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Top 10 Reasons to Increase Tax Credits for Low-income Households

- 1) The top 5% of taxpayers in Wisconsin will get more than 18% of the benefit from the Governor's tax plan, whereas the bottom 40% of taxpayers will get just 15% of the benefit.¹
- 2) The largest source of increased tax revenue contributing to the projected surplus is faster-than-expected growth in sales tax collections, which are now expected to be \$350 million above the previous estimate for the 2013-15 budget. The sales tax falls most heavily on lower income taxpayers.
- 3) The 2011-13 budget increased taxes for low-income families by making a significant cut in the Earned Income Tax Credit (EITC) and whittling away at the Homestead tax credit by ending the practice of adjusting it annually for inflation. (Read more [here](#).)
- 4) Because other factors have also reduced those credits, underspending in the EITC added \$15 million to the General Fund balance at the end of fiscal year 2012-13.
- 5) According to the latest Legislative Fiscal Bureau (LFB) paper regarding estimated state revenue and spending, an additional \$31.5 million of the projected surplus is from lower-than-expected spending for the refundable credits in 2013-15 (\$8.2 million less for the EITC and \$23.3 million less for the Homestead credit).
- 6) The state has also been building up the General Fund balance by substantially increasing the amount of federal welfare reform block grant funding being used to finance the EITC over the last few years, even as the state has decreased total EITC spending.²
- 7) The Homestead tax credit provides very well targeted tax relief for low-income homeowners and renters, except for one problem – unlike most of the rest of the tax code it isn't indexed for inflation. We could easily remedy that and make it a very efficient mechanism for delivering property tax relief.
- 8) From 1993 to 2013, the inflation-adjusted value of the maximum Homestead credit fell 38% and the value of the average credit fell 26%.
- 9) From 2003 to 2013, the inflation adjusted cost of the state EITC has declined by 11% (in state and federal funding combined).
- 10) People across the political spectrum have lauded the effectiveness of the EITC. President Reagan called it "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress."

¹ That [analysis](#) by the Institute on Taxation and Economic Policy doesn't include the rapidly growing effect of the part of the bill that applies phased-in tax credits against the Alternative Minimum Tax, which by tax year 2015 will provide substantial benefit to about 30,000 wealthy tax filers.

² A chart in this [blog post](#) illustrates how the last two budget bills have supplanted state funds for the EITC, which increases the General Fund balance and decreases the funding available to help low-income families.