

ILLINOIS HOUSE REVENUE COMMITTEE

ITEP Testimony on the Illinois Earned Income Credit

March 11, 2020

Chairman Zalewski, committee members—thank you for holding this subject matter hearing this morning on the Earned Income Credit (EIC) and its importance for hard working Illinoisans and their families.

My name is Lisa Christensen Gee and I am the Director of Special Initiatives at the Institute on Taxation and Economic Policy (ITEP). ITEP is a national non-profit, non-partisan tax policy organization that provides research and analysis to policymakers and advocates in all 50 states to inform tax policy debates and advance equitable policies. I am fortunate to live and work out of my home in Illinois where I take an extra measure of interest in tax policy happenings. I'm grateful for the opportunity to share with you critical information about the Illinois Earned Income Credit (EIC) and the impact of the proposal before you to make it an even more successful credit.

About the Earned Income Credit

The Illinois Earned Income Credit (EIC)

The Illinois Earned Income Credit (EIC) is a tax credit that boosts the incomes of workers with low wages by reducing their Illinois personal income taxes and providing any remaining credit amount as a refund.

The Illinois EIC is based off the federal Earned Income Tax Credit (EITC), which was first enacted in 1975 and has become the most effective anti-poverty program in the nation. In 2017, nationwide the EITC lifted 5.7 million people out of poverty, including approximately 3 million children, and it reduced the severity of poverty for another 19.5 million people, including 7.3 million children.

The EITC is a “super” policy: in addition to reducing poverty, it also provides a short-term safety net to families facing reduced hours or temporary job loss; it acts as a true stimulus for local economies as credit dollars are spent in the communities where these families live and work; it helps counteract the regressive impact of state and local tax systems (of which our research shows Illinois has the 8th most regressive tax system in the nation); and it provides economic, health, and educational benefits to the children of families receiving the credit that last well into their futures.

To date, 29 states and the District of Columbia, Guam, Puerto Rico have all created credits that build off the successes of the federal EITC. Illinois enacted its EIC in 2000 and has over the past 20 years continually strengthened this credit to be of greater economic impact for Illinois workers and their

families. The current value of the EIC is 18% of the federal EITC, with a maximum credit value ranging between \$97 and \$1,188 annually depending on family size.

Impacts of HB 5669: A Stronger & More Inclusive Earned Income Credit

ITEP estimates that under HB 5669, the EIC will reach hundreds of thousands of hard-working Illinoisans who are similarly situated economically as other vulnerable workers who receive the credit but who under existing rules of eligibility are excluded.

In particular, this bill adds fairness for young workers ages 18-24 without custodial children and workers who contribute to our local economies and pay taxes but don't currently qualify for the credit because they file their taxes with an Individual Taxpayer Identification Number (ITIN). Including these workers in the EIC could give as many as 240,000 hardworking Illinoisans and their families a boost as they struggle to keep up with the rising costs of housing, food, education, and healthcare.

Further, boosting the value of the EIC from 18% to 20% of the federal credit would benefit over 1 million Illinois workers and their families, boosting family incomes as well as the local economies where they live, work, and spend those dollars.

National Context

It's really an exceptional moment in state tax policy where policymakers all over the country are taking second and third looks at the tools they already have in their tax codes to strengthen the economic stability of their citizens, improve the equity of their tax systems, and create more inclusive policies.

Just this year—we've worked with lawmakers and advocates in California, New Mexico, Oregon, Massachusetts, New Jersey and a growing number of states who are building momentum towards enacting the very reforms that HB 5669 presents before you today.

Supporting hard working low-income workers is the spirit of the original EIC legislation—what is already law—and this bill provides an opportunity to better achieve that intent by including more Illinoisans who work and file taxes. Whether they're young workers who are just starting out—many working while attending school or starting their own businesses—or ITIN workers who are important contributors to our economy and communities—they too should be included.

What an exciting opportunity Illinois has to lead on this front—as the first state to move a good idea into good policy.

Conclusion

Thank you for your time and I look forward to your questions.

Respectfully submitted,

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