

ESTIMATING THE HEALTH IMPACTS OF AN ARKANSAS EARNED INCOME TAX CREDIT

A 2019 Health Impact Assessment will enable lawmakers to better understand how a working families tax credit may improve the health of low-income Arkansans

In 2019, Arkansas Advocates for Children and Families and Children’s HealthWatch will release a Health Impact Assessment estimating the potential health impacts of creating a state-level refundable Earned Income Tax Credit for the approximately 300,000 qualifying low-income Arkansas households.

What is a Health Impact Assessment?

The International Association of Impact Assessment defines Health Impact Assessment (HIA) as “a combination of procedures, methods and tools that systematically judges the potential, and sometimes unintended, effects of a policy,

plan, program or project on the health of a population and the distribution of those effects within the population. HIA identifies appropriate actions to manage those effects.”

What is the Earned Income Tax Credit?

The Earned Income Tax Credit (EITC) is a federal tax credit that rewards low-income working families for their work effort. The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches its maximum, which is paid until earnings reach a specified level, after which it declines with each additional dollar of income until no credit is available.

What is a state-level Earned Income Tax Credit?

In addition to the federal EITC, 29 states, the District of Columbia, Guam and Puerto Rico have state-level EITCs. Most of these states “piggyback” on the federal EITC by using the same eligibility requirements and set state-level credits at some percentage of the federal EITC. Recipients in these states receive both the federal and state credit.

Current state of the EITC in Arkansas

During 2017, 287,000 eligible workers and families in Arkansas received about \$767 million in federal EITC benefits. The average amount of federal EITC received nationwide per household was about \$2,445, while the average in Arkansas was about \$2,672. The EITC participation rate among eligible worker households in Arkansas in tax year 2014 (latest year of available data) was 80.6%, compared to the national participation rate of 79%.

Previously, researchers estimated* a refundable state-level EITC in Arkansas would cost approximately \$39 million if set at 5% of the federal credit, \$77 million if set at 10% of the federal credit, and \$155 million if set at 20% of the federal credit. However, new research shows that effects of the EITC contain self-financing attributes through decreases in public assistance received by mothers and increases in payroll and sales taxes paid, which would reduce the sticker price of a refundable state-level EITC in Arkansas to \$5 million if set at 5% of the federal credit, \$10 million if set at 10% of the federal credit, and \$20 million if set at 20% of the federal credit.

What is the connection between the EITC and health?

The EITC has successfully lifted many poor families out of poverty, reducing participation in pub-

* Estimates for FY2019.



The cost of a refundable state-level EITC in Arkansas if set at 5% of the federal credit, is estimated to be as low as \$5 million. This estimate does not take into account the potential health care cost savings associated with the EITC.

lic assistance programs, while largely paying for itself. This led researchers to explore connections between the EITC, poverty, and health. Recent evidence supports the hypothesis that receipt of the EITC can improve health, particularly among children and single mothers. Arkansas Advocates for Children and Families and Children’s Health-Watch are conducting a HIA to better understand the degree to which creation of a state-level EITC in Arkansas would improve health for children and families.

A growing body of research demonstrates the relationship between expansions of the federal

EITC and introductions of state EITCs and improved maternal and child health outcomes. A 2015 study found that expansions of the federal EITC led to a 2–3 % decline in the rate of low birthweight births for every \$1,000 in benefits. More recent studies have found that state EITCs improve birth outcomes, including increased birthweights. Expanding the EITC has been linked to improved self-reported health status and reduced self-reported symptoms of depression among mothers. Research also demonstrates associations between EITCs and higher rates of specific health behaviors, including better diet and food security. A 2016 study found that EITCs are associated with increases in private health insurance coverage among children ages 6-14, decreases in public coverage, and improvements in children’s reported health status.

How will HIA determine the population health effects of a state-level EITC in Arkansas?

To conduct this HIA, Arkansas Advocates for Children and Families and Children’s HealthWatch will use diverse methods and tools and engage health experts, decision-makers, and stakeholders - including those with local knowledge - to identify and characterize health effects that could result from the creation of a state-level EITC in Arkansas. By leveraging the extensive research demonstrating the EITC’s health benefits and how expanded credits can magnify them, we will identify the pathways an Arkansas state EITC may impact population health.

Can an Arkansas state-level EITC reduce low birthweight births, improve infant health, and reduce health care costs to the state?

During the course of HIA we will be able to estimate the impact a refundable credit set at 5, 10, and 20 percent of the federal credit could have in reducing the number of low-weight births in Arkansas each year, and in turn, the reductions in health care costs. In 2016, 8.2 percent of children born in the United States (321,839) had low birth weight and 9.9 percent were born preterm (388,218). The health care costs for these low birth weight/pre-



“ In a rural area where income is low, and when you have to decide where your money is going ... if you had to choose between to going to the doctor, or paying your rent, or taking care of your kids’ needs, which would you do? Which do you choose?”

— Lee County focus group participant

term children were approximately \$9.8 billion in 2016.** In [Arkansas](#), 8.8 percent (3,386) of children born in 2016 had low birth weight, and 10.9 percent (4,172) were born preterm.

Not only do preterm/low birth weight infants require costlier health care in the days and weeks following their birth, they are also at higher risk for expensive long-term mental and physical disabilities, special education services, and lost household and labor market productivity. The [estimated](#) annual societal economic burden associated with preterm births (most of which are also low birth weight) in the United States was \$35.2 billion, or \$69,502 per infant born preterm. Given these findings, the EITC's role in reducing the prevalence of low birth weight is critical to reducing health care and other societal costs, increasing future opportunities for children, and most importantly, improving child health.

** Note that these costs do not include the cost of delivery and other medical care for the mother, but rather are exclusively the costs associated with the newborn's care, defined as all hospital admissions, including the newborn admission at delivery, hospital transfers, and all readmissions up to 1 year of age, not including mother's admission. All health care and societal costs reflect most recent data available, adjusted for inflation using the U.S. Medical Cost Inflation Calculator from http://www.halfhill.com/inflation_js.html.

Can an Arkansas state-level EITC increase access and affordability of health care costs?

During the course of HIA we will estimate how various refundable EITC amounts could encourage greater health care access and household-level affordability. [Studies](#) have shown past expansions to the EITC have resulted in shifts from public to private, predominantly employer-sponsored insurance, which likely leads to greater access to health care services and preventive care. [For example](#), among pregnant women receiving the EITC, prenatal care occurred earlier and more frequently.

CONCLUSION

Arkansas has an opportunity to join the 29 states plus the District of Columbia (D.C.) that have enacted state-level EITCs. While a modest investment in creating a working families tax credit has big payoffs in terms of reducing poverty the forthcoming HIA will enable lawmakers to better understand how an EITC may also improve the health of low-income Arkansans.

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