The Economic Progress Institute

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Testimony in Support of Increasing the Earned Income Tax Credit: H7494
House Committee on Finance
May 3, 2022
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The Earned Income Tax Credit (EITC) is **a common-sense tax break that reduces the income tax owed by lower-wage working families**, allowing them to contribute more to vibrant local economies. The Economic Progress Institute supports Representative O'Brien's H7494 to raise the state credit from 15% to 50% of the federal one. Rhode Island's EITC was last increased six years ago.

Many hard-working Ocean State families are struggling to pay for housing, heat, food, and health care, and the coronavirus pandemic has made the situation worse for many. A two-parent family, both earning the current minimum wage of $12.25, earns $50,960 a year – $22,686 less than what the two-parent family needs to earn in order to make ends meet.[1] The federal EITC helps working families close that gap, providing a refundable tax credit based on their income and family size. The state EITC provides a modest, but crucial supplement to this.

Twenty-nine states, the District of Columbia, and Puerto Rico have enacted earned income tax credits (EITCs) to supplement the federal EITC, one of the nation's most effective tools for boosting the incomes of low-paid working families.

Important to workers of color

Low wages make it hard for working families – especially working families of color – to afford basics like decent housing in safe neighborhoods, nutritious food, reliable transportation, quality child care, as well as educational opportunities that can move working families towards the middle class. The median household income for Black ($45,727) and Latinx ($41,293) households is well below that of Non-Hispanic white households ($71,096), making it more likely that the former will benefit from an increased state EITC.[2] Latinx Rhode Islanders in particular are over-represented among those eligible for the EITC: they account for close to one-seventh of Rhode Island's labor force, but nearly one-third of the state's EITC-eligible population.[3]

Neighboring states recognize the importance of strong state EITCs

For Tax Year 2021, Vermont offered a refundable state EITC at 36% of the federal credit, with Connecticut offering 30.5% and Massachusetts offering 30% – from 8 to 21 percentage points higher than Rhode Island's EITC. It is time for Rhode Island to increase its EITC credit above 15% of the federal EITC to get closer to some of our New England neighbors (*see Figure 1*).

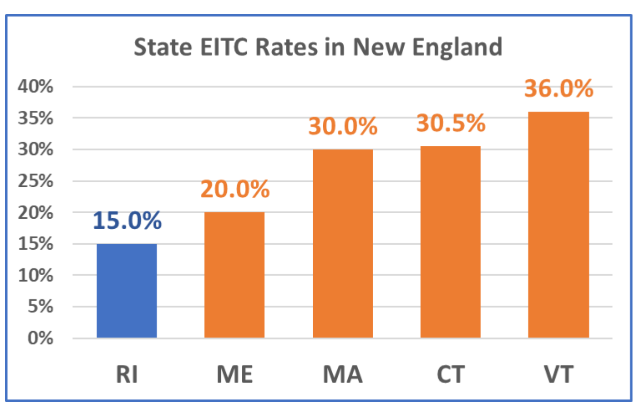

Figure 1

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Improving tax fairness

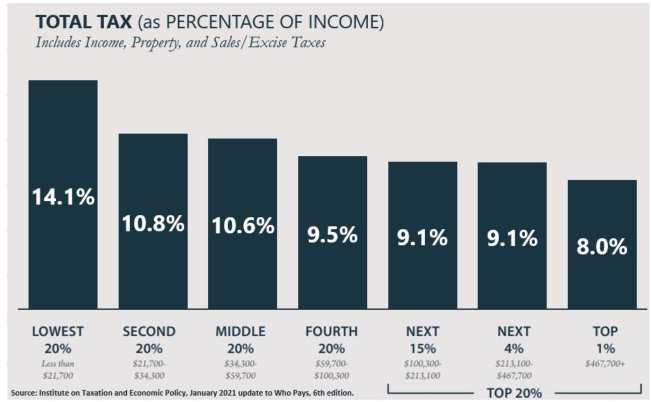

Figure 2

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 one and a half times as much of their income towards state and local taxes as the wealthiest Rhode Islanders, 14.1% vs 8.0% (*see Figure 2*). This imbalance reflects our state's heavy reliance on sales, excise, and property taxes, all of which fall more heavily on families with lower incomes. Increasing the state EITC helps improve tax fairness.

Easy to administer, less expensive than many other tax cuts

States incur virtually no costs for determining eligibility for this credit because in most cases, families eligible for the federal credit are also eligible for the state credit. And because state credits like that in Rhode Island typically are set at a fixed percentage of the federal credit, revenue departments need only add or modify one line in a state's income tax form.

Keeps families working and reduces poverty

EITCs help lower-wage working families pay for expenses that allow them to work, expenses such as child care and transportation. The credit is also structured to encourage the lowest-earning workers to work more hours. Extra time and experience in the working world translate into better opportunities and higher pay over time. Three of every five recipients of the federal credit use it temporarily – for just one or two years at a time – while they get back on their feet.

Good for local businesses and our state's economy

The EITC generates effects that reverberate through the local economy and become income for local businesses, employees, and governments. For refundable tax credits to low-income earners, Mark Zandi, chief economist at Moody's Analytics, identifies a "multiplier effect" in the range of 1.22 to 1.26, meaning that every dollar spent generates an additional $1.24 in economic activity. When working people can keep up basic spending, it boosts families, communities, and our economy. Rhode Island policymakers can help build an economy that works for everyone by passing H7494 and strengthening the state's earned income tax credit.

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[1] Economic Progress Institute, "The 2020 Rhode Island Standard of Need: COVID-19 Edition," December 2020, http://www.economicprogressri.org/wp-content/uploads/2020/12/RISN-2020-FINAL.pdf.
[2] American Community Survey, Table S1903, Median Income in the Past 12 Months (in 2019 Inflation-Adjusted Dollars), 2019: ACS 5-Year Estimates Subject Tables.
[3] Samantha Waxman and Juliette Legendre, "States Can Adopt or Expand Earned Income Tax Credits to Build Equitable, Inclusive Communities and Economies," Center on Budget and Policy Priorities, updated March 11, 2021, https://www.cbpp.org/research/state-budget-and-tax/states-can-adopt-or-expand-earned-income-tax-credits-to-build; Unites States Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment 2019, Table 14. Employment status of the civilian noninstitutional population, by gender, age, race, Hispanic or Latino ethnicity, and marital status, 2019 annual averages, https://www.bls.gov/opub/geographic-profile/.