

February 2, 2021

To: Members of the Washington State House Finance Committee

From: Washington State Budget & Policy Center

Re: Testimony in Support of HB 1297

Dear Chair Frame and members of the Committee,

The Washington State Budget & Policy Center – a research organization working to build a just and prosperous future for all Washingtonians – submits this written testimony in support of HB 1297, the Working Families Tax Credit.

This proposal for an updated Working Families Tax Credit would offer targeted and equitable support for almost 500,000 households struggling to make ends meet, including around 33,000 households that file taxes using an Individual Tax Identification Number (ITIN). HB 1297 would also begin to address deep inequities and support our state's long-term health and economic recovery by:

- **Advancing racial and economic justice:** The credit would provide a larger share of benefits to Black, Indigenous, and People of Color (BIPOC), who have been most harmed by longstanding racist policies, as well as the pandemic's economic and health crises. BIPOC tax filers make up 36% of those eligible for the credit in comparison to 25% of the state's population (1).
- **Speeding up the state's economic recovery:** Small businesses do better when people have money to spend in their communities, especially when dollars are directed to people with low incomes. State tax credits like the updated Working Families Tax Credit have been estimated to infuse \$1.50 to \$2 into local economies for every dollar (2) a recipient receives. Households with less than \$500 in savings spent half of their CARES Act stimulus within ten days of receipt on essentials like food (3).
- **Promoting community health:** People are healthier overall when they are not worried about how to make ends meet. Tax credits like the Working Families Tax Credit have been linked to improved health outcomes for recipients and their families, from improved mental health (4) to healthier moms and birthing parents and their babies (5). And positive health impacts are stronger in states with larger credits (6).
- **Filling gaps in existing support systems:** A Working Families Tax Credit would strengthen everyday people's ability to meet their basic needs. The credit would work alongside existing public assistance

programs to weave a stronger network of public support. It fills an important gap by reaching people who are struggling but who may not qualify for other federal and state assistance programs.

- Helping make the tax code more equitable: Passing the working families tax credit would help start to offset the regressive nature of the state tax code. Those who would qualify for the state's Working Families Tax Credit pay an estimated four to six times more in taxes as a share of their incomes than the wealthiest Washingtonians (7).

Of note, HB 1297 makes key improvements upon existing statute: First, HB 1297 includes Individual Tax Identification Number (ITIN) taxpayers and their families who are excluded from receiving the federal Earned Income Tax Credits despite electing to file taxes. ITIN filers are an important group of taxpayers, including some student visa holders, survivors of domestic violence, and undocumented immigrants. Second, this bill updates and streamlines the payment structure to a flat base amount which phases out as earned income increases. This payment structure makes the policy more equitable for filers with the lowest incomes, who would be eligible for the largest credit possible based on their marital status and family size.

Thank you for your time and thoughtful consideration in support of HB 1297.

Sources:

1. Institute on Taxation and Economic Policy (ITEP) analysis, provided Nov 2020.
2. Avalos A & Alley S. The economic impact of the Earned Income Tax Credit (EITC) in California.
3. Baker, SR, Farrokhnia RA, Meyer S, Pagel M, Yannelis C. Income, Liquidity, and the Consumption Response to the 2020 Economic Stimulus Payments.
4. Morgan ER, DeCou CR, Hill HD, Mooney SJ, Rivara FP, Rowhani-Rahbar A. State earned income tax credits and suicidal behavior: A repeated cross-sectional study.
5. Komro KA, Markowitz S, Livingston MD, Wagenaar AC. Effects of State-Level Earned Income Tax Credit Laws on Birth Outcomes by Race and Ethnicity; and Wagenaar AC, Livingston MD, Markowitz S, Komro KA. Effects of changes in earned income tax credit: Time-series analyses of Washington DC.
6. Morgan ER, Hill HD, Mooney SJ, Rivara FP, Rowhani-Rahbar A. State earned income tax credits and general health indicators: A quasi-experimental national study 1993-2016.
7. Institute on Taxation and Economic Policy (ITEP). Washington: Who Pays? 6th Edition.