Empower Utah Families with Better Income Tax Credits

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Written by: Taylor Thorne

When it comes to improving the lives of hardworking Utahns, we need policies that help those who are struggling to make ends meet. A refundable Earned Income Tax Credit (EITC) could do just that.

Let's start by discussing what the earned income tax credit is and how it benefits working families and children.

What is an Earned Income Tax Credit?

You may already know about the *federal* Earned Income Tax Credit (EITC). It is a *refundable federal income tax credit* for low- and moderate-income working people, that was created to support people who are in the workforce but need extra support to meet their families' needs. To claim the federal EITC, you must have earned income and everyone on your tax return must have a social security number.

The amount of your credit will be determined by your family's earnings, as well as the number of children you have. The EITC credit may help to reduce the amount you owe on your federal taxes - and if the EITC amount is higher than the federal taxes you own, you can actually get money back from the government.

The EITC is a critical policy tool to support financial stability in working families. Even just a few hundred dollars a year can help families stay current on bills, purchase groceries, afford car repairs, or pay down debt.

How does Utah's Earned Income Tax Credit work?

Because the federal EITC has been so effective at supporting working families, many states have created their own Earned Income Tax Credits in order to help these families even more. Currently 31 states offer a state EITC. Utah enacted a limited EITC for families with children in 2022.

Calculating your state Earned Income Tax Credit amount in Utah is easy: it will be 20% of whatever your federal EITC amount is when you file both your federal and state taxes. However, due to the way it was structured by the state legislature, Utah's EITC currently excludes many hardworking families who should benefit.

Our state EITC's biggest limitation is that it is "non-refundable." Utah is one of only five states with this exclusionary policy. Unlike the federal EITC, Utah's tax credit can *only* be applied to the income taxes you owe. You will never receive any money back from claiming the state EITC. Unless your state taxes add up to the amount of the state EITC you are allowed to claim, or more than that amount, your family misses out on the full benefit.

A refundable state EITC is a simple and cost-effective way to level the playing field for Utah families. These days, families who don't make a lot of money struggle to afford to live and raise a family in Utah. Especially for families with young children, who are just starting out in their careers, every little bit of extra financial support really helps.

State leaders say that our state EITC is meant to provide a maximum benefit for working families with children, with annual (adjusted) incomes between $11,000 and $26,000. Imagine a family with two young children, where one parent is still in college, and the other parent works only 32 hours a week. Because Utah's EITC is not refundable, none of the struggling families in this income range will see any benefit from the tax credit.

Though they don't make a lot of money, these people actually pay more taxes, as a percent of their income, than the wealthiest people in Utah. These hard-working families deserve a refundable state tax credit.

Our state EITC policy also requires that your earned income must be reported on a W-2 form, as proof of your work. This requirement means the state EITC can't be claimed by self-employed people, people who work on contract and people who participate in the "gig economy" (such as driving for Lyft or watching pets through Rover). Even though these workers may be eligible for the *federal* EITC, they can't benefit from the state credit because they don't receive a W-2 to recognize their hard work.

What is Refundability?

A *refundable* tax credit means that if the amount of the credit is more than the amount of taxes you own, you can get the extra amount back as a refund payment!

A non-refundable tax credit means that the amount of the credit can only ever offset the amount of taxes you owe. You can't benefit from any portion in excess of the income tax you owe, and you can't carry any unused portion of the credit over into another tax year.

Here's how this difference plays out in Utah for a married couple with two children, filing their taxes jointly. In this hypothetical family, one parent earns $39,000 working full-time (about $19/hr), and they only owe $200 in state income tax. If Utah’s EITC were refundable, they would realize the full benefit of the credit by receiving a refund of $300. Because our state EITC is non-refundable, that $300 just disappears. After it cancels out the $200 in taxes the family owes, Utah's EITC stops working.

In the coming year, legislators have the opportunity to empower working families in Utah with a much better Earned Income Tax Credit. By making our state Earned Income Tax Credit (EITC) refundable, state leaders could tangibly enhance the lives of these families, providing them with essential financial support needed for their daily well-being. If you're curious about the significance of equitable tax policies and the intricate web of tax distribution, learn more by following the link provided below.

Learn More About Tax Fairness

Glossary

Tax Credit: a dollar-for-dollar amount that a taxpayer (s) claim on their tax return to reduce the income tax they owe. You can use this to reduce your tax bill and potentially increase your refund amount.

Tax Liability: the amount of taxes owed by a taxpayer to the government before taking into account allowable tax credits.

Nonrefundable Tax Credit: reduces the taxes you owe --- allows a taxpayer to only receive a reduction of their tax liability until it reaches zero.

Refundable Tax Credit: allows a taxpayer to receive a refund if the credit they receive is greater than their tax liability.

Sources

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