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The Rhode Island Earned Income Tax Credit: History and Analysis

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Abstract

This paper offers a comprehensive political history of the Rhode Island Earned Income Tax Credit (EITC) and an analysis of Rhode Island EITC recipients. It explores the history of the Rhode Island EITC, an income subsidy available to low-income workers, from its introduction in 1975 through 2018. It details the forces behind expansions and reforms and the effects of those changes. It also analyzes microdata to construct a profile of current EITC recipients. This paper concludes that the Rhode Island EITC has historically been viewed as both a poverty alleviation program and an incentive for labor market work. The Rhode Island EITC is found to largely benefit low-income working single parents.

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Introduction

In 1975, Rhode Island became the first state in the United States to offer an earned income tax credit (EITC) against state income tax liability. In preceding years, the Rhode Island EITC has been expanded several times under both Republican and Democratic governors. The credit, presently one of the largest anti-poverty programs in Rhode Island, has garnered the support of both anti-poverty advocates and business organizations. Despite the unique background of the Rhode Island EITC, little has been written about the credit's history and little is known about its recipients.

This paper offers a political history of the EITC from 1975 to 2018 and develops a profile of current EITC recipients. The first part of the paper details the history of the credit using information from newspaper archives and government documents. The second part of the paper outlines the existing economic research on the EITC and describes the data and methods used to analyze recipients. The third part of the paper describes the characteristics of EITC recipients from 2015 to 2018; specifically, it offers information about the work and income, poverty status, family structure and demographics of recipients. The paper concludes with an overview of findings.

I. History of the Earned Income Tax Credit

Introduction

The EITC is an income subsidy and tax offset offered to low-income workers. The federal EITC, first enacted in 1975, was developed as a labor market work-based alternative to cash assistance programs. The credit is offered against federal income tax liability, and it is received as a cash benefit if it exceeds the value of a filer's income tax liability.

In 1975, Rhode Island became the first state to offer an EITC against state income tax. The Rhode Island EITC fluctuated as a percentage of the federal credit for two and a half decades before being formally written into state tax law in 2001. Since 2001, the Rhode Island EITC has been expanded six times and reduced once. It is presently set equal to 15 percent of the federal credit, and it is fully refundable.

Both Republican and Democratic governors have signed EITC expansions into law. In its history, the credit has been well-regarded for alleviating poverty and incentivizing labor market work.

Table 1: Timeline of Rhode Island EITC Changes

1975	*EITC first offered on state tax liability at 17% of federal credit*
⋮	
2001	*Non-refundable EITC formally written into state law at 25.5% of federal credit*
2002	*EITC reduced to 25% of federal credit*
2003	*Partial refundability established at 5% of state credit*
2005	*Refundability increased to 10% of state credit*
2006	*Refundability increased to 15% of state credit*
2014	*EITC reduced to 10% of federal credit; refundability increased to 100% of state credit*
2015	*EITC increased to 12.5% of federal credit*
2016	*EITC increased to 15% of federal credit*

1975: State EITC first offered

Rhode Island is credited with enacting the first state EITC in the nation (LaLumia, 2009; Larrimore, 2009; Williams, 2019). While Rhode Island did become the first state to offer taxpayers a credit on their state tax liabilities based on the federal EITC, no state lawmaker or advocate deserves credit for this groundbreaking happening. This is because Rhode Island's EITC was not explicitly enacted until decades after it was first offered.

The EITC was written into the federal income tax code in 1975. At this time, Rhode Island assessed a taxpayer's liability as a percentage of her federal tax liability. It was the only state to have a personal income tax system structured entirely on the federal income tax system, so it became the only state to offer taxpayers the EITC (Johnson, 2000). Unlike the federal EITC, however, the state credit was not refundable—in other words, it was not offered in excess of a taxpayer's liability.

Rhode Island's unique personal income tax structure was enacted in 1971, four years before the federal EITC was introduced. At the time, Rhode Island was one of 11 states without an income tax (Kelly, 1970). State leaders had long maintained a reticence to enacting such a tax. In the 1970 campaign for governor, both incumbent Frank Licht and his Republican opponent Herbert DeSimone opposed the tax, and understandably so: two previous income tax plans had been rejected by the General Assembly and the governors who proposed them had been voted out of office.

However, lawmakers—facing an impending budget deficit of $50 million for fiscal year 1971—soon began to reconsider. With support from Chambers of Commerce around the state and the Rhode Island AFL-CIO, an income tax soon gained the backing of General Assembly leaders and Governor Licht (Kelly, 1971; Hackett, 1971a; Providence Journal, 1970a, b, c). Support among the public, however, remained elusive (Providence Journal, 1971d). After debate over the most efficacious manner in which to structure a state tax on income, lawmakers agreed upon assessing the tax as a percentage of a taxpayer's federal income tax liability. This so-called "piggyback tax" left the state income tax dependent upon provisions enacted in the federal tax code (Providence Journal, 1971e).

The state income tax was passed and enacted in 1971 amidst protests and public opposition from the likes of Lieutenant Governor Joseph Garrahy, Providence Mayor Joseph Doorley and Warwick Mayor Philip Noel (Dickinson, 1971; Hackett, 1971b; Hackett, 1971c; Providence Journal, 1971f). Like his predecessors who had proposed an income tax, Licht did not return to office; he declined to run for re-election and was succeeded by Noel in 1972 (Welt, 1972).

Despite its contentiousness upon passage, the income tax soon became a permanent source of revenue for the state. Because the state personal income tax code was a "piggyback" of the federal code, the EITC was automatically incorporated into state tax liabilities upon its 1975 federal enactment.

Federal establishment, 1975. The federal EITC emerged in the early 1970s as a low-cost and emphatically pro-work alternative to the welfare programs of the Great Society era (Ventry, 2000). It was first signed into law in **1975** by President Gerald Ford after passing through a Democratic House and Senate.

As the economy dipped into a recession in 1974, lawmakers prepared a series of tax cuts. Included in the package was a one-year refundable credit for low-income workers, modeled after a "workfare" wage subsidy concept first proposed in 1972 by U.S. Senate Finance Committee Chairman Russell Long (Ibid.). The "Earned Income Credit," as it was called, was available to working families with at least one child earning less than $8,000. Benefits, which did not depend on family size so long as a worker had at least one child, phased in at 10 percent of earnings for the first $4,000 in income then phased out at a 10 percent rate (U.S. Congress, 1975).

With President Ford's signature on the Tax Reduction Act of 1975, the EITC was enacted. The EITC was viewed as an alternative to welfare programs such as Aid to Families with Dependent Children (AFDC), and was targeted at the same group: single mothers (Ventry, 2000). The EITC did not replace AFDC; rather, it provided additional benefits to the "deserving" working poor in an effort to reduce welfare costs, incentivize employment, offset tax burdens on the poor and stimulate the economy (Long, 1972).

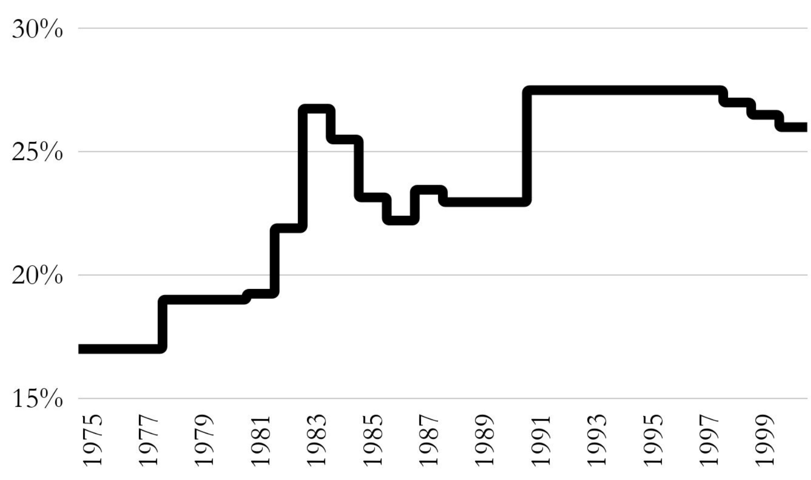
Changes between 1975 and 2000

Between 1975 and 2000, the Rhode Island EITC fluctuated as a percent of the federal credit (R.I. Gen.Laws § 44-30-2). The EITC was not adjusted on its own; rather, changes to the credit arose due to changes in the state's overall personal income tax rate. Because the state EITC was incorporated into the overall tax structure, increases and decreases in the EITC occurred as the state adjusted its personal income tax rate.

In 1978, Rhode Island's EITC was raised as a percentage of the federal credit alongside a broader state income tax rate increase. In increasing the state income tax as a percent of federal tax liability, lawmakers aimed to offset revenue losses caused by an earlier federal increase in the standard deduction (Providence Journal, 1978). The state EITC was automatically raised by this tax adjustment signed into law by Governor Joseph Garrahy.

In 1983, the state EITC was again raised alongside a broader state income tax rate increase. Two years earlier, Congress passed and President Ronald Reagan signed into law a three-year 23 percent personal income tax reduction (U.S. Congress, 1981). Because Rhode Island's personal income structure matched the federal code, state tax revenue waned in subsequent years (Walsh, 1982a). State lawmakers, aiming to balance the budget in light of the "financial emergency" caused by the federal-level cuts and a contemporaneous economic downturn, voted to temporarily raise the state's

Fig. 1: RI EITC as Percent of Federal EITC, Tax Years 1975-2000



Source: R.I. Gen. Laws § 44-30-2.

personal and corporate income tax rates (Walsh, 1982b; Bakst, 1983). Governor Garrahy signed the rate increases into law.

By 1985, the state was experiencing a budget surplus. That year, Governor Edward DiPrete proposed and lawmakers approved a decrease in the personal income tax rate (Walsh, 1985a, b). The state EITC was consequently lowered as a percentage of the federal credit.

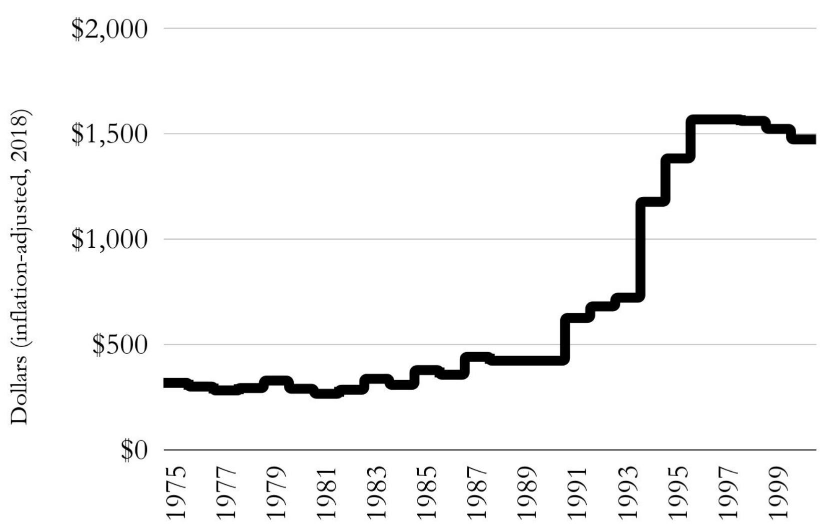
In 1991, the state EITC was raised as lawmakers approved an increase in the state tax rate. Prior to the rate increase, lawmakers had been grappling with a budget deficit caused by an economic downturn, a state banking crisis and unexpectedly high state spending levels. Governor Bruce Sundlun responded with a proposal to reduce spending by laying off 1,000 state workers. (Garland, 1991a). Poll results found voters favored layoffs over tax increases; nonetheless, Sundlun's proposal was not met kindly by Democratic General Assembly leadership. (MacKay, 1991). Eventually, lawmakers and the governor agreed upon a plan to raise the state's income tax rate and reduce spending (Garland, 1991b). The rate increase was approved by lawmakers and the EITC was thus raised as a percentage of the federal credit.

The EITC was decreased by half a percentage point each year between 1998 and 2002 as part of a 5-year income tax rate cut. The growing economy of the late 1990s had left the state with growing revenue, and lawmakers saw an opportunity to reduce tax burdens. In 1997, Governor Lincoln Almond proposed and the legislature approved a five-year reduction in the state income tax rate (Garland, 1997). The rate began at 27.5 percent of federal liability in 1997 and was reduced to 25 percent by 2002.

Federal changes, 1975-2000. The federal EITC was temporarily extended for two years before being permanently added to the Internal Revenue Code by President Jimmy Carter as part of the Revenue Act of **1978** (U.S. Congress, 1978).

The Revenue Act expanded the phase-in portion of the credit from $4,000 to $5,000 in income, raising the maximum credit from $400 to $500. This maximum credit was provided for

Fig. 2: Maximum RI EITC, tax years 1975-2000



Source: U.S. Congress (2004); R.I. Gen. Laws § 44-30-2.

income up to $6,000; the credit was reduced by 12.5 percent for each dollar earned above $6,000 and fully phased out at $10,000 (U.S. Congress, 1979). Like other elements of the federal income tax code, the EITC was not indexed to inflation.

The Joint Committee on Taxation wrote in 1979 that the EITC was permanently enacted because it offered an "effective way to provide work incentives and relief from income and Social Security taxes to low-income families who might otherwise need large welfare payments" (Ibid.).

The Revenue Act also introduced an advance payment allowing EITC-eligible workers to receive the credit disbursed through their paychecks. Prior to this reform, the credit was only made available in a lump sum at the end of the tax year.

Between 1979 and 1984, the EITC endured with minor changes through a series of welfare cuts including those enacted in the Omnibus Budget and Reconciliation Act of **1981** (Institute for Research on Poverty, 1985). The work-oriented EITC was viewed as an alternative to welfare programs rather than a welfare program itself, and it enjoyed the support of both liberal and conservative lawmakers (Conlan et al., 1988). The EITC also garnered appeal because part of its cost was scored as foregone revenue rather than direct expenditure.

The EITC was modestly expanded in **1984**, largely to account for increases in the cost of living—between 1975 and 1984, inflation had eroded the real value of the credit by 35 percent (Ventry, 2000).

With the Tax Reform Act of **1986**, signed into law by President Ronald Reagan, the EITC was formally indexed to inflation (U.S. Congress, 1987). The 1986 law also expanded the EITC so its maximum credit was roughly equal to, in real terms, the maximum credit available in 1975. At the time, the expansion was presented as a way to free low-income families of income tax burdens.

Two changes to the EITC in the early 1990s expanded the credit and established different benefits for differently-sized families. These changes greatly increased the size of the EITC: from 1990 to 1994, the fiscal cost of the credit nearly tripled (U.S. Congress, 2004).

By this point, the EITC had come to be viewed as a preeminent anti-poverty program rather than solely a mechanism to reduce welfare rolls and ease tax burdens on the poor. As one *Wall Street Journal* reporter observed, the EITC had emerged as "the anti-poverty tool of choice among poverty experts and politicians" (Wessel, 1989). In the view of policymakers, this necessitated expansions in the credit to better alleviate poverty. It also necessitated scaling benefits by family size.

The Omnibus Budget and Reconciliation Act of **1990** (OBRA 1990), signed into law by President George H.W. Bush, distinguished for the first time between one-child families and families with more than one child (U.S. Congress, 1990). The 1990 law created a higher phase-in rate, and thus a higher maximum credit, for the latter group. OBRA 1990 also expanded the size of the credit for both groups.

The Omnibus Budget Reconciliation Act of **1993** (OBRA 1993), signed into law by President Bill Clinton, extended the credit to childless workers—albeit at a much lower value than that provided to workers with children—to offset tax increases included elsewhere in the Act (Crandall-Hollick, 2018). OBRA 1993 also expanded the size of the credit for those with children and increased the phase out point for those with more than one child. Aside from inflation adjustments, the EITC formula for workers with two or fewer children has remained unaltered since these changes.

2001: EITC written into state law

The Rhode Island EITC was formally written into state law in 2001. That year, state lawmakers decoupled the state's personal income tax structure from the federal structure following a series of federal tax cuts, including the the Economic Growth and Tax Reconciliation Relief Act of 2001 (EGTRRA), that left the state budget with a shrunken revenue stream (Arditi et al., 2001). Following this reform, implemented to keep state personal income tax revenue level as federal revenue fell, state tax liability was calculated as a percentage of what a filer's federal tax liability would have been before the enactment of EGTRRA after accounting for inflation (Downing, 2001; Sasse, 2001). These changes were signed into law by Governor Almond and remained in effect until the state fully detached its income tax rate structure from the federal code in 2007 (R.I. General Assembly, 2007).

A number of tax credits, including the EITC, were excluded from this liability calculation and formally codified into state law (R.I. General Assembly, 2001). These credits were to be calculated according to their contemporary federal amounts—rather than their pre-EGTRRA amounts—at rates set by the state. This provision allowed married EITC recipients to benefit at the state level from amendments to the credit, enacted with EGTRRA, that reduced the "marriage penalty" (see *Marriage penalty reform, 2001*).

Rhode Island's EITC was thus officially established as a state tax provision equal to 25.5 percent of the federal EITC for tax year 2001. The credit remained nonrefundable and, as such, continued to offer no benefit to the state's lowest-income workers. While the maximum state credit available in tax year 2001 was $1,022 ($1,449 in 2018 dollars), the average credit received was $37 ($53 in 2018 dollars).

Following the formal inclusion of the EITC in the state tax code, income eligibility levels for the state EITC continued to match those of the federal credit.

Marriage penalty reform, 2001. Prior to **2001**, two people who were married and filed taxes jointly would receive a lower EITC than if they had filed independently. Seeking to relieve this so-called "marriage penalty," which was believed to disincentivize marriage, lawmakers increased the amount of income over which the maximum credit could be claimed before it begins to phase out (New York Times, 2000). This multi-year increase, included in EGTRRA, was signed into law by President George W. Bush in 2001 (U.S. Congress, 2002).

2002: EITC reduction

For tax year 2002, the state EITC was reduced from 25.5 percent to 25 percent of the federal credit. Rhode Island had decoupled its personal income tax structure from the federal structure in the fourth year of the five-year tax rate reduction from 27.5 percent of federal liability to 25 percent. The state continued with its planned rate reductions during and after the 2001 restructuring, and the EITC was included in the adjustment (R.I. General Assembly, 2001; Johnson, 2000). The maximum credit available in 2002 was $1,035 ($1,445 in 2018 dollars), while the average credit claimed was $42 ($59 in 2018 dollars).

The state EITC would remain at 25 percent of the federal credit for the next 13 years; in the expansion efforts to come, pro-EITC advocates would focus on increasing the refundable part of the credit.

2003: Partial refundability established

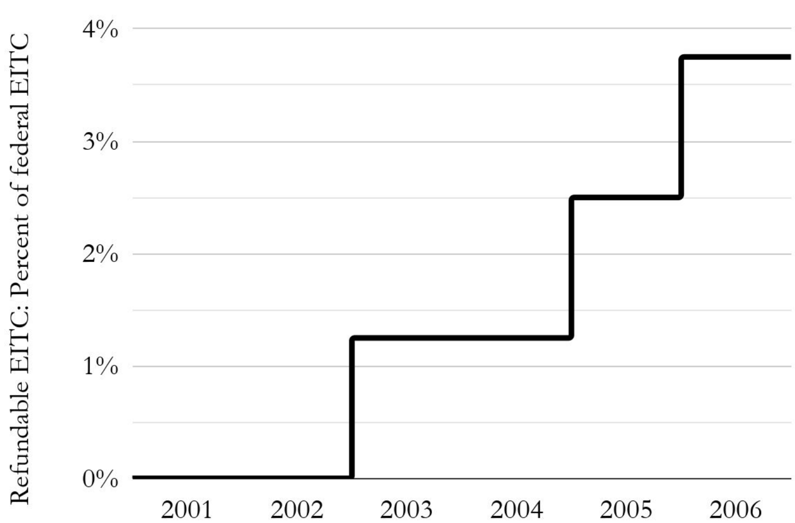
In 2003, five percent of the state credit was made refundable. Following this expansion, if the value of a filer's state EITC exceeded her state income tax liability, she would receive a payment equal to five percent of the credit in excess. The maximum refundable amount was equal to $53 ($72 in 2018 dollars), or 1.25 percent of the maximum federal credit. The small refundable amount resulted from a compromise between legislators aligned with Governor Donald Carcieri and legislators aligned with anti-poverty advocates.

Earlier that year, a coalition of approximately 150 labor unions, advocacy organizations and professional associations organized under the moniker Ocean State Action had embarked on a campaign to make the EITC partially refundable. Supporters highlighted the EITC's anti-poverty effectiveness.

State Senator Teresa Paiva Weed, who would become Senate president seven years later, sponsored and spoke publicly in support of the group's legislative platform that included a bill to increase the refundable portion of the credit from zero to 10 percent over three years (2003 - H5885; 2003 - S0365). She argued that the state could "find the resources" to support measures ensuring all Rhode Islanders could afford "basic and simple necessities" (Baker, 2003).

Governor Carcieri, citing grim state deficit projections, said he was "unlikely" to support any part of the package (Ibid.). The bills establishing a 10 percent refundable credit were not passed out of committee (R.I. General Assembly, N.d.). However, a five percent refundable credit was established in the FY 2004 state budget, enacted in July 2003 (R.I. General Assembly, 2003). This process set the stage for future EITC expansion negotiations: cases for and against expansion were to be made in public, but eventual decisions were to be made largely behind closed doors during deliberations over the state budget.

Fig. 3: Rhode Island refundable EITC, 2001-2006



Source: R.I. Gen. Laws 44-30-2.6.

2005: Refundability expanded

In 2005, lawmakers doubled the refundable portion of the EITC from five to 10 percent. The expansion was enacted as part of the state budget signed into law by Governor Carcieri. Following this expansion, the maximum refundable state credit was equal to $110 ($141 in 2018 dollars)—2.5 percent of the maximum federal credit. The average credit received in tax year 2005 was $67 ($87 in 2018 dollars).

The budget also reduced property taxes and local car taxes (R.I. General Assembly, 2005). House Finance Committee Chairman Steven Costantino commented that the EITC expansion was included because lawmakers "just wanted to spread the [tax] relief" to the lowest-income workers in the state (Downing, 2005). The legislature, it was suggested, had included an EITC expansion in the budget to round out tax cuts for moderate income and high-income residents. The budget also restricted welfare eligibility for unemployed Rhode Islanders.

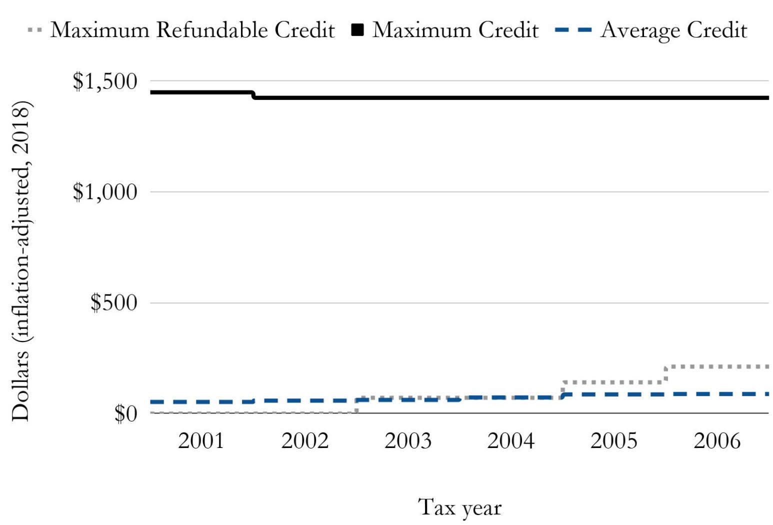
2006: Refundability expanded

In 2006, the refundable amount of the credit was increased to 15 percent of the state credit or 3.75 percent of the federal credit. Following this expansion, the maximum refundable credit was equal to $170. The EITC expansion, which benefited the lowest-income workers in the state, was passed alongside income tax reductions for high-income residents.

That year, anti-poverty advocates organizing under the name One Rhode Island returned to the Statehouse to advocate for a package of legislation to expand the refundable amount of the EITC to 25 percent of the state credit and increase social spending (Ziner, 2006). Governor Carcieri, again citing the state's budget deficit, expressed opposition to the EITC and social program expansions.

Days later, House Democratic leaders unveiled their own package of fiscal policy proposals. The proposals included an expansion of the refundable EITC portion to 15 percent and a controversial income tax cut for high-income Rhode Islanders

Fig. 4: Maximum, refundable and average RI EITC, tax years 1975-2000



Source: U.S. Congress (2004); IRS Publication 596; R.I. Gen. Laws § 44-30-2.6.; R.I. Department of Revenue, n.d.

(Gregg, 2006a). Governor Carcieri supported this package, which was soon enacted in the state budget (R.I. General Assembly, 2006).

The EITC expansion was largely overlooked in debate over the House leadership tax package. Anti-poverty advocates criticized the package for overwhelmingly benefiting the rich, while business advocates supported it for the same reason. Supporters of the package, like House Speaker William Murphy, argued that reducing taxes on high-income "decision makers" would improve prospects for the poor by generating employment and creating favorable conditions for charitable donations (Gregg, 2006b). Along these lines, state Representative Raymond Church argued that failure to reduce taxes on the rich would "do a disservice for those most in need" by limiting business development and philanthropy (Baker, 2006). House Finance Committee Chairman Steven Constantino said he viewed the tax cut for high-income Rhode Islanders as "an investment in our community" (Gregg and Mayerowitz, 2006).

Not everyone was convinced that the tax cuts for high-income residents would benefit the poor. State Senator William Sam Bento offered his candid assessment: "I am in favor of [the House leadership tax package], even though I really don't think it's going to help the poor or the middle class" (Ibid.). Ellen Frank of the Poverty Institute (renamed the Economic Progress Institute in 2012) argued that, on the whole, the tax "package does not provide relief for the ordinary Rhode Islanders." Representative Arthur Handy, a critic of the package, likewise warned that tax cuts for high-income residents would imperil funding for social services (Baker, 2006).

Others offered more biting rebukes of Governor Carcieri's approach to fiscal policy. "When the governor says 'Investment is booming,' he doesn't reflect on the fact that a huge number of Rhode Islanders don't have enough money to have a bank account," read a 2006 report from One Rhode Island (Ziner, 2006). "When the governor says, 'Parks and open spaces are increasing,'" the report continued, "we say, 'Good, because more people are having to sleep in them.'"

2007-2013: Period without expansion

In 2007, anti-poverty advocates returned to the Statehouse to push for another EITC expansion—this time an increase in the refundable portion to 20 percent—along with other social spending increases. As it unveiled its agenda, the coalition acknowledged that the priorities of the governor and General Assembly leadership laid elsewhere. Recognizing that Governor Carcieri was aggressively pursuing social spending cuts, the group proposed less new spending than it had in previous years (Ziner, 2007). Despite its tempered approach, the coalition was rebuffed by Carcieri and General Assembly leaders.

An EITC expansion was not enacted in 2007; instead, lawmakers passed a budget that restricted a number of social programs (R.I. General Assembly, 2007; Lessing, 2007). Meanwhile, 2007 saw the adoption or expansion of EITCs in 10 states across the country (Kahn, 2017).

In 2008, as it became clear the state was entering a sharp economic downturn, Representative Handy introduced legislation to expand the refundable EITC portion to 25 percent alongside an assemblage of other tax changes. His bill, the 82-page Economic Growth and Fairness Act, would also lower and broaden the sales tax, raise the tax rate on capital gains and implement a property tax rebate, among other measures (2008 H-7950; 2008 S-2668).

While Representative Handy maintained that it would decrease tax burdens for 90 percent of taxpayers while closing the state's budget deficit, the legislation was panned as economically irresponsible

(Santiago, 2008). In a hearing before the House Finance Committee, business owners threatened to leave the state and the Rhode Island Chamber of Commerce Coalition predicted an "economic death spiral" if the legislation were enacted (Larrabee, 2008). The legislation lacked support from House leaders and was never brought to a committee vote in either chamber; nor was its EITC expansion provision included in the state budget (R.I. General Assembly, n.d.b).

Instead, in 2008, Governor Carcieri proposed and lawmakers passed welfare cuts and restrictions which, one *Providence Journal* reporter wrote, "dramatically cut benefits to the poor" (Peoples, 2008; R.I. General Assembly, 2008).

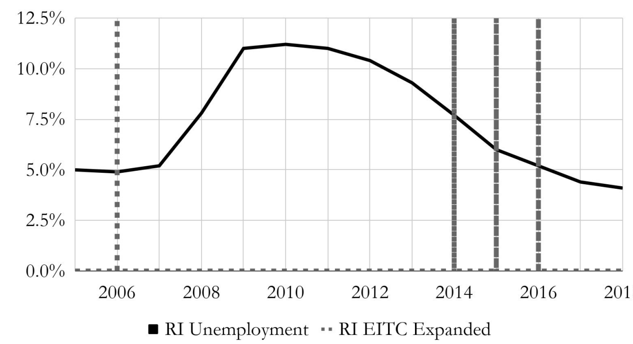
Federal expansion, 2009. Federal lawmakers responded to the Great Recession in part by expanding the EITC in **2009**. The American Recovery and Reinvestment Act (ARRA), commonly known as the Obama stimulus package, increased the phase in rate and maximum credit amount for families with three or more children (U.S. Congress, 2009). It also increased the phase-out point for married and jointly-filing couples.

The ARRA EITC changes were first enacted as temporary measures. In **2012**, they were extended for five years (U.S. Congress, 2012). In **2015**, they were made permanent (U.S. Congress, 2015).

The EITC was left unchanged when, in 2010, lawmakers passed a sweeping income tax reform that eliminated most of the state's tax credits (R.I. General Assembly, 2010; Baron, 2010). Taxpayers earning less than $175,000 and taxpayers earning more than $10 million both saw their tax liabilities reduced after the reform (R.I. Department of Revenue, 2011; Sheridan, 2012; Bell, 2015). Taxpayers earning between $175,000 and $10 million, meanwhile, faced higher liabilities on average.

Legislation was introduced to expand the state's EITC each year between 2009 and 2012; however, none of these bills were brought to committee Votes (R.I. General Assembly, N.d.c, b). Between 2009 and 2013, EITC changes were not proposed by Governor Carcieri nor by Governor Lincoln Chafee, who was sworn into office in 2011 (R.I. Department of Administration, N.d.). No changes were incorporated into state budgets over this period.

Fig. 5: RI Unemployment Rate and EITC Expansions



Source: U.S. Bureau of Labor Statistics (2019)

2014: EITC restructured

In 2014, Rhode Island's EITC was significantly restructured. The credit was made fully refundable, amounting to an 85 percentage point increase in refundability. To partially offset the cost of expanding refundability, however, the credit was reduced from 25 percent to 10 percent of the federal EITC. "We tried to be a little bit cost-conscious" in fully expanding EITC refundability, remarked Economic Progress Institute Policy Director Linda Katz in a House Finance Committee hearing on an EITC expansion proposal similar to the one enacted (R.I. General Assembly, 2014a).

This restructuring took effect in tax year 2015 (R.I. General Assembly, 2014b). The maximum credit available was reduced from $1,536 in tax year 2014 to $624 in tax year 2015, while the maximum refundable payment was increased from $230 to $624.[1]

On net, these changes expanded the fiscal size of the EITC. The cost of the EITC to the state rose from $10.5 million to $19 million, and the average credit received increased from $123 to $217.

However, not all were left better off by the restructuring. According to analysis by the Economic Progress Institute, the new structure benefitted the lowest-income EITC recipients at the expense of moderate-income recipients (Economic Progress Institute, 2015). The Economic Progress Institute's analysis found that approximately 3 in 4 EITC recipients were left better off and 1 in 4 saw benefit cuts.

The EITC reform was enacted as part of the FY 2015 budget which was signed into law by Governor Chafee. That year's budget also restricted a program providing property tax relief to low-income residents; combined spending on the EITC and property tax relief were reduced by $3.9 million (R.I. General Assembly, 2014c). The budget also raised the exemption threshold of the state estate tax, which reduced state revenue by $9.4 million.

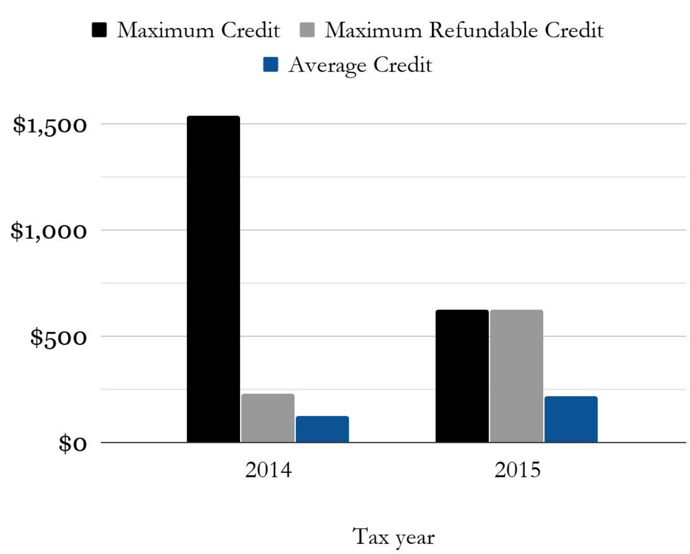
Unlike tax cuts in previous years, the 2014 estate tax reduction did not elicit strong public objection from lawmakers. However, the property tax and estate tax provisions of the budget prompted criticism from Kate Brewster of the Economic Progress Institute, who argued that the budget benefited the wealthy at the expense of unemployed and moderate-income residents (Brewster, 2014).

2015: EITC expanded

The state EITC was expanded in 2015 from 10 percent to 12.5 percent of the federal credit. The credit, expanded to "make work pay," was viewed favorably for its work incentive effects (Gregg, 2015).

In March of 2015, then-newly-inaugurated Governor Gina Raimondo included an EITC expansion from 10 to 15 percent over two years in

Fig. 6: Impact of 2014 EITC Reform



Source: IRS Publication 596; R.I. Gen. Laws § 44-30-2.6.; R.I. Department of Revenue, n.d.

[1] Dollar figures presented on EITC changes 2014-2018 are nominal.

her budget proposal alongside an increase in the minimum wage, reductions in social service spending and increases in educational spending (R.I. Department of Administration, 2015; McDermott, 2015). Senate President Teresa Paiva Weed supported the governor's EITC expansion proposal.

To marshal support to increase the credit, the Economic Progress Institute organized a postcard-writing campaign among low-income Rhode Islanders (Kahn, 2017). Taxpayers who used volunteer tax assistance were asked to write postcards expressing support for an EITC expansion; the postcards were delivered to state legislators.

Advocates emphasized the EITC's support for those who work. At a House Finance Committee hearing on the proposal, seven in ten of those testifying in support of the expansion highlighted the EITC's benefit to the working poor. "This state is just chock-full of people who work hard and yet don't earn a lot of money," remarked James Parisi of the Rhode Island Federation of Teachers and Health Professionals (R.I. General Assembly, 2015a).

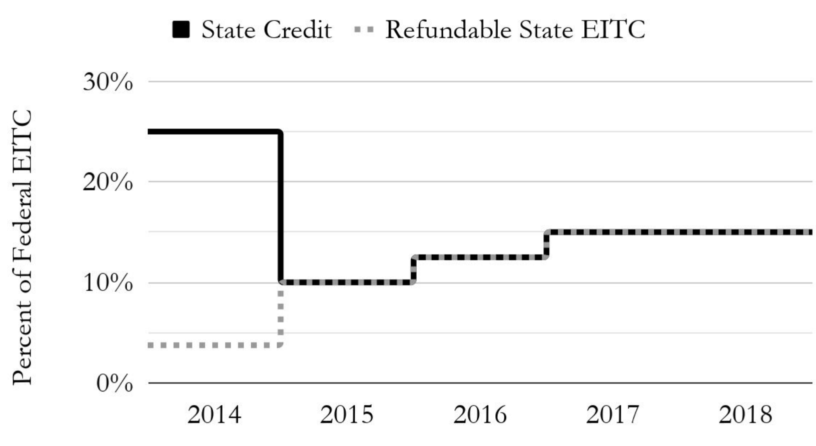
The expansion was reportedly limited to 12.5 percent by House Speaker Nicholas Mattiello, who sought fiscal capacity to exempt Social Security benefits from the state income tax (MacKay, 2015). Ultimately, the expansion to 12.5 percent cleared the House, Senate and governor's desk in the FY 2016 state budget (R.I. General Assembly, 2015b). The expansion was applauded by a diverse group of legislators and organizations including both the Economic Progress Institute and the Rhode Island Chamber of Commerce Coalition (Cervenka and Lombardi, 2015; Economic Progress Institute, 2015).

Following this expansion, which took effect in tax year 2016, the maximum available EITC increased from $624 to $784. The average credit claimed increased from $217 to $266.

2016: EITC expanded

Rhode Island's EITC was most recently expanded in 2016 to 15 percent of the federal credit. In January of that year, Governor Raimondo announced her intention to pursue an EITC expansion (Gregg, 2016). Highlighting her budget proposal provisions at a press conference organized by anti-poverty advocate organizations, Governor Raimondo argued that the EITC expansion would support low-income households while incentivizing

Fig. 7: Rhode Island EITC, 2014-2018



Source: R.I. Gen. Laws § 44-30-2.6.

work. "They are our friends," she said of EITC recipients. "They are the moms and dads we see dropping off kids, with our kids in the morning, and they are hustling off to a job or two and they just don't have enough to make ends meet. So this is a program that rewards work."

Senate President Paiva Weed supported raising the EITC. She, too, emphasized the credit as both an income support and work incentive. "It is no secret that EITC lifts working families out of poverty," she said. "It supplements the wages of low-wage workers, thereby encouraging work" (Ibid.)

Speaker Mattiello was initially noncommittal on raising the EITC, remarking that it was not on his agenda following the previous year's expansion. State Representative Scott Slater and state Senator Gayle Goldin, meanwhile, both encouraged lawmakers to increase the EITC to 20 percent of the federal Credit (Ibid.).

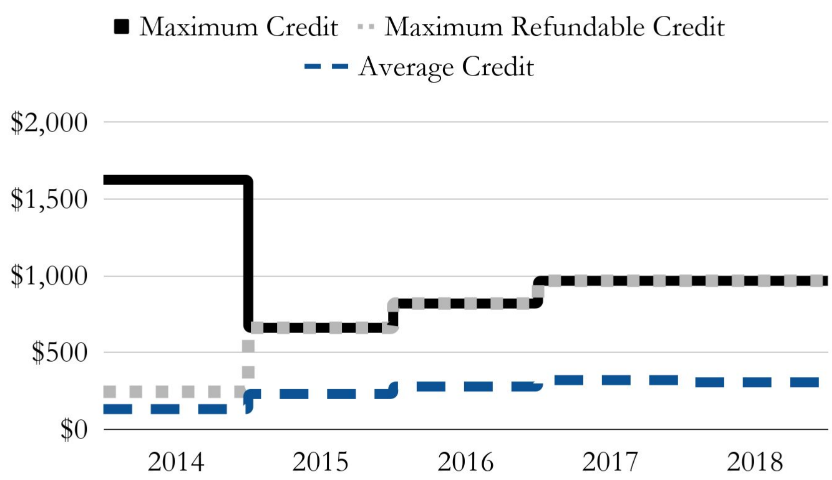
The EITC was ultimately expanded from 12.5 percent to 15 percent in the FY 2017 budget. The expansion increased the annual cost of the program by approximately $2.7 million (R.I. General Assembly, 2016). Upon passage of the budget, Speaker Mattiello applauded the expansion. In an op-ed, he highlighted lawmakers' work to "put more money back into the pockets of 80,000 working families" by expanding the credit for the second consecutive year (Mattiello, 2016).

This expansion, which took effect in tax year 2017, increased the maximum available credit from $784 to $948. The average credit received increased from $266 in tax year 2016 to $313 in tax year 2017.

No EITC expansion was enacted in 2017. An expansion was not included in Governor Raimondo's FY 2018 budget proposal (R.I. Department of Administration, 2017). Legislation was introduced to expand the credit to 18 percent and 20 percent, but neither was brought to a floor vote (R.I. General Assembly, N.d.c).

Due to 2017 federal tax changes, the state EITC will grow more slowly than state income tax brackets in coming years (see *Inflation index change, 2017*). State income tax brackets will grow according to the consumer price index for all urban consumers (CPI-U), while the maximum state EITC and the

Fig. 8: Maximum RI EITC, Tax Years 2014-2018 (Inflation-adjusted, 2018 dollars)



Source: IRS Publication 596; R.I. Gen. Laws § 44-30-2.6.; R.I. Department of Revenue, n.d.

credit's phase-in and phase-out income points will grow according to the more slowly-growing chained CPI-U.

Inflation index change, 2017: The Tax Cuts and Jobs Act of **2017** (TCJA), signed into law by President Donald Trump, indexed the tax code to a different measure of inflation (U.S. Congress, 2017). Under previous law, the tax code—including the EITC—had been adjusted according to the CPI-U.

Following the TCJA, the tax code has been indexed to chained CPI-U, a more slowly-increasing and more accurate measure of inflation (Boskin et al., 1996). As such, federal and state EITC income limits and earnings thresholds will increase more slowly over time than would have been the case under previous law.

In 2018, a number of bills were introduced to increase the EITC to 15.5 percent, 18 percent, 20 percent and 25 percent of the federal credit (R.I. General Assembly, N.d.c). None was brought to a floor vote in its respective chamber, and an EITC expansion was not incorporated into the state budget (R.I. General Assembly, N.d.d; R.I. General Assembly, 2018). The state EITC remained at 15 percent of the federal credit.

II. A Profile of EITC Recipients in Rhode Island

Introduction

The Rhode Island EITC offered economic support to about one in seven personal income tax filers in tax year 2018. The EITC, presently set equal to 15 percent of the federal credit, is among the largest cash-based anti-poverty programs in Rhode Island. Despite the significance of the EITC, however, little is known about its beneficiaries.

This section of the paper offers a detailed analysis of the subset of Rhode Islanders who were eligible for the EITC between 2015 and 2018. Using data from the CPS Annual Social and Economic Supplement (ASEC), this section offers insights about the work habits, economic standing, family structures and demographics of Rhode Island workers supported by the EITC. This section also provides an overview of the EITC's structure and eligibility limits and compares the EITC to other cash-based anti-poverty programs in Rhode Island.

The Rhode Island EITC is found to primarily offer support to low-income working parents. Two in three EITC recipients are parents, and nearly half are single parents. Two in three EITC recipients work in the labor market full-time, and recipients work 35 hours per week on average. Despite their labor market work, EITC recipients, on average, have income that is 70 percent lower than the average income of all Rhode Island workers. More than one in four recipients lives in a household that is below the federal poverty level, and nearly half receive or have recently received public assistance. EITC recipients are disproportionately female and nonwhite relative to the overall working population of Rhode Island.

An overview of the Rhode Island EITC

Eligibility and benefits

The Rhode Island EITC is calculated as a percentage of the federal credit. A filer who receives an EITC against her federal income tax will also receive a state EITC, equal in value to 15 percent of the value of her federal EITC, against state income tax liability. The Rhode Island EITC is refundable, meaning it is offered as a cash payment if its value exceeds the value of a filer's income tax liability.

Income eligibility thresholds for the Rhode Island EITC are the same as those for the federal credit. Eligibility for the EITC is determined according to two criteria. First, a filer must have income derived from a taxable source such as labor market work—no credit is offered to those without income. Second, the filer must have a low level of income: in tax year 2018, a single filer with two children was eligible for the EITC only if her income was below $45,802 (IRS, 2018).

Income limits vary based upon filing status and number of qualifying children. While low-income filers without children are eligible for a small credit, the EITC is generally targeted towards parents. Those who file jointly are eligible for the credit up to a higher income than are those who file singly. For example, a single filer with no children in tax year 2018 was eligible for the EITC only if her income was below $15,270, while a joint-filer with three children was eligible for the EITC up to $54,884 in income.

The EITC is structured in three parts: a phase-in range, a plateau range and a phase-out range. The value of the credit increases with income during the phase-in range, remains constant with income during the plateau range and decreases with income in the phase-out range.

For a single worker with two children, the credit remained at its maximum value of $857 for income between $14,290 and $18,660 in tax year 2018. For income between $18,660 and $45,802, the credit is reduced at a rate of 21.06 percent of additional income received until fully phased out.

Table 1: Maximum RI EITC available in tax year 2018

		Maximum RI EITC
Number of children	0	$78
	1	$519
	2	$857
	3+	$965

Source: IRS (2018)

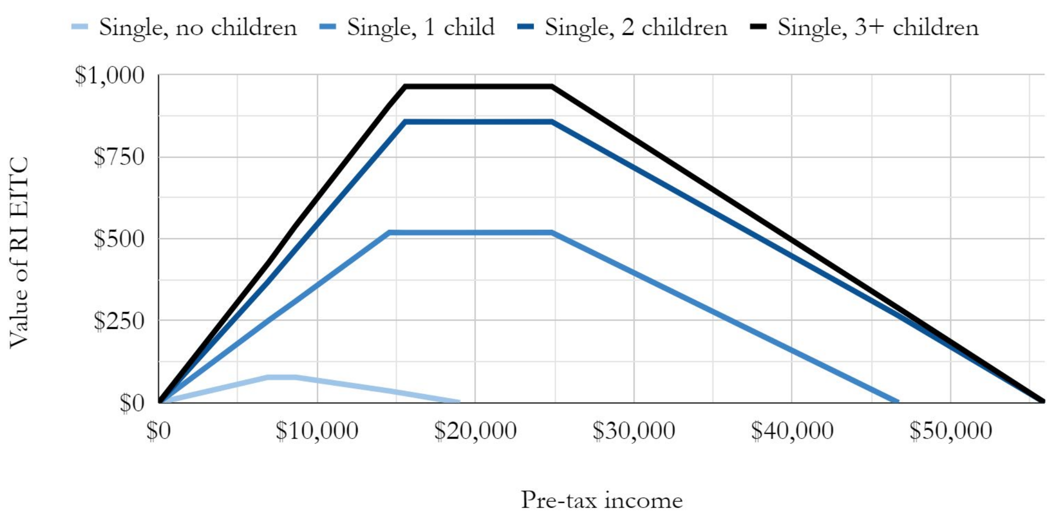
The EITC in context

By many measures, the EITC is one of Rhode Island's largest cash-based anti-poverty programs. Other such programs include Rhode Island Works, the state's Temporary Assistance for Needy Families (TANF) program for the unemployed, the Child Care Assistance Program (CCAP), which subsidizes child care costs for low-income working families and Supplemental Security Income (SSI), which provides cash assistance to low-income and low-asset Rhode Islanders who are elderly, blind or have a disability. The state also offers general public assistance, which provides assistance to the extremely poor who face a financial shock but do not qualify for SSI or RI Works (R.I. Department of Human Services, n.d.).

The EITC reaches more households than any other cash-based anti-poverty program. The Rhode Island Department of Revenue estimates that 92,827 filers—approximately 14 percent of state personal income tax filers—received an EITC in tax year 2018 (R.I. Department of Revenue, 2018). In aggregate, the Rhode Island EITC offered $28.4 million to recipients. The average credit received in tax year 2018 equalled $306.

The fiscal year 2019 caseload for Rhode Island Works totaled approximately 9,700 people (R.I. Department of Administration, 2018). CCAP, meanwhile, subsidized child care for an estimated

Fig. 8: Value of the Rhode Island EITC in tax year 2018



Source: IRS (2018); R.I. Gen. Laws § 44-30-2.6.

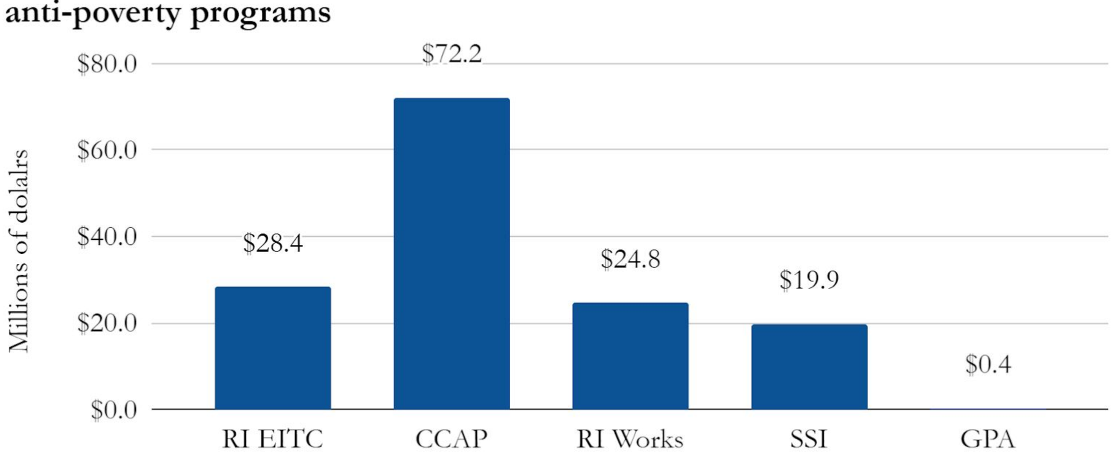
9,125 families, and SSI caseload totaled approximately 34,500 people (Ibid.). In terms of aggregate assistance received, the state EITC is larger than Rhode Island Works, SSI and general public assistance; it is smaller than CCAP.

Rhode Island is one of 29 states—plus the District of Columbia, Guam, Puerto Rico and some municipalities—to have enacted a supplemental EITC (Williams, 2019). Twenty three states, including Rhode Island, offer fully refundable EITCs. Most supplemental EITCs, including the Rhode Island EITC, are calculated as a percentage of the federal EITC; as such, eligibility standards for these supplemental EITCs match the standards for federal EITC eligibility. State credits range from three percent of the federal EITC in Montana to 125 percent of the federal credit, non-refundable, in South Carolina.

Some state EITCs have eligibility standards that differ from the federal EITC. Wisconsin, for instance, does not offer a supplemental EITC to workers without children, and its state EITC increases as a percent of the federal credit according to how many children a filer has. A filer with one child is eligible for a supplemental EITC equal to four percent of the federal credit, a filer with two children is eligible for an 11 percent credit and a filer with three or more children is eligible for a 34 percent credit (Wi. Department of Revenue, 2019). California's EITC is limited to lower-income workers than is the federal credit (Ca. Franchise Tax Board, 2018).

Among New England states, Rhode Island's EITC is smaller than EITCs in Massachusetts, Connecticut and Vermont. These state credits, all calculated as a percentage of the federal EITC, were equal to 23 percent, 30 percent and 32 percent, respectively, in tax year 2018 (Williams, 2019). Maine offers a supplemental EITC equal to 5 percent of the federal credit. All of New England's state EITCs are fully refundable. New Hampshire, which has no personal income tax, does not offer a state EITC.

Fig. 9: Aggregate benefits received from Rhode Island's cash-based anti-poverty programs



Source: R.I. Department of Revenue (2018), R.I. Department of Administration (2018)

Table 3: EITCs in New England

	State EITC as percent of federal credit, tax year 2018	Is state EITC fully refundable?	Average state EITC received in tax year 2018
Rhode Island	15	Yes	$306
Connecticut	30	Yes	$610
Massachusetts	23	Yes	$554
Vermont	32	Yes	$615
Maine	5	Yes	$102
New Hampshire	-	-	-

Source: Williams (2019); average credits based on author's calculations from state tax expenditure reports and IRS (2017).

Note: Massachusetts EITC increased to 30% for tax year 2019; this change is projected to increase the average credit to $741.

Background

This section provides a landscape of existing research on EITC recipients. Overall, the EITC is found to increase the labor supply of single parent recipients and improve the well-being and achievement of children. These effects are concentrated among younger recipients and recipients of color. This section also describes the data and methods used to analyze Rhode Island's EITC recipients.

Literature review

A review of research on the EITC reveals four areas of interest relevant to this analysis: work and income; poverty and public assistance; family structure; and demographics. These areas of interest offer focal points for the characteristics analyzed in the next section of this paper.

Work and income

The EITC is structured to encourage labor market work among low-income single parents. When first enacted, the credit was viewed by federal lawmakers as a work-based alternative to other anti-poverty programs (Ventry, 2000). The intent of the EITC has generally been borne out by research on the labor supply of recipients. A number of studies have explored the relationship between the EITC and labor market work; most studies find that the EITC increases labor supply among single mothers, lowers labor supply among married mothers, and has little effect on the labor supply of men.

In theory, the EITC is expected to increase labor force participation and reduce hours worked. As Gruber (2013) outlines, the increase in income provided by the EITC should impact labor supply at both the extensive and intensive margins through income and substitution effects.

By raising the return to labor market work, labor supply theory predicts, the EITC should encourage those out of the labor force to seek work. For those already in the labor force, labor supply theory predicts, the EITC should reduce hours worked by raising baseline income. This structure provides optimal work incentives among workers with high elasticity of labor supply along the extensive margin of labor force participation (Saez, 2002).

In practice, the EITC has been found to increase labor force participation and have no impact on hours worked—at least among single mothers, who the program is structured to target. Eissa and Liebman (1996) find that the 1986 federal EITC expansion increased the labor force participation of single mothers and had no effect on hours worked among those already in the labor force. Meyer and Rosenbaum (2001) and Ellwood (2000) also find that EITC expansions between 1984 and 1986 increased the employment of single mothers. Herbst (2010) finds that the positive labor supply substitution effects of the EITC are largest among the lowest-wage single mothers.

The labor supply effect of the EITC among married workers is more complex, as will be explored in the *Family Structure* literature review.

Poverty and assistance

The EITC is regarded for its effectiveness at lifting individuals and families above the poverty line. Approximately 9.1 million individuals—including 4.7 million children—are raised out of poverty by the EITC per year (Nichols and Rothstein, 2015). Hoynes and Patel (2016) find that a $1,000 increase in the federal EITC reduces the share of families below the supplemental poverty level by 8.4 percent.

Hoynes and Patel (2016) find that EITC receipt is concentrated among those between 75 percent and 150 percent of the poverty level; the credit, they find, has little effect on families below 50 percent of the federal poverty level. Thus, while the EITC effectively lifts families above the poverty line, it does not address the so-called "poverty gap"—the total gap between the incomes of the poor and the poverty line—as effectively as would a program not linked to labor market work (Hotz and Scholz, 2003).

Family structure

A number of studies find that the EITC has a positive impact on the development and well-being of children and infants. The EITC is also linked to physical and mental health improvements among single parents.

Dahl and Lochner (2012) find that increases in the EITC raise combined math and reading scores among children from low-income families in the short run. Hamad and Rehkopf (2016) find that the EITC is associated with short-term improvements in two child developmental health measures included in the National Longitudinal Survey of Youth. Berger et al. (2017) find that the EITC reduces parental behaviors associated with risk of abuse and neglect of children nine years old and younger among unmarried families. Relatedly, they also find that EITC receipt reduces the incidence of child protective services involvement among unmarried families.

Hoynes et al. (2015) find that the EITC reduces the incidence of low birth weight. The authors posit that likely mechanisms for this impact includes reductions in negative maternal health behaviors such as smoking and increases in access to prenatal care. Markowitz et al. (2017) find that state EITCs have positive effects on birth weight and gestation periods, two infant health measures linked to later-in-life outcomes. The largest improvements in average birth weight are observed in states with more generous EITCs. The authors posit that the EITC improves infant and maternal health through a number of channels: increases in household income lead to more spending on medical care, housing and healthy food and reductions in stress.

The EITC has also been found to improve the physical and mental health of parents. Rehkopf and Strully (2014) find that the EITC has positive short-term effects on several measures of health, including food security and reductions in smoking, among recipients. Evans and Garthwaite (2014) find that EITC expansions improve mothers' self-reported health: a credit expansion is found to reduce the number of self-reported poor mental health days per month and reduce counts of biomarkers associated with stress among impacted mothers.

The EITC is found to generate reductions in labor supply among second-earners in two-earner households, consistent with the expected substitution effect of the credit. Eissa and Hoynes (2004) find that the EITC increases labor market work among low-income unmarried women with children and reduces work among second-earners in two-earner households. Among two-earner households, EITC expansions reduce total family labor supply. Increases in the labor supply of heads of households—often fathers—is more than offset by decreases in the labor supply of second-earners—often mothers—thus, the EITC in effect allows parents in married households to engage in more unpaid work such as child rearing.

Theory predicts that the EITC will increase fertility among recipients by increasing the income available to low-income families. Baughman and Dickert-Conlin (2003) find that the EITC has a small but positive relationship with the birth rates of both married and unmarried women of color. However, Baughman and Dickert-Conlin (2009), using data from 1990 to 1999, find that the EITC is associated with small reductions in fertility rates among white women.

Demographics

Due to the structure of the EITC, which tailors benefits to low-income workers with children, recipients tend to be mothers. Meyer (2010) finds that single mothers and couples with children constitute 66 percent of federal EITC recipients—a level of representation starkly contrasted with the representation of single fathers (8 percent) and individuals and couples without children (26 percent). Meyer (2010) also finds that single mothers and couples with children receive 87 percent of federal EITC benefits.

Racial disparities in income and poverty cause the EITC to have relatively stronger labor supply effects on black single mothers. Between 1991 and 2000, studies have found, EITC expansions were a leading factor contributing to employment increases among both white and black single mothers. Noonan et al. (2007) find that employment of black single mothers grew more than that of white single mothers between 1991 and 2000 because the economic standing of black single mothers made them more responsive to the labor supply incentives associated with EITC expansions.

Strully et al. (2010) find that the labor supply incentives of the EITC are strongest among mothers aged 19 to 34. The authors posit that this effect occurs because mothers below age 19 have weak labor market attachment and mothers aged 35 and older may face health complications from the low-wage work that the EITC incentivizes.

Data and methods

This paper uses data from the CPS ASEC to analyze the characteristics of EITC recipients in Rhode Island. The ASEC surveys more than 75,000 households per year and offers detailed and nationally-representative information about employment, income, poverty, taxation and migration. The ASEC is the most extensive publicly-available source of data on EITC-eligible filers, and has been used by Meyer (2010), Schmeiser (2012) and Meyer (2001) to examine and analyze information about EITC recipients at federal and state levels. Between 2001 and 2018, the CPS sampled between 33 and 234 EITC-eligible Rhode Islanders per year. On average, the CPS sampled 138 EITC-eligible workers per year over this period. To account for low per-year sample sizes, I average data from 2015 to 2018 for the purpose of creating a representative profile of EITC current recipients.

All ASEC respondents directly report information on employment and income. To determine eligibility for the EITC and the size of the EITC available to each eligible filer, the Census Bureau applies a tax simulation model to the reported income of each sampled tax unit. Thus, the ASEC provides data on EITC eligibility rather than actual EITC receipt. The value of a filer's federal EITC is included in ASEC data as a variable; this variable is available between 1992 and 2018. EITC eligibility among survey respondents can be adjusted to represent the population at large with the inclusion of sample weights.

CPS ASEC data has known limitations with regard to EITC recipients. First, the CPS underreports EITC receipt: Meyer (2010) finds that CPS population estimates account for only 73 percent of EITC recipients in the United States. O'Hara (2004) posits that underreporting of income by EITC-eligible workers and CPS sample weights that underrepresent EITC recipients are among the sources of the discrepancy. Second, not all EITC-eligible individuals in a given year will claim the credit. The IRS estimates that between 13 and 18 percent of EITC-eligible workers do not file a tax return and claim the credit (O'Hara, 2004). The CPS may thus overreport EITC recipients by the extent to which eligible workers do not claim the credit.

Preliminary analysis finds that the CPS underrepresents EITC recipients in Rhode Island. Between 2001 and 2018, the CPS has undercounted EITC recipients by approximately 20 percent when compared to EITC recipient data reported by the Rhode Island Department of Revenue (2018). However, the gap between estimated EITC recipients and actual EITC recipients increases to 25 percent when 2014, a year of abnormally high EITC recipient sampling in the CPS, is excluded. The latter is consistent with the 27 percent rate of underrepresentation found by Meyer (2010).

Despite its undersampling of EITC recipients, the CPS appears to provide an accurate account of the average Rhode Island EITC received each year. Between 2015 and 2018, the CPS has overstated the average Rhode Island EITC by only 3.5 percent relative to the average credit calculated from data reported by the Rhode Island Department of Revenue (2018). These results suggest that EITC-eligible filers accurately report their income to the CPS and that the CPS's tax simulation accurately reflects the EITC received by eligible tax units. Thus, it is likely that EITC recipient undercounting in the CPS is due to sample weights that underrepresent recipients.

A profile of EITC recipients in Rhode Island

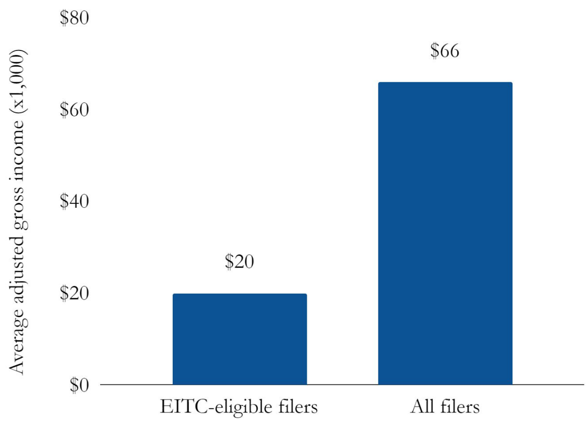
Work and income

This analysis finds that EITC recipients tend to work full-time. Two in three recipients works full-time, and recipients report working 35 hours per week on average. Recipients report working approximately 3 hours less per week on average than do all working Rhode Islanders.

EITC recipients are among the lowest-income workers in Rhode Island. EITC recipients have an average adjusted gross income of $19,902, which is approximately 70 percent lower than the average adjusted gross income of all Rhode Island filers with reported income.

88 percent of recipients are employed in the private sector, 5 percent are employed by the government and 8 percent are self-employed.

Fig. 10: Average adjusted gross income



Source: Author's calculations; CPS Annual Social and Economic Supplements 2015-2018.

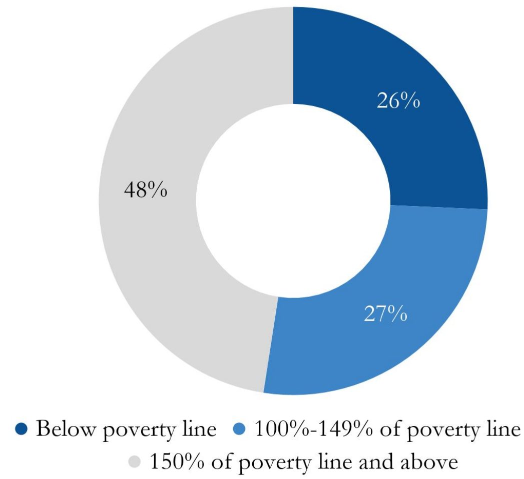
Poverty and assistance

A notable percentage of EITC recipients live in or near poverty. Approximately one in four EITC recipients lives below the federal poverty level, and more than half live below 150 percent of the poverty level.

When poverty status is calculated using the Supplemental Poverty Measure, which accounts for the impact of anti-poverty programs such as the EITC, the percent of EITC recipients below the poverty level is unchanged.

EITC recipients are likely to interact with other anti-poverty programs. Nearly half of recipients have received support from at least one of three assistance programs—Medicaid, TANF or the Supplemental Nutrition Assistance Program (SNAP)—in the previous year. The most commonly-relied upon program is SNAP, which has provided food assistance to 36 percent of Rhode Island EITC recipients within the previous year. The next most commonly-used program is Medicaid, which provided health care coverage to 31 percent of recipients. Three percent of recipients used TANF, which provides time-restricted support to unemployed parents, within the previous year.

Fig. 11: Poverty status of EITC recipients

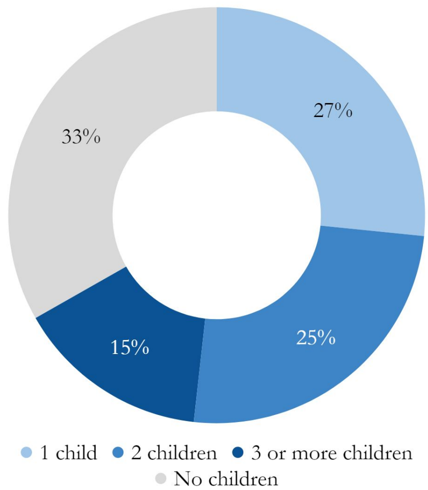


Source: Author's calculations; CPS Annual Social and Economic Supplements 2015-2018.

Family structure

EITC recipients in Rhode Island are, to an overwhelming degree, parents. More than three in four EITC recipients has at least one child, and 40 percent have more than one child. Approximately one in five recipients has a child below the age of 5 years old.

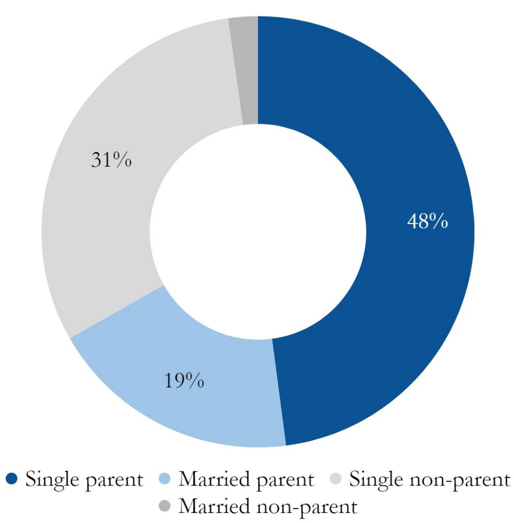
Fig. 12: Children of EITC recipients



Source: Author's calculations; CPS Annual Social and Economic Supplements 2015-2018.

Among EITC recipients with children, 72 percent are single parents. Among EITC recipients in general, nearly half are single parents. Four in five EITC recipients are unmarried or separated.

Fig. 13: Parental status of EITC recipients

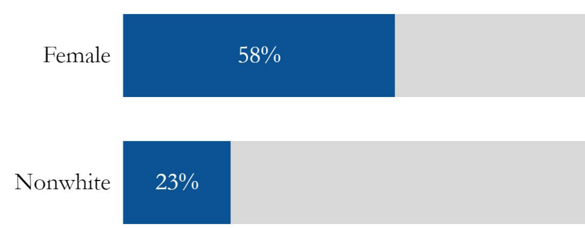


Source: Author's calculations; CPS Annual Social and Economic Supplements 2015-2018.

Demographics

EITC recipients are more likely to be female than male: about 3 in 5 recipients are female, while about 2 in 5 are male. Considering that most single parents —the group the EITC is structured to target—are mothers, such a gender imbalance is expected.

Fig. 14: Demographics of EITC recipients



Source: Author's calculations; CPS Annual Social and Economic Supplements 2015-2018.

EITC recipients, as a group, are nearly 50 percent more nonwhite than Rhode Island's general working population. 77 percent of recipients are white and 15 percent are black. The CPS classification of white, it should be noted, includes Latino people.

The average age of EITC recipients is 39, and more than 60 percent of recipients are between the ages of 25 and 54.

Table 4: Characteristics of Rhode Island EITC Recipients, 2015-2018

Recipient category	Percent of EITC recipients	
Work and income		
Work		
Works full-time	67%	
Average hours worked per week		35
Income		
Average adjusted gross income		$19,902
Average family income		$36,713
Poverty and assistance		
Poverty status		
Below federal poverty line (FPL)	26%	
Below 125 percent of FPL	40%	
Below 150 percent of FPL	53%	
Public assistance		
Received SNAP in previous year	36%	
Received Medicaid in previous year	31%	
Received TANF in previous year	3%	
Family structure		
Marital and parental status		
Single parents	48%	
Married parents	19%	
Single non-parents	31%	
Married non-parents	2%	
Children		
Has no children	33%	
Has one child	27%	
Has two children	25%	
Has three or more children	15%	
Has at least one child below the age of 5	19%	
Demographics		
Female	58%	
Nonwhite*	23%	
Average age		39

Source: Author's calculations; CPS Annual Social and Economic Supplements 2015-2018. All numbers are weighted. Dollar figures are inflation-adjusted to 2018 dollars.
** White includes Latino people; nonwhite includes people of mixed race.*

Conclusion

This paper offers a first-ever political history of the Rhode Island EITC and an analysis of recipients. In 1975, Rhode Island became the first state in the United States to offer an EITC against state income tax liability. The credit was formally written into state law in 2001, and has since been expanded six times and reduced once. Both Republican and Democratic governors have signed EITC increases into law, and the credit has been viewed as both a poverty alleviation program and a work incentive tool. The Rhode Island EITC is currently set at 15 percent of the federal credit.

The federal EITC has, to a large extent, come to serve as a substitute for other anti-poverty programs. As such, it has been targeted to assist populations previously supported by other welfare programs; namely, single mothers. A large body of research has developed which finds that the EITC incentivizes labor market work and reduces poverty incidence among this group. The Rhode Island EITC, too, is a prominent anti-poverty program. It is among the largest cash-based anti-poverty programs in the state by several measures.

At present, EITC recipients in Rhode Island are predominantly low-income working parents. More than three in four recipients have at least one child, and nearly half are single parents. Most EITC recipients work full-time, yet recipients have an average income that is approximately 70 percent lower than the average income of all working Rhode Islanders and more than one in four recipients lives in a household that is below the federal poverty line. Recipients are disproportionately female and nonwhite relative to the general working population in Rhode Island.

State lawmakers have previously expanded the EITC with the understanding that the credit supports low-income working Rhode Islanders. The findings of this paper suggest that the EITC is, in general, reaching its intended population.

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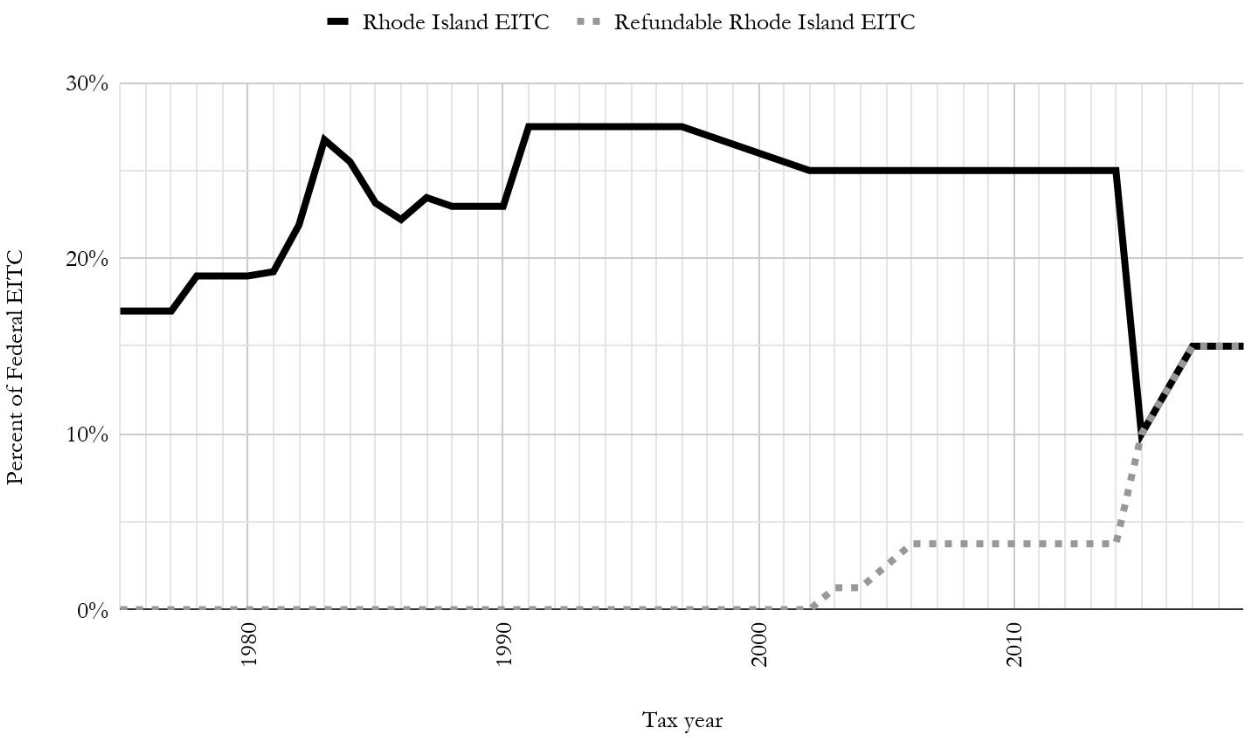
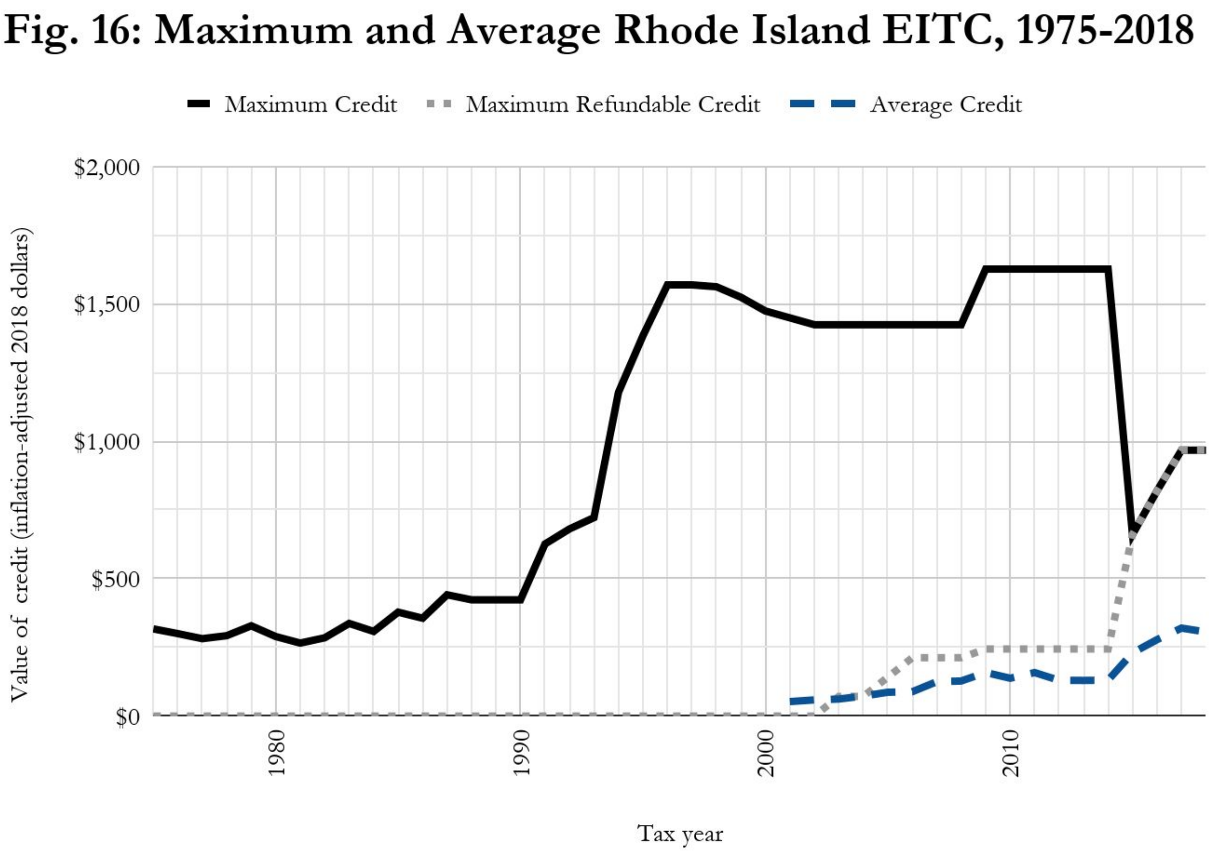
Appendix A.

Fig. 15: Rhode Island EITC as Percentage of Federal EITC, 1975-2018



Source: U.S. Congress (2004); IRS Publication 596; R.I. Gen. Laws § 44-30-2.; R.I. Gen. Laws § 44-30-2.6.

Appendix B.



Source: U.S. Congress (2004); IRS Publication 596; R.I. Gen. Laws § 44-30-2.; R.I. Gen. Laws § 44-30-2.6. R.I. Department of Revenue (n.d.)

Appendix C.

Table 5: Rhode Island Earned Income Tax Credit, 1975-2019

Tax year	Filing status	No. of children	Maximum eligible income	Maximum federal credit	RI EITC: Percent of federal EITC	Maximum RI EITC	RI refundable EITC: percent of state EITC	Maximum refundable RI EITC
1975	Any	1+	$8,000	$400	17.0%	$68	0%	$0
1976	Any	1+	$8,000	$400	17.0%	$68	0%	$0
1977	Any	1+	$8,000	$400	17.0%	$68	0%	$0
1978	Any	1+	$8,000	$400	19.0%	$76	0%	$0
1979	Any	1+	$10,000	$500	19.0%	$95	0%	$0
1980	Any	1+	$10,000	$500	19.0%	$95	0%	$0
1981	Any	1+	$10,000	$500	19.2%	$96	0%	$0
1982	Any	1+	$10,000	$500	21.9%	$110	0%	$0
1983	Any	1+	$10,000	$500	26.8%	$134	0%	$0
1984	Any	1+	$10,000	$500	25.5%	$128	0%	$0
1985	Any	1+	$11,000	$700	23.2%	$162	0%	$0
1986	Any	1+	$11,000	$700	22.2%	$155	0%	$0
1987	Any	1+	$15,432	$851	23.5%	$200	0%	$0
1988	Any	1+	$18,576	$874	23.0%	$201	0%	$0
1989	Any	1+	$19,340	$910	23.0%	$209	0%	$0
1990	Any	1+	$20,264	$953	23.0%	$219	0%	$0
1991	Any	1	$21,250	$1,192	27.5%	$328	0%	$0
1991	Any	2+	$21,250	$1,235	27.5%	$340	0%	$0
1992	Any	1	$22,370	$1,324	27.5%	$364	0%	$0
1992	Any	2+	$22,370	$1,384	27.5%	$381	0%	$0
1993	Any	1	$23,050	$1,434	27.5%	$394	0%	$0
1993	Any	2+	$23,050	$1,511	27.5%	$416	0%	$0
1994	Any	0	$9,000	$306	27.5%	$84	0%	$0
1994	Any	1	$23,755	$2,038	27.5%	$560	0%	$0
1994	Any	2+	$25,296	$2,528	27.5%	$695	0%	$0
1995	Any	0	$9,230	$314	27.5%	$86	0%	$0
1995	Any	1	$24,396	$2,094	27.5%	$576	0%	$0
1995	Any	2+	$26,673	$3,110	27.5%	$855	0%	$0
1996	Any	0	$9,500	$323	27.5%	$89	0%	$0
1996	Any	1	$25,078	$2,152	27.5%	$592	0%	$0
1996	Any	2+	$25,078	$3,556	27.5%	$978	0%	$0

1997	Any	0	$9,770	$332	27.5%	$91	0%	$0
		1	$25,750	$2,210	27.5%	$608	0%	$0
		2+	$29,290	$3,656	27.5%	$1,005	0%	$0
1998	Any	0	$10,030	$341	27.0%	$92	0%	$0
		1	$26,473	$2,271	27.0%	$613	0%	$0
		2+	$30,095	$3,756	27.0%	$1,014	0%	$0
1999	Any	0	$10,200	$347	26.5%	$92	0%	$0
		1	$26,928	$2,312	26.5%	$613	0%	$0
		2+	$30,580	$3,816	26.5%	$1,011	0%	$0
2000	Any	0	$10,380	$353	26.0%	$92	0%	$0
		1	$27,415	$2,353	26.0%	$612	0%	$0
		2+	$31,152	$3,888	26.0%	$1,011	0%	$0
2001	Any	0	$10,710	$364	25.5%	$93	0%	$0
		1	$28,281	$2,428	25.5%	$619	0%	$0
		2+	$32,121	$4,008	25.5%	$1,022	0%	$0
2002	Single; head of household	0	$11,060	$376	25.0%	$94	0%	$0
		1	$29,201	$2,506	25.0%	$627	0%	$0
		2+	$33,178	$4,140	25.0%	$1,035	0%	$0
	Married, filing jointly	0	$12,060	$376	25.0%	$94	0%	$0
		1	$30,201	$2,506	25.0%	$627	0%	$0
		2+	$34,178	$4,140	25.0%	$1,035	0%	$0
2003	Single; head of household	0	$11,230	$382	25.0%	$96	5%	$5
		1	$29,666	$2,547	25.0%	$637	5%	$32
		2+	$33,692	$4,204	25.0%	$1,051	5%	$53
	Married, filing jointly	0	$12,230	$382	25.0%	$96	5%	$5
		1	$30,666	$2,547	25.0%	$637	5%	$32
		2+	$34,692	$4,204	25.0%	$1,051	5%	$53
2004	Single; head of household	0	$11,490	$390	25.0%	$98	5%	$5
		1	$30,338	$2,604	25.0%	$651	5%	$33
		2+	$35,458	$4,300	25.0%	$1,075	5%	$54
	Married, filing jointly	0	$12,490	$390	25.0%	$98	5%	$5
		1	$31,338	$2,604	25.0%	$651	5%	$33
		2+	$12,490	$4,300	25.0%	$1,075	5%	$54
2005	Single; head of household	0	$11,750	$399	25.0%	$100	10%	$10
		1	$31,030	$2,662	25.0%	$666	10%	$67
		2+	$35,263	$4,400	25.0%	$1,100	10%	$110

	Married, filing jointly	0	$13,750	$399	25.0%	$100	10%	$10
		1	$33,030	$2,662	25.0%	$666	10%	$67
		2+	$37,263	$4,400	25.0%	$1,100	10%	$110
2006	Single; head of household	0	$12,120	$412	25.0%	$103	15%	$15
		1	$32,001	$2,747	25.0%	$687	15%	$103
		2+	$36,348	$4,536	25.0%	$1,134	15%	$170
	Married, filing jointly	0	$14,120	$412	25.0%	$103	15%	$15
		1	$34,001	$2,747	25.0%	$687	15%	$103
		2+	$38,348	$4,536	25.0%	$1,134	15%	$170
2007	Single; head of household	0	$12,590	$428	25.0%	$107	15%	$16
		1	$33,241	$2,853	25.0%	$713	15%	$107
		2+	$37,783	$4,716	25.0%	$1,179	15%	$177
	Married, filing jointly	0	$14,590	$428	25.0%	$107	15%	$16
		1	$35,241	$2,853	25.0%	$713	15%	$107
		2+	$39,783	$4,716	25.0%	$1,179	15%	$177
2008	Single; head of household	0	$12,880	$438	25.0%	$110	15%	$16
		1	$33,995	$2,917	25.0%	$729	15%	$109
		2+	$38,646	$4,824	25.0%	$1,206	15%	$181
	Married, filing jointly	0	$15,880	$438	25.0%	$110	15%	$16
		1	$36,995	$2,917	25.0%	$729	15%	$109
		2+	$41,646	$4,824	25.0%	$1,206	15%	$181
2009	Single; head of household	0	$13,440	$457	25.0%	$114	15%	$17
		1	$35,463	$3,043	25.0%	$761	15%	$114
		2	$40,295	$5,028	25.0%	$1,257	15%	$189
		3+	$43,279	$5,657	25.0%	$1,414	15%	$212
	Married, filing jointly	0	$18,440	$457	25.0%	$114	15%	$17
		1	$40,463	$3,043	25.0%	$761	15%	$114
		2	$45,295	$5,028	25.0%	$1,257	15%	$189
		3+	$48,279	$5,657	25.0%	$1,414	15%	$212
2010	Single; head of household	0	$13,460	$457	25.0%	$114	15%	$17
		1	$35,535	$3,050	25.0%	$763	15%	$114
		2	$40,363	$5,036	25.0%	$1,259	15%	$189
		3+	$43,352	$5,666	25.0%	$1,417	15%	$212
	Married, filing jointly	0	$18,470	$457	25.0%	$114	15%	$17
		1	$40,545	$3,050	25.0%	$763	15%	$114
		2	$45,373	$5,036	25.0%	$1,259	15%	$189
		3+	$48,362	$5,666	25.0%	$1,417	15%	$212

2011	Single; head of household	0	$13,660	$464	25.0%	$116	15%	$17
		1	$36,052	$3,094	25.0%	$774	15%	$116
		2	$40,964	$5,112	25.0%	$1,278	15%	$192
		3+	$43,998	$5,751	25.0%	$1,438	15%	$216
	Married, filing jointly	0	$18,740	$464	25.0%	$116	15%	$17
		1	$41,132	$3,094	25.0%	$774	15%	$116
		2	$46,044	$5,112	25.0%	$1,278	15%	$192
		3+	$49,078	$5,751	25.0%	$1,438	15%	$216
2012	Single; head of household	0	$13,980	$475	25.0%	$119	15%	$18
		1	$36,920	$3,169	25.0%	$792	15%	$119
		2	$41,952	$5,236	25.0%	$1,309	15%	$196
		3+	$45,060	$5,891	25.0%	$1,473	15%	$221
	Married, filing jointly	0	$19,190	$475	25.0%	$119	15%	$18
		1	$42,130	$3,169	25.0%	$792	15%	$119
		2	$47,162	$5,236	25.0%	$1,309	15%	$196
		3+	$50,270	$5,891	25.0%	$1,473	15%	$221
2013	Single; head of household	0	$14,340	$487	25.0%	$122	15%	$18
		1	$37,870	$3,250	25.0%	$813	15%	$122
		2	$43,038	$5,372	25.0%	$1,343	15%	$201
		3+	$46,227	$6,044	25.0%	$1,511	15%	$227
	Married, filing jointly	0	$19,680	$487	25.0%	$122	15%	$18
		1	$43,210	$3,250	25.0%	$813	15%	$122
		2	$48,378	$5,372	25.0%	$1,343	15%	$201
		3+	$51,567	$6,044	25.0%	$1,511	15%	$227
2014	Single; head of household	0	$14,590	$496	25.0%	$124	15%	$19
		1	$38,511	$3,305	25.0%	$826	15%	$124
		2	$43,756	$5,460	25.0%	$1,365	15%	$205
		3+	$46,997	$6,143	25.0%	$1,536	15%	$230
	Married, filing jointly	0	$2,020	$496	25.0%	$124	15%	$19
		1	$43,941	$3,305	25.0%	$826	15%	$124
		2	$49,186	$5,460	25.0%	$1,365	15%	$205
		3+	$52,427	$6,143	25.0%	$1,536	15%	$230
2015	Single; head of household	0	$14,820	$503	10.0%	$50	100%	$50
		1	$39,131	$3,359	10.0%	$336	100%	$336
		2	$44,454	$5,548	10.0%	$555	100%	$555
		3+	$47,747	$6,242	10.0%	$624	100%	$624

	Married, filing jointly	0	$20,030	$503	10.0%	$50	100%	$50
		1	$44,651	$3,359	10.0%	$336	100%	$336
		2	$49,974	$5,548	10.0%	$555	100%	$555
		3+	$53,267	$6,242	10.0%	$624	100%	$624
2016	Single; head of household	0	$14,880	$506	12.5%	$63	100%	$63
		1	$39,296	$3,373	12.5%	$422	100%	$422
		2	$44,648	$5,572	12.5%	$697	100%	$697
		3+	$47,955	$6,269	12.5%	$784	100%	$784
	Married, filing jointly	0	$20,430	$506	12.5%	$63	100%	$63
		1	$44,846	$3,373	12.5%	$422	100%	$422
		2	$50,198	$5,572	12.5%	$697	100%	$697
		3+	$53,505	$6,269	12.5%	$784	100%	$784
2017	Single; head of household	0	$15,010	$510	15.0%	$77	100%	$77
		1	$39,617	$3,400	15.0%	$510	100%	$510
		2	$45,007	$5,616	15.0%	$842	100%	$842
		3+	$48,340	$6,318	15.0%	$948	100%	$948
	Married, filing jointly	0	$20,600	$510	15.0%	$77	100%	$77
		1	$45,207	$3,400	15.0%	$510	100%	$510
		2	$50,597	$5,616	15.0%	$842	100%	$842
		3+	$53,930	$6,318	15.0%	$948	100%	$948
2018	Single; head of household	0	$15,270	$519	15.0%	$78	100%	$78
		1	$40,320	$3,461	15.0%	$519	100%	$519
		2	$45,802	$5,716	15.0%	$857	100%	$857
		3+	$49,194	$6,431	15.0%	$965	100%	$965
	Married, filing jointly	0	$20,950	$519	15.0%	$78	100%	$78
		1	$46,010	$3,461	15.0%	$519	100%	$519
		2	$51,492	$5,716	15.0%	$857	100%	$857
		3+	$54,884	$6,431	15.0%	$965	100%	$965
2019	Single; head of household	0	$15,570	$529	15.0%	$79	100%	$79
		1	$41,094	$3,526	15.0%	$529	100%	$529
		2	$46,703	$5,828	15.0%	$874	100%	$874
		3+	$50,162	$6,557	15.0%	$984	100%	$984
	Married, filing jointly	0	$21,370	$529	15.0%	$79	100%	$79
		1	$46,884	$3,526	15.0%	$529	100%	$529
		2	$52,493	$5,828	15.0%	$874	100%	$874
		3+	$55,952	$6,557	15.0%	$984	100%	$984

Source: 1975-2003: U.S. Congress (2004); 2004-2018: IRS Publication 596; 2019: IRS (2019); R.I. Gen. Laws § 44-30-2.; R.I.Gen. Laws § 44-30-2.6.
All dollar figures are nominal.

Appendix D.

Table 5: Rhode Island Earned Income Tax Credit, 2001-2019

Tax year	Number of recipients	Total EITC received	Average EITC received
2001	58,233	$2,170,000	$37
2002 **	71,985	$3,035,000	$42
2003	85,737	$3,900,000	$45
2004 **	75,078	$4,123,000	$55
2005	64,418	$4,346,000	$67
2006 *	64,418	$4,585,000	$71
2007	66,332	$6,856,000	$103
2008 *	66,332	$7,267,000	$110
2009	81,749	$11,081,800	$136
2010	82,690	$9,895,368	$120
2011	86,487	$12,264,541	$142
2012	83,164	$9,894,960	$119
2013	85,461	$10,287,342	$120
2014	85,349	$10,529,853	$123
2015	87,224	$18,949,131	$217
2016 *	89,053	$23,682,525	$266
2017 *	90,920	$28,418,780	$313
2018 *	92,827	$28,418,780	$306
2019 *	94,773	$28,418,780	$300

Source: R.I. Department of Revenue, n.d.
** Department of Revenue projections; ** Author estimate*
All dollar figures are nominal.