

Governor’s Proposed Tax Cuts for North Carolina Families

EARNED INCOME TAX CREDIT (EITC)

The Governor recommends the reenactment of the EITC to help more than 850,000 North Carolina families, nearly all of whom earn less than \$50,000 a year, and who are more likely to be financially affected by the COVID-19 pandemic.

- The EITC is a refundable federal credit available to low- and moderate-income workers. The amount of the credit varies based on earnings, family type, and number of children. The maximum federal credit amount is \$6,600 for tax year 2020.
- The proposed state credit is equal to 5% of the federal EITC and would be effective starting in tax year 2021.
- The American Rescue Plan Act enhanced the EITC for tax year 2021 by almost tripling the maximum credit for childless workers from roughly \$540 to \$1,502 and allowing younger and older workers to claim the credit.
- The credit is refundable, which means eligible families will receive the full credit even if it exceeds their state income tax liability.
- Research of the EITC at the national level has shown that it has contributed to lower unemployment rates among single mothers, improved infant and maternal health, better school performance, greater college enrollment, and increased earnings for the next generation.
- 29 states (plus DC) have state EITCs linked to or modeled after the federal credit. North Carolina had a refundable EITC prior to 2014.

Policy	5% Refundable EITC	100% Non-Refundable CDCTC
Who Benefits?	~880k low- and moderate-income NC families	~195k NC families with out-of-pocket childcare expenses
Average Benefit	\$130 per eligible NC family	\$400 per eligible NC family
Fiscal Impact	-\$146.5M in FY21-22 -\$121.2M in FY22-23	-\$219.0M in FY21-22 -\$87.1M in FY22-23

CHILD AND DEPENDENT CARE TAX CREDIT (CDCTC)

The Governor recommends enacting a CDCTC for families with eligible care expenses for children and other dependents.

- The non-refundable credit would be effective starting in tax year 2021 and equal to 100% of the federal child and dependent care credit for children and other eligible dependents.
- The federal CDCTC is equal to a percentage of eligible dependent care expenses up to \$3,000 for one dependent and up to \$6,000 in expenses for two or more dependents. The credit is non-refundable and worth up to 35% for families with income below \$15,000, and the credit phases down to 20% for families with incomes above \$43,000.
- The American Rescue Plan Act enhanced the CDCTC for tax year 2021 by making it refundable and increasing the maximum credit percentage to 50% of eligible expenses (up to \$8,000 for one dependent and \$16,000 for two or more). The credit percentage in 2021 gradually phases down to 20% for families with incomes above \$125,000.
- The proposed state credit gradually phases out for married-couple families with incomes between \$75,000 and \$200,000 (and at lower levels other filing statuses).
- 23 states (plus the District of Columbia) have CDCTCs, and North Carolina had a state version of the CDCTC equal to 35%-50% of the federal credit prior to 2014.