Summary of SB 400: Montana State Earned Income Tax Credit

EXHIBIT 7
DATE 4-10-07
SB 400

Purpose: To create a refundable state Earned Income Tax Credit (EITC)

Need:

- According to U.S. Census Data, in 2002, the federal EITC lifted 4.9 million people above the federal poverty line, including 2.7 million children. It has proven to be the nation's most effective antipoverty program for working families (Center on Budget and Policy Priorities).

- In 2003, 72,103 Montanans claimed the federal EITC, returning over $118 million to filers and their communities.

- Unfortunately, one in five children in Montana (40,946 children in all) still lives in poverty.

- The working poor are more likely to hold multiple jobs, yet they earn less than their single-job holder counterparts. Specifically, 30% of Montana workers earning between $5,000 and $15,000 are working more than one job (MT Dept. of Labor and Industry).

- By creating a state EITC, this bill will help lift more of these hard-working Montana families out of poverty.

- Income tax policy in Montana is harder on working-poor families than almost any other state in the country. Only one other state (Alabama) begins taxing at lower income threshold than Montana. Montana is one of just seven other states which taxes the incomes of families earning less than three-quarters of the poverty line and one of just ten other states levying taxes over $200 on families with poverty-level incomes (Center on Budget and Policy Priorities).

- Seventeen other states now have state EITCs based on the federal credit. The efforts to create state EITCs have been led by Republicans and Democrats alike and have been supported by both business groups and social service agencies.

- State EITCs support working families. Only people who work are eligible for the EITC, and for workers with very low earnings, the size of the credit increases with each additional dollar of earnings, providing an incentive for more work (Center on Budget and Policy Priorities).

Information provided by the Montana Human Rights Network.

Who is eligible for the Earned Income Tax Credit (EITC)?

Step 1: Can you answer YES to ALL of the following?

- ✓ I have a valid Social Security card.
- ✓ My children (if I have them) have valid social security numbers.
- ✓ I am filing Single or Married Filing Jointly.
- ✓ I am a U.S. Citizen or Legal Resident
- ✓ I do not have foreign earned income (and won't file Form 2555).
- ✓ I don't have investment income over $2,800
- ✓ I worked and earned money.

If yes to all, move to step 2. If not, you are not eligible for the EITC.

Step 2: If NO children, can you answer YES to ALL?

- ✓ You (or your spouse if married filing jointly) are between the ages of 25 and 64.
- ✓ You are NOT the dependent of another person.
- ✓ You lived in the U.S. for more than half of the year.
- ✓ Your earned income and adjusted gross income is less than $12,120 (if you are single) or $14,120 (if you are married filing jointly).

OR

Step 2: If you have children, can you answer YES?

- ✓ My child is one of the following in relation to me:
  - My daughter, son, stepdaughter, stepson, or a descendant of any of them.
  - A brother, sister, stepbrother, stepsister, or a descendant of any of them, whom I cared for as my own child.
  - An eligible foster child placed by an authorized agency or court whom I cared for as my own child.
- ✓ My child is one of the following:
  - Under the age of 19
  - Under 24 and a full-time student
  - Any age if permanently disabled
- ✓ My child has lived with me for more than 6 months during the year.
- ✓ My child is not being claimed on someone else's return or a "qualifying child" or another person with a higher adjusted gross income.
- ✓ My earned income and adjusted gross income is less than:
  - $32,001 if I have one qualifying child and am single.
  - $34,001 if I have one qualifying child and am married filing jointly.
  - $36,348 if I have more than one qualifying child and am single.
  - $38,348 if I have more than on qualifying child and am married filing jointly.

- **How much money will I get from the EITC?**
  - The maximum credit for two or more qualifying children is $4,536.
  - The maximum credit for one qualifying child is $2,747.
  - The maximum credit for no qualifying children is $412 (MontanaFreeFile.com)

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