

July 23, 2019

Thank you members of the Joint Committee on Revenue for the opportunity to address you on this important topic. The Massachusetts Budget and Policy Center is an independent nonprofit organization that produces nonpartisan policy research and analysis focused on improving the lives of low- and middle-income people and improving the quality of life in Massachusetts.

We find the research on the Earned Income Tax Credit is clear that this refundable tax credit for low-income working families yields significant benefits for family employment, health, education, and lifetime earnings.

HEALTH

The health benefits of giving families greater opportunity to overcome economic hardship is not just a “side benefit.” A major study in the *Journal of the American Medical Association* finds the difference in life expectancy between the highest-income individuals and those with the lowest incomes is 15 years for men and 10 years for women, a gap that has widened over time.

One way that policy can help ensure better health for the whole Commonwealth is through effective income-support policies that enable families to make ends meet, such as the Earned Income Tax Credit.

For infant health, research finds that birthweights and gestation times improved in states that provided an additional state match to the federal EITC. Improvements were most significant in states with larger state EITC rates. This is thought to be largely because mothers have reduced economic stress and have a greater ability to obtain healthy foods and care.

Research by economists at UMass, Amherst found EITC benefits in neighborhoods with a high concentration of EITC households can reduce low birthweights even for people not eligible for the benefits. This may be because increasing economic activity in these neighborhoods leads to reduced stress, less crime, and other benefits that spill over across the neighborhood.

One indicator of the program’s health benefits is that EITCs are listed on the federal Center on Disease Control's Health Impact in 5 Years (HI-5) shortlist of non-clinical, community-wide approaches that have evidence reporting 1) positive health impacts, 2) results within five years, and 3) cost effectiveness and/or cost savings over the lifetime of the population or earlier.

EDUCATION

A large body of research has also shown that the EITC is associated with improved educational achievement. For instance, the EITC has been linked to improved test scores as

well as higher high school graduation rates and college enrollment. One study found a sizeable credit during a child's early years could boost his or her achievement at the same rate as two extra months of schooling. Researchers found that the timing of the tax credit also is important – tax refunds in the spring of the high school senior year, particularly when students are finalizing higher education decisions, can increase college enrollment slightly.

INCREASED EARNINGS

Because children raised in EITC-supported households tend to grow up healthier and do better in school, they also tend to earn more as working adults. In one study “researchers projected that each dollar of income through tax credits may increase the real value of the child's future earnings by more than a dollar.” Moreover, by encouraging work and therefore increasing direct earnings during one's career, the EITC also leads to stronger retirement benefits, including Social Security benefits.

IMPROVED TAX FAIRNESS

Lastly, I want to note an additional benefit of the EITC, which is that it helps to even out the tax contributions of different households across the Commonwealth. At present, Massachusetts' revenue system is “upside-down” because it asks those with lower incomes to contribute a larger share of their incomes in state and local taxes than it does for those with higher incomes. Those with lowest fifth of incomes in the Commonwealth contribute on average 10 percent of their incomes in taxes. The broad middle class with incomes in the middle three-fifths of the income spectrum contribute a little over 9 percent of their incomes. Meanwhile, people with the highest one percent of incomes pay on average less than 7 percent of their incomes in state and local taxes. As a portion of income, those with the greatest ability to pay contribute the least.

This situation came about because over the last two decades Massachusetts cut its tax rate on earned income, dividends, interest, and capital gains. While these progressive taxes have been cut, the Commonwealth turned to sales taxes and other regressive user fees. The EITC is a highly progressive tax credit because its benefits are fully targeted to low- and middle-income working families. An expanded EITC would be a small but meaningful step toward turning our upside-down tax system right-side up.

Thank you for your attention and consideration.

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