditions of Arkansans, and the positive, negative and neutral health effects of Earned Income Tax Credits. While the existing evidence suggests Earned Income Tax Credits is associated with improvements in the health of children

and adults, there is limited evidence available and a need for continued research.

Arkansas Target Counties

Arkansas Advocates for Children and Families and Children’s HealthWatch focused the scope of the HIA on Arkansas as a whole as well as the following 11 target counties identified by the Health Impact Project: Chicot, Crittenden, Desha, Jackson, Jefferson, Lafayette, Lee, Mississippi, Monroe, Phillips, and St. Francis.

Current State of the EITC in Arkansas

During 2017, 287,000 eligible workers and families in Arkansas received about \$767 million in federal EITC benefits.⁴ The average amount of federal EITC received nationwide per household was about \$2,445, while the average in Arkansas was about \$2,672.⁴ The EITC participation rate among eligible worker households in Arkansas in tax year 2014 (latest year of available data) was 80.6%,⁵ compared to the national participation rate of 79%.

Previously, researchers estimated* a refundable, state-level EITC in Arkansas would cost approximately \$39 million if set at 5% of the federal credit,⁶ \$77 million if set at 10% of the federal credit, and \$155 million if set at 20% of the federal credit. However, new research shows that effects of the EITC contain self-financing attributes⁷ **through decreases in public assistance received by mothers and increases in payroll and sales taxes paid, which would reduce the sticker price of a refundable state-level EITC in Arkansas to \$5 million if set at 5% of the federal credit, \$10 million if set at 10% of the federal credit, and \$20 million if set at 20% of the federal credit.**

* Estimates for FY2019.

What Is the Connection Between the EITC and Health?

The EITC has successfully lifted many poor families out of poverty, reducing participation in public assistance programs, while largely paying for itself. This led researchers to explore connections between the EITC, poverty, and health.⁷⁻⁹ Recent evidence supports the hypothesis that receipt of the EITC can improve health, particularly among children and single mothers.^{10, 11}

“A growing number of studies show the EITC improves health, particularly among single mothers and children.”

A growing body of research demonstrates the relationship between expansions of the federal EITC and introductions of state EITCs and improved maternal and child health outcomes.¹² A 2015 study found that expansions of the federal EITC led to a 2-3% decline in the rate of low-birthweight births for every \$1,000 in benefits.¹⁰ More recent studies have found that state EITCs improve birth outcomes, including increased birthweights.^{11, 13} Expanding the EITC has been linked to improved self-reported health status and reduced self-reported symptoms of depression among mothers.^{14, 15} Research also demonstrates associations between EITCs and higher rates of specific health behaviors, including better diet and food security.¹⁶ A 2016 study found that EITCs are associated with increases in private health insurance coverage among children ages 6 - 14, decreases in public coverage, and improvements in children's reported health status.¹⁷

HEALTH IMPACT ASSESSMENT QUESTIONS AND FINDINGS

Following are the questions Arkansas Advocates for Children and Families and Children's Health-Watch sought to answer with this health impact assessment, and the findings.

Baseline Health Conditions & Health Impact Findings

- **What proportion of adults in Arkansas have reported their health status as “fair or poor” as opposed to “excellent, very good, or good”? Can receiving additional resources via a state EITC match change that proportion?**

The HIA raises the question whether Non-Latinx** Black households may exhibit greater health resilience at these lowest income levels than their Non-Latinx White peers. This may suggest that at these lowest levels of income, a relatively modest addition of financial resources, such as provided by a state-level match to the federal EITC, might also help shift more Non-Latinx Black working households into a higher health status category. If that occurred, it would very likely also lead to a reduction in health services utilization, and in overall health care costs in this vulnerable sub-population.

- **What proportion of children in Arkansas have their health status reported as “fair or poor” (caregiver-reported)? Can receiving additional resources via a state EITC match change that proportion?**

To the extent that state-augmented EITC benefits can be received by single-mother families, espe-

** Latinx (la-TEEN-ex) is a gender-neutral term sometimes used in lieu of Latino or Latina (referencing Latin American cultural or racial identity).



cially in the target counties, extant evidence indicates a high likelihood that the health and health behaviors of the mothers, and their children, will be improved in several ways. A state supplement to the federal EITC would unquestionably improve economic conditions for single-parent families in these priority counties as in others. Moreover, the magnitude of improvement is likely to also help shift more households with children into a higher health status category. If that occurred, it would very likely also lead to a reduction in health services utilization, and in overall health care costs.

- **What proportion of women have reported or been observed to have maternal depressive symptoms? Can receiving money from a state EITC change this?**

A state supplement to the federal EITC for working families in Arkansas would help recipients support the common practice of “self-insurance” against the next year’s economic insecurity, and in the process reduce the prevalence and severity of depression among working family heads in the state.

- **What proportion of children in Arkansas were born with low birth weight? Can receiving additional resources via a state EITC match change that proportion?**

If an Arkansas state supplement to the federal EITC can be enacted into law, it is highly likely to have a very positive effect on the prevalence of low-birth-weight births among mothers in all race-ethnicity subgroups in the state. Furthermore, the evidence suggests that it would very likely be accompanied by greater improvements in low-birthweight birth rates among Non-Latinx Black mothers.

- **What proportion of children have been observed to have developmental delays or concerns? Can additional family resources from a state EITC match change that proportion?**

There is evidence that the EITC can lead to improvements in children’s developmental trajectories. A 2015 study using data from the National Longitudinal Survey of Youth examined associations between EITC benefits and two measures relevant to child development: the Behavior Problems Index

(BPI), which is an assessment of a child's behavior and the Home Observation Measurement of the Environment inventory (HOME), which is an assessment of a child's home environment. The researchers found that larger EITC payments were associated with improved BPI (child behavior) scores at two-year follow-up, and with better HOME (child home environment) scores at four-year follow-up.

- **What proportion of adults in Arkansas have been told by a clinician that they are obese? How can receiving additional money from a state EITC match change that proportion?**

While it is hard to put reductions in adult prevalence of obesity in the state forward as a primary argument for a state supplement to the federal EITC, given the other, much more likely benefits discussed in this assessment, even minor reductions in adult obesity could be a large advantage. It is also very likely that the benefits a state supplement to the EITC would have on child health, development, and education attainment discussed herein would enable children whose parents received the state supplement to the EITC to avoid obesity and live much healthier lives as adults.

Additional Research Questions & Health Impact Findings

- **How many Arkansans are currently eligible to receive the EITC? If a state supplement is approved, will this change?**

In tax year 2014, 366,444 workers and families were eligible to receive the EITC. If a state supplement is approved, EITC eligibility will likely remain unchanged.

- **How many Arkansans would likely file for and receive a state supplement to the federal EITC?**

In tax year 2014, 366,444 workers and families were eligible to receive the EITC. The EITC participation rate among eligible worker households in Arkansas in tax year 2014 was 80.6%,⁵ compared to the national participation rate of 79%. If a state supplement is approved, EITC eligibility will likely remain unchanged.

- **How much money would Arkansas tax filers receive from a refundable Arkansas EITC at 5, 10, 15, 20, 25, & 30% matches of federal EITC?**

The latest year of data available is tax year 2014. In Arkansas during tax year 2014, tax filers would have received the following amounts of EITC at the corresponding percentage of the federal credit (see Table 1).

TABLE 1: How much money would Arkansas tax filers receive from a refundable Arkansas EITC?

EITC PERCENTAGE	STATE-WIDE EITC SUM	AVERAGE AMOUNT OF EITC PER FILER
5 percent	\$38,530,000	\$131
10 percent	\$77,062,000	\$261
15 percent	\$115,594,000	\$392
20 percent	\$154,125,000	\$522
25 percent	\$192,656,000	\$653
30 percent	\$231,187,000	\$783

Source: Earned Income Tax Credit (EITC) interactive and resources. The Brookings Institution. <https://www.brookings.edu/interactives/earned-income-tax-credit-eitc-interactive-and-resources/>. Published 2016.

- How much would Arkansans in different types of households, with different numbers of children receive from the Arkansas and federal EITC combined, at different proportional state matches?

In Arkansas during the most recent tax year (2018), the following illustrative examples of tax filing households would have received the following amounts of combined federal and state EITC at the corresponding percentage of the federal credit (see Table 2).

- Are there likely to be unintended negative consequences of addition of a state supplement to the federal EITC? Might it push some families “off the benefit cliff”? How could this be avoided?

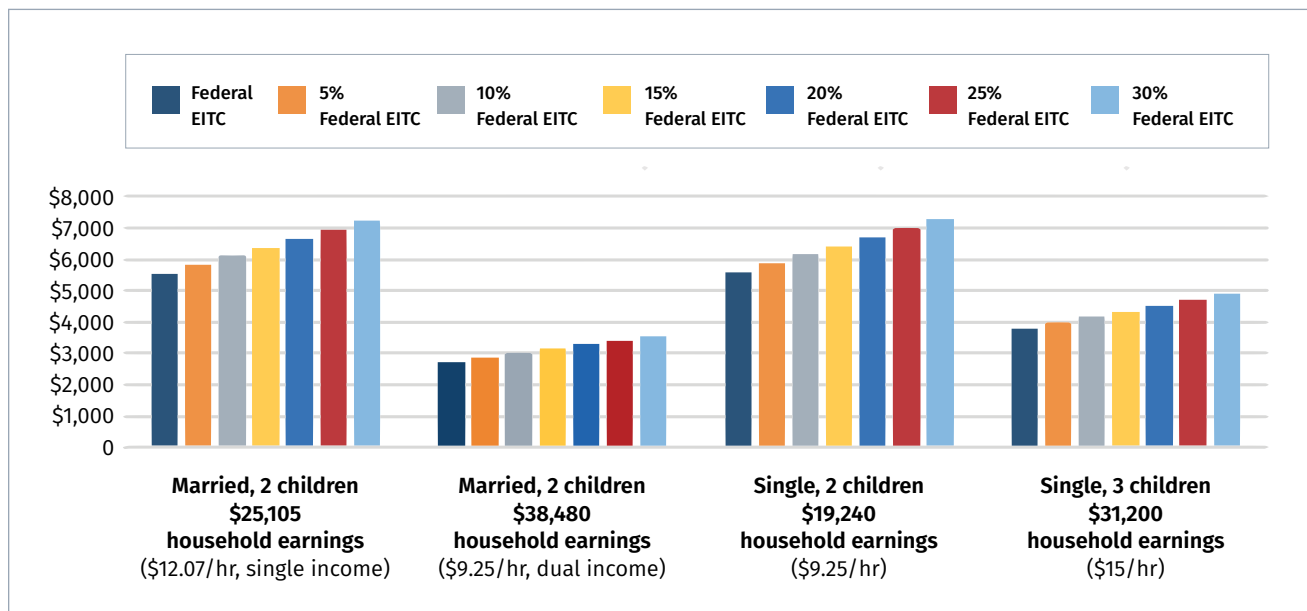
Research studies of the EITC in relation to other public assistance programs confirm that the EITC’s gradual transition off benefits as earnings increase serves to better support work and stabilize families, while reducing cliff effects. Researchers also found the benefit cliff occurs only for workers receiving a wide range of government assistance whose components can phase out at the same time - comprising very few low-wage families with children who “receive the EITC and SNAP and housing aid and have earnings in the range where all of these benefits are phasing out simultaneously, creating very high marginal tax rates.”¹⁸

TABLE 2: How much would Arkansans in different types of households, with different numbers of children receive from the Arkansas and federal EITC combined?

	POVERTY LINE	MINIMUM WAGE	MINIMUM WAGE	
EITC PERCENTAGE	MARRIED, 2 CHILDREN - \$25,105 HOUSEHOLD EARNINGS (\$12.07/HR., SINGLE INCOME)	MARRIED, 2 CHILDREN - \$38,480 HOUSEHOLD EARNINGS (\$9.25/HR., DUAL INCOME)	SINGLE, 2 CHILDREN - \$19,240 HOUSEHOLD EARNINGS (\$9.25/HR.)	SINGLE, 3 CHILDREN - \$31,200 HOUSEHOLD EARNINGS (\$15/HR.)
<i>Federal EITC</i>	\$5,553	\$2,741	\$5,597	\$3,784
+5 percent	\$5,831 (\$278 increase)	\$2,878 (\$137 increase)	\$5,876 (\$280 increase)	\$3,973 (\$189 increase)
+10 percent	\$6,108 (\$555 increase)	\$3,015 (\$274 increase)	\$6,157 (\$560 increase)	\$4,162 (\$378 increase)
+15 percent	\$6,386 (\$833 increase)	\$3,152 (\$411 increase)	\$6,437 (\$840 increase)	\$4,352 (\$568 increase)
+20 percent	\$6,664 (\$1,111 increase)	\$3,289 (\$548 increase)	\$6,716 (\$1,119 increase)	\$4,541 (\$757 increase)
+25 percent	\$6,941 (\$1,388 increase)	\$3,426 (\$685 increase)	\$6,996 (\$1,399 increase)	\$4,730 (\$946 increase)
+30 percent	\$7,219 (\$1,666 increase)	\$3,563 (822 increase)	\$7,276 (\$1,679 increase)	\$4,919 (\$1,135 increase)

Source: Earned Income Tax Credit (EITC) interactive and resources. The Brookings Institution. <https://www.brookings.edu/interactives/earned-income-tax-credit-eitc-interactive-and-resources/>. Published 2016.

FIGURE 1: Combined Federal & State EITC Amount for Example Arkansas Households



Source: Policy Basics: The Earned Income Tax Credit. CBPP. <https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>. Published 2018. • Living Wage Calculation for Arkansas. MIT. <http://livingwage.mit.edu/states/05>. • Poverty Guidelines. US Department of Health and Human Services. <https://aspe.hhs.gov/poverty-guidelines>. Published 2019.

RECOMMENDATIONS

Considering the potential health impacts of creating a state-level, refundable Earned Income Tax Credit for the approximately 300,000 qualifying low-income Arkansas households, Arkansas Advocates for Children and Families and Children's HealthWatch identified the following recommendation should Arkansas decide to enact a state-level, refundable Earned Income Tax Credit.

ENACT A STATE-LEVEL REFUNDABLE EITC AT 15% OF THE FEDERAL CREDIT

We recommend a state-level, refundable EITC set at 15% of the federal credit in order to maximize potential health benefits to Arkansans at a reasonable cost to the state. A state-level refundable EITC set at 15% of the federal credit equates to an average amount of \$392 per household in addition to an average of \$2,610 in federal EITC, resulting in a total federal/state EITC amount of \$3,002. For a

typical household headed by a single adult with two children earning the state minimum wage (\$19,240 annually, or \$9.25/hr.), the total federal/state EITC amount would be \$6,437 (\$840 increase resulting from 15% state EITC). A state-supplement to the federal EITC would unquestionably improve economic conditions for Arkansas households, and would very likely result in improved health outcomes among children and their caregivers.

The Arkansas state-level, refundable EITC set at 15% of the federal credit would cost approximately \$117 million. However, the self-financing attributes through decreases in public assistance received by mothers, lower healthcare costs and costs of lost productive work time, and increases in payroll and sales taxes paid, **would reduce the sticker price of a refundable state-level EITC in Arkansas to \$15.2 million — a modest 0.05% of the FY2018 state budget.**¹⁹

CONCLUSION

The creation of a state-level refundable EITC may be one of the most effective ways to address the poor health outcomes experienced among Arkansans. This HIA concludes that a state-level, refundable EITC will counteract many poor health outcomes manifested by longstanding poverty, fewer health care resources and longstanding barriers to care. Arkansas has an opportunity to join

the 29 states plus the District of Columbia (D.C.) that have enacted state-level EITCs. While a modest investment in creating a working families tax credit has big payoffs in terms of reducing poverty, this HIA will enable lawmakers to better understand how an EITC may also improve the health of low-income Arkansans.

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