South Dakota
Fact Sheet: Expand Tax Credits to Promote Work and Fight Poverty

The Earned Income Tax Credit (EITC) for low- and moderate-income workers encourages and rewards work, offsets federal payroll and income taxes, and helps meet basic needs. The Child Tax Credit (CTC) also helps working families offset part of the cost of child rearing. Together, the EITC and low-income CTC are among the strongest tools to promote work and help workers with children escape poverty and achieve self-sufficiency.

But we need to do more. The EITC leaves out millions of low-wage workers not raising children in the home — a group that includes young people just starting out, adults with grown children, and non-custodial parents. As a result, they are the lone group taxed into or deeper into poverty.

EITC Policy Action Needed for Workers Not Raising Children

Fortunately, leading policymakers from both parties recognize this problem. President Obama and House Speaker Paul Ryan have put forth nearly identical proposals to make more workers not raising children eligible for the EITC and make the credit more adequate (see chart). About 37,000 workers in South Dakota would become eligible for an EITC or receive a larger EITC in their 2017 taxes under the Obama and Ryan proposals.

Senate Finance Committee member Sherrod Brown (D-OH) and House Ways and Means Committee member Richard Neal (D-MA) have introduced more robust proposals (see chart) that would essentially ensure that the federal tax code doesn’t tax wage-earners aged 21 through 64 into poverty. This proposal would make about 47,000 workers in South Dakota eligible for an EITC or a larger EITC.

Some leading experts believe that an expanded EITC for workers not raising children would also help address some of the challenges that less-educated young people face including low and falling labor-force participation rates, low marriage rates, and high incarceration rates.

By the Numbers: Veteran and Military Service Members

About 3,000 South Dakota veteran and military members would become eligible for an EITC or receive a larger EITC in their 2017 taxes under the Obama and Ryan proposals. About 3,000 veteran and military members in South Dakota would benefit under the Brown/Neal proposal.

By the Numbers: Young Workers

About 10,000 South Dakota workers between the ages of 21 and 24 would become eligible for an EITC in their 2017 taxes under the Obama and Ryan proposals. About 13,000 workers under age 25 in South Dakota would benefit under the Brown/Neal proposal.
By the Numbers: Rural Workers

About 17,000 low-wage workers outside of metropolitan areas in South Dakota would become eligible for an EITC or receive a larger EITC in their 2017 taxes under the Obama and Ryan proposals. About 19,000 rural workers in South Dakota would benefit under the Brown/Neal proposal.

By the Numbers: Occupations

Expanding the EITC for workers not raising children would benefit workers doing a wide range of jobs in South Dakota.

| Top 3 Selected Occupations, by Number of South Dakota Workers Benefitting from the EITC Expansion in 2017 |
|-------------------------------------------------|---------------------------------|---------------------------------|
| Cashiers                                        | Workers helped under Obama, Ryan plans | Workers helped under Brown, Neal plans |
|                                                 | 2,000                                      | 2,000                                      |
| Custodians and building cleaners                | 2,000                                      | 2,000                                      |
| Cooks                                           | 1,000                                      | 2,000                                      |

EITC and CTC’s Track Record of Encouraging Work and Reducing Poverty

This change would build on the great success of the EITC and CTC for low-income families with children.

- 65,000 South Dakota households received the EITC in 2014.
- 44,000 South Dakota households received the low-income part of the CTC in 2014.
- 14,000 South Dakotans were lifted out of poverty by the EITC and CTC, including 7,000 children, each year, on average, during 2011 to 2013.
- The federal EITC put about $140 million into the pockets of South Dakota families who claimed it in 2014.

Extensive research finds that the EITC encourages work, especially in a strong labor market. During the 1990s, EITC expansions did more to raise employment among single mothers with children than either welfare reform or the strong economy.

Research has also found that children in families who get an income boost from the EITC and CTC quickly show improvements in health and school performance relative to other low-income children who did not receive this extra help. In addition, children whose families receive that boost have higher school test scores, on average, and are more likely to go to college and to work and earn more as adults.

States Can Build on the Federal EITC

Twenty-six states plus the District of Columbia offer a state tax credit based on the federal EITC, but South Dakota is not now one of them.


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1 The EITC is refundable, meaning that recipients whose credit exceeds their federal income tax liability can receive the difference as a refund. The low-income part of the CTC is refundable.