

We Support HS1 for HB 80

Making the State Earned Income Tax Credit (EITC) Refundable

Because of ease of implementation and efficiency of the federal Earned Income Tax Credit, many states use that program as the basis for state safety net programs. As of March 2019, 30 states, the District of Columbia, Guam, Puerto Rico and some municipalities have established state earned income tax credit programs to support the economic security of low-income working families, especially those with children.¹ Most state benefits are calculated as a percentage of the federal EITC.

Federal EITC Program. The earned income tax credit (EITC) is a central pillar of the US social safety net. The federal credit changes every year and is based on earnings, number of qualifying children and marital status. A qualifying child is determined by age, the relationship to the filer, how long the filer and child have lived together in the U.S. and whether the child has filed a joint return. Those without a qualifying child must be 25-65 years old at the end of the year, live in the United States for more than half the year and cannot qualify as a dependent of another person.

The program encourages work since benefits depend on earned income. It is an efficient program in targeting aid through the tax system without the need for additional bureaucracy. It is critical in giving support to poor children. The federal EITC is 'refundable' so that if the credit is larger than the tax bill, the filer will receive a refund of the difference.

The EITC has been a popular program since it was introduced in 1975 and has been expanded and extended with broad bipartisan support since that time. In 2017, 27 million eligible households received about \$65 billion in EITC. The average amount of EITC received nationwide was \$2,445. In Delaware 72,000 claimed the federal EITC and received federal benefits of \$172 million with an average credit of \$2,383.

DE EITC Programs. Enacted in 2005, the Delaware EITC program has been 20% of the federal EITC allocation. However, the Delaware program misses many of the lowest income workers because it is non-refundable. If the state EITC allocation is greater than the state tax due, the low-income worker does not receive the refund. Most states have refundable programs. Only six states, including Delaware, still have non-refundable programs.

House Substitute 1 for HB 80. This bill will allow the workers with earned credit greater than taxes to benefit from the program. the refundable program will spread the benefits among more EITC-eligible workers, *focused on the lowest income families with the greatest need.*

Like the national participation rate, it is estimated that 20% of the eligible workers do not apply for the Delaware state EITC so it is critical that non-profits provide free tax preparation services, e.g. Nehemiah Gateway. Increasing participation rates is important since EITC it is the largest means-tested support program for low-income families.

We believe that the Earned Income Tax Credit is one of the best public policy programs that can really lift people out of poverty. Therefore, the **LWV strongly supports making the Delaware's EITC program refundable to target aid to some of the lowest-income workers and provide work incentives and urges enactment of HS 1 for HB 80.**

¹ Background for this paper from: <https://www.ncsl.org/research/labor-and-employment/earned-income-tax-credits-for-working-families.aspx>