



Testimony in Support of House Bill 5791
House Committee on Finance
Submitted by Douglas Hall, Ph.D.
May 30, 2017

The Economic Progress Institute supports **H5791 AN ACT RELATING TO TAXATION – PERSONAL INCOME TAX**, which increases Rhode Island’s state Earned Income Tax Credit (EITC) from 15 percent to 20 percent of the federal EITC.

Among your handouts you have data on the impact of the EITC in each of your districts, as well as our fact sheet on the EITC, entitled “Improving a Common Sense Tax Credit for Working Rhode Islanders”.

In addition to the key points in the fact sheet, several other points merit additional emphasis.

The EITC addresses the fact that nearly half of all jobs created in Rhode Island since the end of the Great Recession have been low wage jobs, paying below \$35,000 (Figure 1). This is exactly the population that the EITC best targets, and that most needs their wages supplemented so they can meet their basic needs.

Natalie Holmes and Alan Berube, researchers with the Brookings Institution’s Metropolitan Policy Program, emphasize the role that the EITC plays in addressing the shifting geography of poverty, through which suburbs of major urban centers have seen their poverty rates increase since 2000.¹

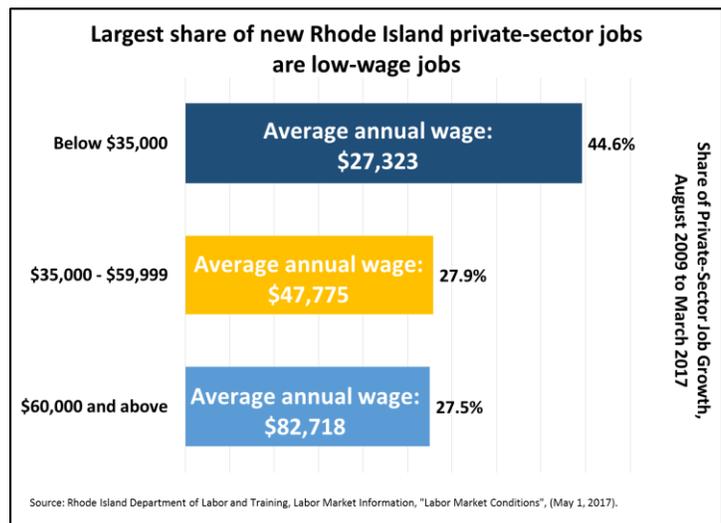


Figure 1

The EITC is well suited to address this shift, since it is a tool that provides an infusion of money that, because it is delivered through our income tax system, can be very efficiently targeted to working families in need. This feature overcomes several shortcomings of traditional mechanisms for helping lower income earners:

1. Centralized services that work well for urban families working hard but struggling to make ends meet, aren’t appropriate or cost effective in suburban areas.

¹ Natalie Holmes and Alan Berube, 2015. “The Earned Income Tax Credit and Community Economic Stability” in *Insight, Fall 2015*. <http://www.gistfunders.org/documents/GCYFInSightFall2015.pdf>

2. Smaller communities may be less able to achieve administrative scale needed to effectively deliver ‘safety-net’ programs.
3. Smaller communities are often ill-suited to address shifting populations of working-poor families. “As poverty suburbanizes, small suburban communities simultaneously face rising demand and falling tax revenues to support those services.”²

Research based on consumer surveys reinforces what we intuitively know – that low income earners are more inclined to spend disposable income locally. EITC recipients are more likely to make larger purchases (such as kitchen appliances, or car repairs) in the period following tax return season.

Among the most recently discovered positive impacts of the EITC is that intergenerational mobility – the dynamic by which subsequent generations make strides towards the “American Dream” – is enhanced by the EITC. **This positive impact is most evident in states with larger EITCs.**

The impact of the EITC in Rhode Island crosses boundaries of race and ethnicity, as seen in Figure 2.

While Hispanic – and to a lesser extent, Black – Rhode Islanders are disproportionately represented among EITC recipients, redressing persistent wage gaps facing workers of color in Rhode Island (Figure 3), nearly two-thirds of EITC recipients in Rhode Island are non-Hispanic Whites.

Importantly, more than half of EITC recipients in Rhode Island have some college or a college diploma, and nearly three-quarters (73 percent) have children.

For all of these reasons, we urge you to pass H 5791 out of committee.

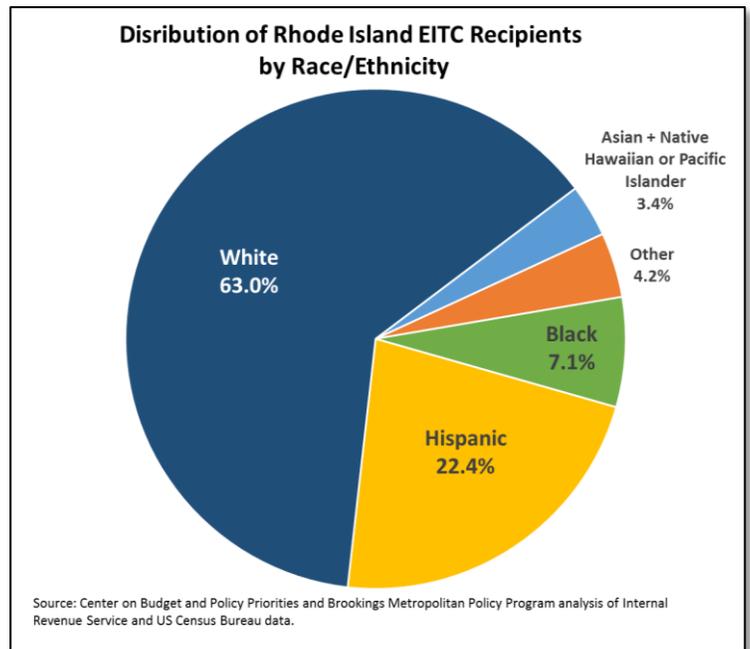


Figure 2: Data for White, Black, Asian, and Other are for Non-Hispanic people of those racial categories

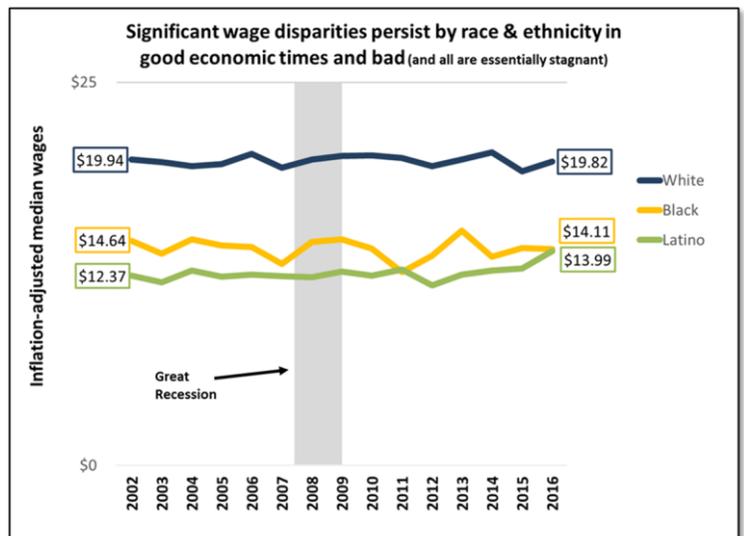


Figure 3

² Holmes and Berube, *Ibid.* 33.