



The League of Women Voters of Delaware Supports Making the State Earned Income Tax Credit (EITC) Refundable

Federal EITC Program. The earned income tax credit (EITC) provides work incentives for low-to-moderate income workers with a modest tax cut. The federal EITC reduces the amount of taxes owed, and refunds the difference if the credit is larger than the tax amount owed (refundable credit). The schedule for the federal credit changes every year based on earnings, number of qualifying children and marital status. The credit increases as earnings increase up to a specified limit. The EITC has been a popular program since it was introduced in 1975 and made permanent in 1978. It has been expanded and extended with broad bi-partisan support since that time.

Originally the program was restricted to workers who earned at least \$10,000, but the level was lowered to make workers who earn up to \$3,000 eligible. The program still misses many low-income workers since an estimated 20 percent of eligible workers do not claim EITC. Many states have established free tax-preparation services provided by volunteers to reach as many eligible workers as possible.

State EITC Programs. Twenty-six states and the District of Columbia have established state earned income tax credit programs since it is **an efficient way to accomplish two important public policy objectives: 1) target aid and 2) encourage work.**

Most state programs are calculated as a percentage of the federal EITC. Enacted in 2005, the Delaware EITC program is 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 Delaware, Ohio, Maryland, and Virginia have non-refundable programs.

House Bill 113. House Bill 113, a bipartisan bill sponsored or co-sponsored by 22 Republican and Democratic legislators, was introduced to make Delaware's EITC refundable. The Bill will cut the Delaware EITC from 20% to 6% of the federal credit for taxable year 2018. The allocation will be gradually increased by 1% per year until the maximum of 15% of the federal credit is reached in 2027. Making the Delaware EITC refundable will help get some benefit to the lowest-wage workers. It is estimated that 20% of the eligible workers do not apply for EITC so it is critical that the Delaware EITC is supplemented with non-profits, such as Nehemiah Gateway, providing free tax preparation services. We believe that the Earned Income Tax Credit is probably 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.