

## A MIDDLE CLASS TAX CUT

*Summary: Gov. Mike Beebe's proposed grocery tax cut would benefit more middle class Arkansans than a competing state earned income tax credit favored by some policymakers.*

(January 2007) Arkansas Gov. Mike Beebe has proposed a phase out of the state sales tax on groceries, starting with a 50 percent reduction from six to three cents in 2007. His idea has been criticized for not providing enough tax relief for low-income Arkansans by some policymakers who prefer a state Earned Income Tax Credit (EITC). U.S. Census Bureau data suggest Gov. Beebe's proposal—not a state EITC—would benefit a larger group: more than 500,000 middle class households in Arkansas.

### A State EITC Would Not Benefit Arkansas' Middle Class

The federal EITC was enacted in 1975, and reduces the individual income tax's burden for those in lower income deciles. The EITC is a refundable tax credit for low-income U.S. families, and is described by the Internal Revenue Service as follows:

"The Earned Income Tax Credit (EITC) sometimes called the Earned Income Credit (EIC), is a refundable federal income tax credit for low-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit."

IRS data show more than three-fourths of EITC filings were from households that earn less than \$25,000 annually. Census Bureau data show this group represented more than one-third of Arkansas' 1,087,542 total households in 2005:

Arkansas Income & Benefits (in 2005 inflation-adjusted dollars)

Income	Total households
Less than \$10,000	130,025
\$10,000-14,999	93,518
\$15,000-24,999	168,254
<b>Total Low-Income Households</b>	<b>391,797</b>

Households in these deciles with one or more qualifying children would likely qualify for any state EITC modeled on the federal program, which sets EITC thresholds (2006) in the \$32,001-\$38,348 range. But households without children have much lower thresholds, in the \$12,120-\$14,120 range. IRS data show more than 275,000 EITC filings in Arkansas in recent years.

### **Grocery Tax Phase-out Would Benefit Arkansas' Middle Class**

Gov. Beebe's proposal would provide significant tax relief to middle class households, a larger group that represents nearly half of total Arkansas households

Arkansas Income & Benefits (in 2005 inflation-adjusted dollars)

Income	Total households
\$25,000-34,999	151,984
\$35,000-49,999	173,199
\$50,000-74,999	186,248
<b>Total Middle Class Households</b>	<b>511,431</b>

A state EITC would not benefit most households earning more than \$25,000. The federal program reaches a benefit plateau (2006) for most households around this level, and in the \$32,001-\$38,348 range for a much smaller group.

Gov. Beebe's proposal is superior because it would provide tax relief for middle class, *and low-income households*. A family of four that spends an average \$150 per week on groceries would save an estimated \$234 annually from a 50 percent cut in the tax.

### **Conclusion**

Gov. Mike Beebe's proposed grocery tax cut would benefit more middle class Arkansans than a competing state earned income tax credit favored by some policymakers.

-- Greg Kaza