

## Improving a Common Sense Tax Credit for Working Rhode Islanders: Increase the Rhode Island Earned Income Tax Credit

March 2017

All Rhode Islanders want to be able to support their families and live in thriving communities. Yet, far too many working Rhode Islanders are struggling to pay for housing, heat, food, and health care. Increasing Rhode Island’s refundable Earned Income Tax Credit (EITC) would put more money back in the pockets of working families, improving their ability to meet their basic needs. When these families spend their money at local supermarkets and shops they provide a boost to their local economies.

Impact of Increasing RI EITC			
Income group	Lowest 20%	Second 20%	Middle 20%
Average Income	\$12,000	\$29,000	\$52,000
Avg. state EITC at 15%	\$268	\$516	\$165
Avg. annual EITC increase at 18%	+\$53	+\$103	+\$33
Avg. annual EITC increase at 20%	+\$89	+\$172	+\$55
Avg. annual EITC increase at 25%	+\$178	+\$344	+\$110
<i>Source: Based on Institute on Taxation and Economic Policy, updated February 2017</i>			

The EITC is a common sense tax break that reduces the income tax owed by low-wage working families, allowing them to keep more of their paycheck. Filers receive a federal EITC based on their income and family size. The state EITC is a percentage of the federal credit.

In the last two years, Governor Raimondo and the Rhode Island General Assembly have approved increases to the state credit: 12.5 percent of the federal credit in tax year 2016 and an increase to 15 percent for tax year 2017. This year, there are bills pending in the General Assembly to increase the state credit to 18, 20, and 25 percent (S28 (Felag), S204 (Goldin), H5791 (Slater), and S215 (Metts)).

When home health aides, restaurant workers, and local fishers can better provide for their families, our communities and our economy are stronger, and prosperity is broadly shared.

### The EITC is good for local businesses and our state’s economy

The EITC generates "multiplier" effects that reverberate through the local economy and become income for other local businesses, employees and governments. Mark Zandi, a renowned national economic forecaster from Moody's Analytics, assumes a "multiplier effect" for refundable tax credits to low income earners in the range of 1.22 to 1.26, meaning that every dollar spent generates an additional \$1.24 (approximately) in economic activity. Applying that multiplier to a state EITC set at

20 percent of the federal credit would add \$46.9 million to the economy, \$11.7 million more than added with the current 15 percent EITC.

### **Workers who receive the EITC already pay a lot in taxes**

Like all residents, workers who receive the EITC pay payroll taxes, sales and property taxes, and other taxes and fees. Rhode Island's lowest income families pay nearly twice as much of their income towards state and local taxes as the wealthiest Rhode Islanders.<sup>i</sup> Increasing the state's Earned Income Tax Credit helps improve tax fairness.

### **An EITC is increasingly important in the Ocean State's economy**

A significant number of jobs in Rhode Island pay low wages. Of the 50 occupations expected to produce the most job openings by 2022, nearly one in four will pay less than \$12.38 per hour, the amount that the Economic Progress Institute finds a single adult needs to earn to meet his or her most basic expenses.<sup>ii</sup> An increased EITC allows low-wage workers to keep more of their pay, bringing much needed income back to their households.

### **An increased state EITC is important to workers of color**

Some Rhode Islanders are more likely to be working in lower- paying jobs than others. The median household income for African-Americans (\$36,719) and Latinos (\$35,455) is well below whites (\$64,284), making it more likely that these workers will benefit from an increased state EITC.<sup>iii</sup> Latinos in particular are over-represented among EITC filers. More than one in nine of Rhode Island's labor force is Latino, but nearly one in four of the EITC-eligible population in the state is Latino.<sup>iv</sup>

### **Neighboring states recognize the importance of strong state EITCs**

Massachusetts and Connecticut currently offer larger state EITCs than Rhode Island. Connecticut's refundable state EITC is 27.5 percent of the federal credit, while Massachusetts' refundable credit is 23 percent.

### **Workers in every city and town would benefit from a stronger state EITC**

The more than 83,000 EITC filers live in every city and town in the Ocean State. From Westerly (1,176) to Woonsocket (4,720), in Providence (22,430), in Cranston (6,874), and in Newport (1,686), residents are benefiting from the EITC and bringing a boost to their local economies.<sup>v</sup>

<sup>i</sup> Institute on Taxation and Economic Policy. *Who Pays? A distributional analysis of the tax systems in all 50 states*. January 2015.

<sup>ii</sup> Rhode Island Department of Labor and Training. Labor Market Information. Top 50 RI Occupations by Total Openings 2012-2022 and Statewide Occupations All Industries, Median Wage May 2013.

<sup>iii</sup> Economic Progress Institute analysis of US Census Bureau, American Community Survey data, 2015

<sup>iv</sup> Characteristics of the EITC-eligible population, 2014 <http://www.brookings.edu/research/interactives/eitc>

<sup>v</sup> Brookings Institution Earned Income Tax Credits Interactive and Resources. <http://www.brookings.edu/research/interactives/eitc>