



Testimony in Support of House Bill 7347
House Finance Committee
Submitted by Douglas Hall, Ph.D.
May 4, 2016

This committee is considering dozens of bills this week, many of which provide tax breaks via deductions, exemptions, and the like. In considering all of these bills, we counsel that three criteria be applied to weigh the merits of proposed legislation:

1. The proposed legislation must advance a discernible and compelling public policy objective;
2. The beneficiaries of proposed changes should be clearly identified, specifically the impact of proposed changes on Rhode Islanders by income, race/ethnicity, and gender, and the number of people benefiting.
3. Due consideration must be paid to the revenue impact of the proposed legislation;

If you apply these criteria to increasing the Rhode Island EITC – either to 15% as proposed in the Governor’s budget – or to 20% as included in H7347, we think the merits support making an increased EITC a priority investment in hard working Rhode Islanders.

Here is why:

- The EITC will provide an increased credit of \$13.2 million to 83,000 Rhode Islanders.
- EITC is known to help families meet their basic needs and stay out of debt as will be testified about here today.
- The revenue impact of \$13.2 million of increasing to 20% has a significant return on investment that will help Rhode Island’s economy.

As noted in a [publication by the Atlanta Federal Reserve Bank](#), “The EITC...generates "multiplier" effects that reverberate through the local economy and become income for other local businesses, employees and governments.” Mark Zandi, a renowned national economic forecaster from Moody's Analytics assumes a multiplier effects for refundable tax credits to low income earners in the range of 1.22 to 1.26, meaning that **every dollar spent generates an additional \$1.24 (approximately) in economic activity**.¹ Applying that multiplier to the EITC proposed in H7347 would add \$16.4 million to the economy, boosting local businesses, and contributing to a vibrant Rhode Island economy. This makes sense: when home health aides, restaurant workers, and local fishermen can better provide for their families, our communities and our economy are stronger, and prosperity is broadly shared. We know that it is the working men and women of Rhode Island who are the real ‘job creators’. Nationally, more than two of every three dollars contributing to GDP comes via “personal consumption expenditures”.² In Rhode Island, personal consumption accounts for even a larger share – about 77 percent of GSP in 2011.

¹ see for instance page 3 of https://www.economy.com/mark-zandi/documents/Small%20Business_7_24_08.pdf

² In March, PCE accounted for 68.75 percent of US GDP. https://ycharts.com/indicators/personal_consumption_gdp
https://www.bea.gov/scb/pdf/2013/08%20August/0813_pce_by_state.pdf

It is worth noting that our neighbors recognize the value and investment of the EITC as evidenced by their higher state rates.

As seen in Figure 1, Rhode Island significantly lags our neighboring states in supporting working families through state level EITCs.

The higher EITCs in CT and MA are in part responsible for the fact that we take a larger share of household income from our lowest income earners (ie, the bottom quintile) in combined state and local taxes as our neighboring states. Figure 2 shows that we would partially close that gap by increasing the RI EITC to 20 percent of the federal EITC.

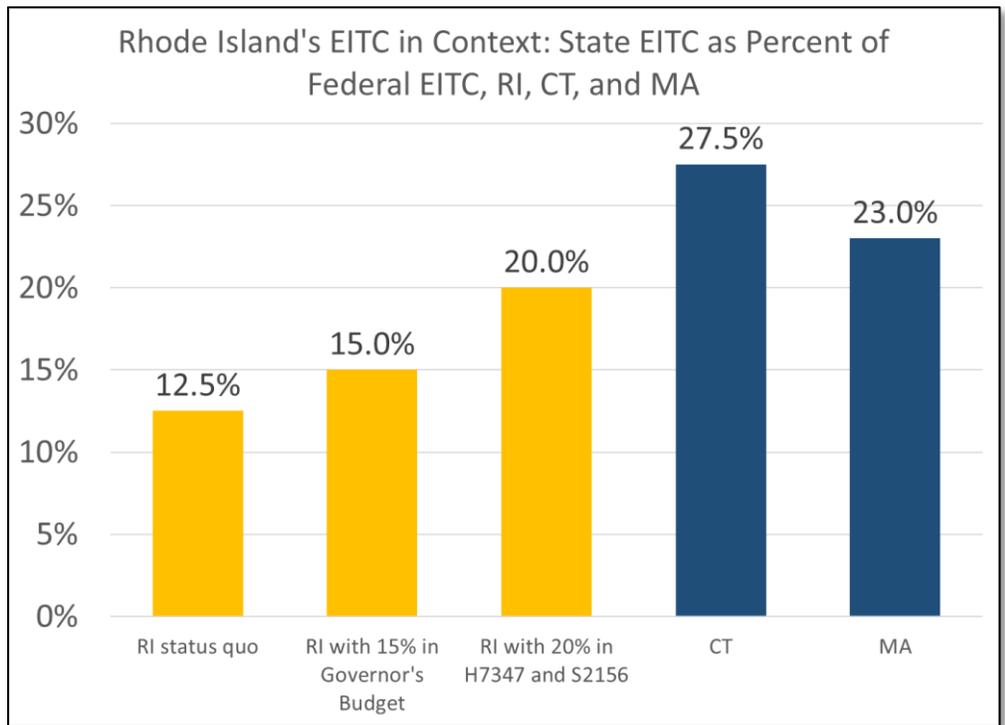


Figure 1

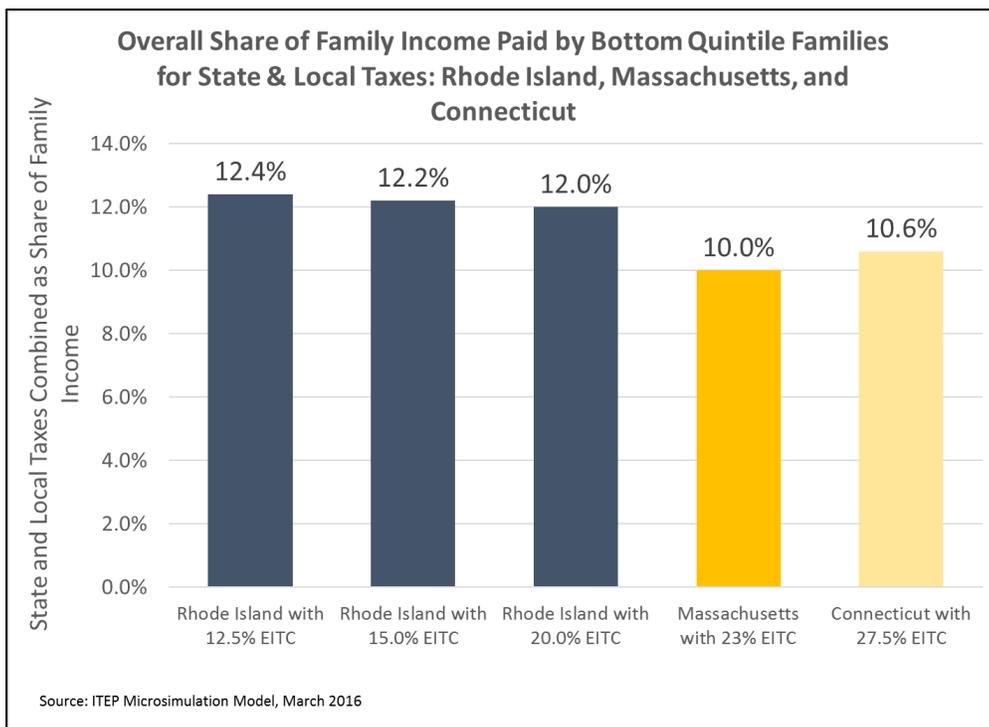


Figure 2

Increasing Rhode Island's EITC to 20 percent of the federal EITC helps about 80,000 Ocean State Families make ends meet, significantly boosts the economy, and makes our overall tax structure more fair. For these reasons, we urge you to pass this out of committee.