TCWF
PROMOTING TAX CREDITS FOR WORKERS AND THEIR FAMILIES

Advocating for the EITC **in the World of COVID-19**

Background

The COVID-19 economic recession has thrown millions of Americans into financial instability. With statewide shutdowns and restrictions on businesses across the country, America's low-income workers have struggled since March to keep lights on, bills paid, and food on the table. Loss of housing and a lack of access to medical care is on the rise. According to the Center on Budget and Policy Priorities (CBPP), 1 in 3 adults reported increased hardship and difficulty paying household expenses in a recent Census Household Pulse Survey. These issues have hit communities of color, particularly Black communities, the hardest as they exacerbate existing systemic disparities in income, wealth, and health.

As millions of Americans struggle to make ends meet, many federal and state policymakers are focused on providing low-income families with the support and help they need to stay afloat. Federal and state income-support programs like the Earned Income Tax Credit (EITC) are more important now than ever to ensure families maintain financial security. In 2019, the federal credit and the Child Tax Credit helped lift 7.5 million people out of poverty. The positive impacts of the federal EITC are amplified in the 29 states, Washington D.C., and Puerto Rico, which also offer low-income residents a supplemental state credit. The EITC has been highlighted by tax policy experts and researchers as a necessary component of any state or federal COVID-19 relief package.

Enacting or strengthening the credit may not seem like a top priority for many states struggling with significant budget shortfalls due to COVID-19. However, EITC expansions in California, Colorado, and New Jersey highlight the need to invest in low- and moderate-income people, not cut the programs they depend on.

Key Messages

Messaging is key to bolstering the case for enacting, strengthening, or protecting the EITC during a recession -- particularly when some state legislators are looking for opportunities to cut spending. Budget shortfalls and competing priorities are significant barriers to passing any EITC legislation in 2021. However, with strong messaging to garner support, recent state campaigns prove that investing in working families can be a winning issue. Below are examples of messaging used in campaigns across the country this year and in previous years that can help make the case for a state EITC and why it is critical during COVID-19. It is important to note that these messages should be adjusted based on the political landscape in your state. Some may function as the central frame of your campaign, while others serve as supporting messages.

The EITC is one of the most powerful provisions in federal and state tax codes. In 2019, the federal EITC helped lift 7.5 million people out of poverty, making it the most effective anti-poverty tool available. Poverty rates have spiked across the nation since the onslaught of the COVID-19 pandemic. Because of its effectiveness, researchers and tax experts have highlighted the EITC as a key component of any long-term state COVID-19 relief package. As households attempt to recover from COVID-19 shutdowns and income losses, investing in a state EITC will give them the boost they need to regain financial stability.

This messaging has been used across many states as a basis for enacting or strengthening an existing credit. Researchers in New Jersey highlighted the EITC's effectiveness as a key reason it needed to be increased in value and expanded to excluded populations.

The EITC is most effective when it is refundable. Many Americans make too little to pay state and federal income taxes. Many of these households were hit hardest by COVID-19 and have received limited financial relief from federal and state governments. Refundability ensures that workers with the lowest incomes still receive the credit. 25 states have refundable EITCs. Investing in a refundable credit ensures the EITC and its benefits reach Americans when they need it most.

Programs geared toward low-income families need to be protected, particularly during a recession. Too often, policies and programs supporting low-income families are the first on the chopping block during a recession as states search for ways to cut spending. However, the low-income families that have been hit hardest by the COVID-19 recession need programs like the EITC more than ever. Protecting vital programs like the EITC is the best way to ensure families stay afloat during economic recessions.

This messaging was part of a successful strategy in Colorado. Advocates reminded legislators that they could not cut their way out of a recession. They highlighted that the economic recession was the time to invest in low-income households, not cut the programs they need to stay afloat.

The EITC benefits local economies and small businesses. The EITC puts money directly into the pockets of workers, money that is spent locally and boosts the state economy. This is particularly critical as local economies and business struggle to bounce back after COVID-related shutdowns. By enacting or expanding the credit, states put more money in families' pockets and spur economic growth.

This messaging was used in campaigns in Colorado and New Jersey as researchers and advocates emphasized that families use EITC funds locally on essential items, putting that money back into their state economies. In a report about expanding the credit to workers without dependent children, New Jersey Policy Perspective bolstered this point with data, highlighting that the credit added $415.7 million to the state economy in 2018.

The EITC promotes tax fairness. The Institute for Taxation and Economic Policy (ITEP) found that the majority of state tax systems are inequitable and exacerbate income inequality. ITEP highlighted refundable EITCs as a key feature in states with the most equitable tax systems. By implementing or enhancing an EITC, states help promote equity in their tax codes and put low- and moderate-income taxpayers first.

In Colorado, thanks to legislative champions, advocates were able to include EITC expansion in a tax package aimed at ending tax breaks for wealthy Coloradans and corporations. Advocates argued that ending these tax loopholes would make the tax code more equitable and prioritize low-income families struggling during the recession. Similarly, New Jersey expanded its state EITC to younger workers as part of several tax fairness initiatives. After the expansion, Governor Phil Murphy (D) said that a tax code that works for everyone is the most effective way to make New Jersey a stronger and fairer state.

The EITC is a tool for racial equity. Black households and households of color are experiencing job and income loss at significantly higher rates than White households. CBPP highlighted the EITC as a staple of any equitable COVID-19 relief package, adding to the growing body of research highlighting the EITC as a tool for racial equity. Recent research has shown that people of color, Black people specifically, are being hit disproportionately hard by the financial and health burdens of COVID-19. By enacting and strengthening the EITC, states can work toward closing racial wealth divides and mitigate the impact of historically racist economic policies.

In a report detailing how the Massachusetts state EITC could be transformed into a guaranteed income, policy analysts and researchers there highlighted how proposed changes to the EITC would make the credit even more effective at reducing racial disparities among Black residents and residents of color who claim the credit and are overrepresented among low-income residents. Other states in previous years, like New Mexico, have seen success connecting the EITC to other social issues like racial equity.

The EITC is health policy. The Centers for Disease Control and Prevention (CDC)'s HI-5 Initiative highlighted the EITC as one of several federal and state policies that address the social determinants of health. By boosting a family's income, the EITC reduces financial instability and allows families to allocate more funds toward childcare, medical care, and healthier food options. By putting more money into local economies, the EITC reduces health care costs and improves maternal and child health outcomes. This health benefit of the credit is vital during a widespread national pandemic. Investing the EITC also improves health outcomes for your state and gives workers more funds to deal with their health issues.

In a recent blog, researchers at the Georgia Budget & Policy Institute outlined how COVID-19 emphasized the need for anti-poverty policies and access to health care, and why enacting an EITC would help them achieve both of those goals. Similarly, in a recent report, researchers in Massachusetts detailed how the credit helps families access higher-quality health care and healthier food, and how it is linked to longer life expectancy. Other states, like Arkansas, have also made the connection between health and wealth, and how the EITC can aid low-income families. This messaging is particularly useful during a national health pandemic when accessing care is a top priority for many.

Expanding the EITC beyond the limits of the federal credit makes it more accessible. Many groups that need assistance are currently left out of the federal EITC, including workers using Individual Taxpayer Identification Numbers (ITINs), younger workers, and older workers. These groups face additional challenges. For example, ITIN filers are left out of most federal and state COVID-19 aid, and young workers are the lone group taxed into poverty by the federal tax code.

This year has been a notable year for states expanding eligibility to the credit. California, Colorado, and New Jersey all expanded their credits to vulnerable populations. Each state adapted the messaging to suit their particular needs. However, the key unifying theme was that expanding the credit made the tax code more inclusive and addressed critical challenges facing vulnerable populations – challenges that are exacerbated by COVID-19.

Conclusion

Despite the COVID-19 crisis, windows of opportunity still exist to prioritize policies that invest in low-income Americans. Effective messaging is critical to achieving progress on EITC legislation in early 2021 and ensuring low-income families have the financial support they need.

In addition to enacting, strengthening, or protecting the credit, this moment presents an opportunity to invest in outreach campaigns ahead of the 2021 tax season to increase EITC participation. Many eligible Americans do not realize they are eligible for this credit, leaving millions in federal and state dollars on the table. For example, Illinois launched a public outreach campaign to ensure all eligible taxpayers claim the credit going forward. Passing new legislation is critical, but it is also important to ensure eligible households claim existing credits.

As COVID-19 continues, 2021 is the year to invest in families that are struggling. The EITC is a clear opportunity at the state level to do so and promote financial stability among low-income households. If you are interested in discussing these messages or need help executing a EITC campaign in your state, please contact TCWF Director Devin Simpson at 301.485.4367 or at devin@thehatchergroup.com.