



The League of Women Voters of Delaware Supports 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. Twenty-nine states and the District of Columbia have established state earned income tax credit programs. 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 EITC provides a credit for low-income tax-filers based on earnings, filing status and number of children. 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.

While EITC is both efficient and effective, there is concern that the program still misses some qualified workers since an estimated 20 percent of eligible low-income workers do not claim EITC. Many states have established free tax-preparation services provided by volunteers to reach as many eligible workers as possible. Increasing participation rates is important since EITC it is the largest means-tested support program for low-income families.

DE EITC Programs. Enacted in 2005, the Delaware EITC program has been 20% of the federal EITC allocation. However, the Delaware program is less effective and efficient and 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 Bill 113. HB 113, a bipartisan bill sponsored or co-sponsored by 23 Republican and Democratic legislators, was introduced to make Delaware's EITC refundable. This change will allow the workers with earned credit greater than taxes to benefit from the program. To keep fiscal costs constant HB113 will cut the state EITC rate from 20% to 5.9% of the federal credit starting in tax year 2018. Even though some families will experience lower benefits after the cut, 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.

As a rough example, the average federal EITC benefit for Delaware filers was \$2,383 in 2017. At 5.9% of the federal benefit, the Delaware state EITC credit would be \$141 for a total EITC benefit of \$2,524. Hopefully, that added boost will increase incentives for low-income families to use the EITC.

We believe that the Earned Income Tax Credit is one of the best public policy programs that can really lift people out of poverty.

The LWV strongly supports the concept of 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 HB 113.