

Increasing the EITC Would Boost New Jersey's Working Families

A 30 Percent Earned Income Tax Credit Would Also Make Tax System More Equitable and Help State's Economy

By Raymond Castro and Jon Whiten
Senior Policy Analyst and Deputy Director

Increasing New Jersey's Earned Income Tax Credit (EITC) to 30 percent from 20 percent of the federal EITC would provide over half a million New Jersey working families with a much-needed bump in their take-home pay while giving the state's economy a boost.

The state's EITC supplements the federal EITC, an income tax credit for low-income working people that rewards work and boosts the pay of families across the country. Working families with qualifying children and earned incomes up to \$52,247 (for married couples filing jointly and with three or more children in tax year 2014) are eligible for this tax credit; adults without children are eligible with earned incomes up to \$14,590.

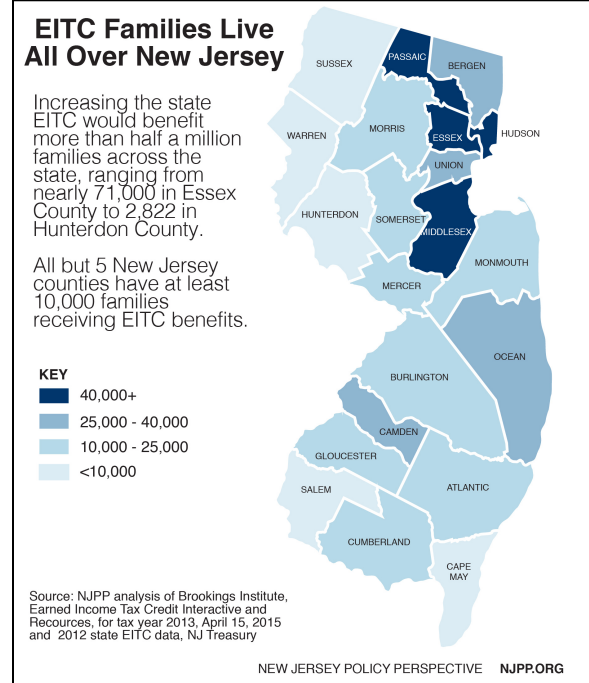
Working New Jerseyans are eligible to receive 20 percent of the federal credit received through the state EITC, which was created in 2003, rose to 25 percent in 2009 and was cut to 20 percent in 2010.¹ Since then, successful legislative efforts to reverse the cut and bring the credit back to 25 percent have been rejected or tied to other proposals by the governor. But as part of his conditional veto of a proposed "millionaire's tax" last week, the governor proposed to not only reverse the 2010 cut but make up for lost time and earnings by bringing the EITC to 30 percent.

Increasing the EITC to 30 percent would help an estimated 524,000 New Jersey families whose members are working but not earning enough to get by in this high-cost state. The annual take-home pay for the lowest earners would rise by as much as \$600, enough to cover most of one month's rent for some families. The average New Jersey recipient of this credit would get about \$250 more each year.

Families All Over New Jersey Would Benefit

Boosting the EITC would help working people all over New Jersey. The largest counties in each part of the state have tens of thousands of EITC households, with Essex County having the most recipients in North Jersey, Middlesex County having the most in Central Jersey and Camden County having the most in South Jersey.

Particularly in the wake of the Great Recession, however, the use of this tax credit has spread to more suburban counties as families all over the state struggle with long-term unemployment and stagnant wages or fewer hours for those who have jobs. Even affluent counties like Morris and Somerset, for example, now have over 10,000 EITC families.

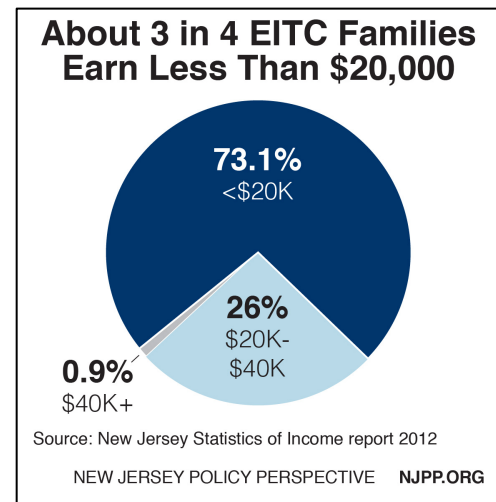


Increasing the EITC Would Help Poor Families the Most

About three-quarters of New Jersey households that receive the EITC earn less than \$20,000 a year, and over half – 61 percent – make less than \$15,000.²

To put that income into perspective, the *least expensive* basic efficiency apartments for single adults in New Jersey – found in counties like Gloucester and Salem – costs \$9,456 a year. Single folks living in more expensive counties – like Bergen or Passaic – face annual rents of \$14,544 a year for a basic apartment.³

However, most New Jersey EITC households – about three-quarters – are families, meaning that an efficiency apartment may not suffice. These families face annual rents ranging from \$12,204 to \$18,180 for a basic two-bedroom apartment in New Jersey.⁴

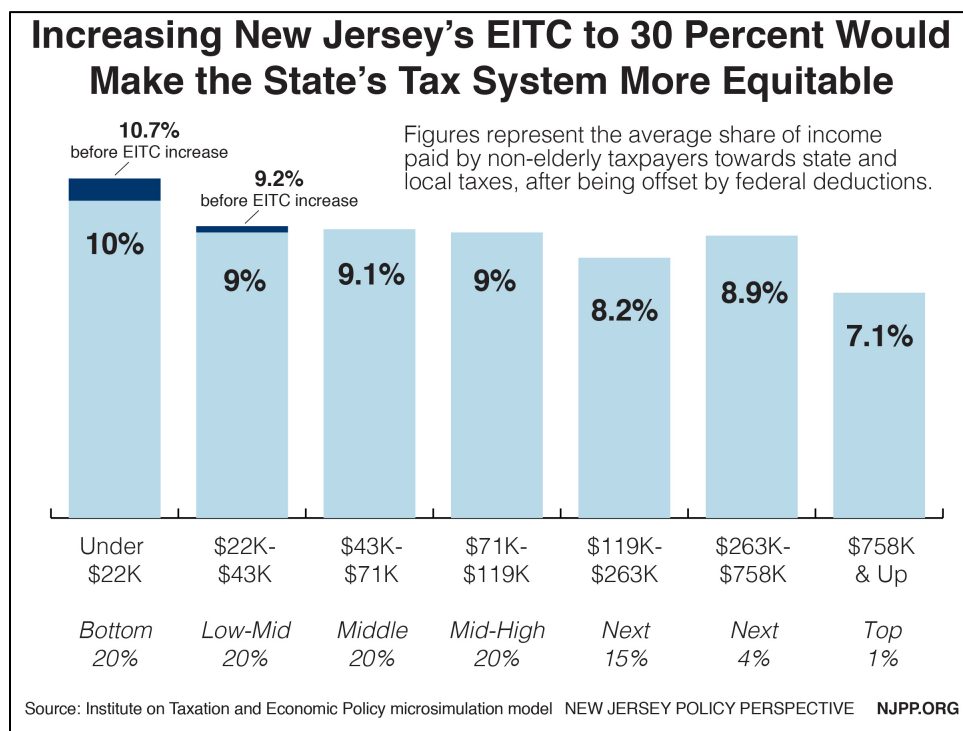


In other words, it's clear that producing a modest boost to the take-home pay of these families will allow them to better meet basic necessities like food and rent and rely less on the social safety net to survive.

Boosting the EITC Would Make Tax System More Equitable

Despite having a relatively progressive income tax based on one's ability to pay, New Jersey's tax system is still backwards, with the lowest-income households paying the highest share of their earnings to state and local taxes each year. This is due to the regressive nature of sales and property taxes. One of the best ways to help make this upside-down system more equitable is to increase the EITC.

Increasing New Jersey's EITC to 30 percent would reduce the share of state and local taxes paid by the poorest families by 7 percent. While these New Jerseyans in the bottom 20 percent, whose average annual income is a scant \$13,200, would still pay the largest share of their income to these taxes, the gap between this group and other New Jersey households would be reduced.⁵



Expanding This Tax Credit Would Boost New Jersey's Economy

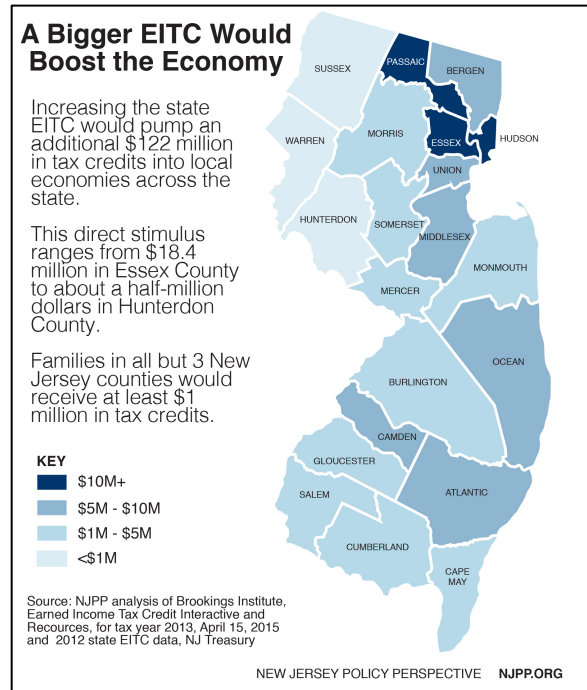
The EITC is also a big-time economic stimulus for local economies. The New Jersey EITC distributes about \$250 million in tax credits each year throughout the state,⁶ while the federal EITC puts over \$1 billion a year into the pockets of working New Jerseyans.⁷

But the economic impact of the EITC goes beyond the specific amount credited to each family. Low-wage workers tend to spend these tax credits immediately and locally on short- to medium-term needs like buying clothes for their family, repairing the family car, replacing household items like furniture or catching up on past-due rent or utility bills.⁸ It's been estimated, due to

this kind of immediate and local spending, that the EITC has a multiplier effect of 1.5 to 2 in local economies – in other words, every dollar of tax credit paid ends up generating \$1.50 to \$2 in local economic activity.⁹

In New Jersey, that means the state and federal EITCs pump around \$2 billion into the state's economy each year.

Increasing the state EITC to 30 percent will further boost the tax credit's economic impact, generating approximately \$120 million in new tax credits each year that will spur at least \$180 million in economic activity. Like the credit itself, this economic boost will be spread around the state, bringing millions of dollars of spending to almost every county.



The EITC Promotes Work, Raises Living Standards and Helps Lift Families Out of Poverty

The EITC, traditionally a strongly bipartisan measure, is perhaps the most powerful anti-poverty tool available, with widespread and significant effects on families who receive it.

The tax credit promotes work, particularly in strong labor markets. During the 1990s, for example, EITC expansions did more to raise employment among single mothers with children than either the changes to welfare during that time or the strong economy.¹⁰

Lifting a low-income family's income when a child is young, as the EITC does, improves that child's immediate well-being, as the family is able to better meet basic needs. But these income boosts have also been tied to better health and more schooling for these children, as well as more hours worked and higher earnings once they become adults.¹¹

The extra dollars that these low-wage workers and their families receive each year also help keep many of them out of poverty. The EITC keeps more than 150,000 New Jerseyans out of poverty *each year*, including 79,000 New Jersey children.¹² Investing in a program that does so much to help low-income families across New Jersey is common sense.

Appendix: Impact of Increasing the EITC to 30 Percent by County

Increasing the EITC to 30 Percent Would Help New Jerseyans All Over the State

County	People Who'd Benefit	Amount of Tax Credits Gained	County	People Who'd Benefit	Amount of Tax Credits Gained
Atlantic	24,141	\$5.9M	Middlesex	43,076	\$9.7M
Bergen	38,577	\$8.1M	Monmouth	23,958	\$4.8M
Burlington	21,058	\$4.4M	Morris	14,103	\$2.7M
Camden	36,926	\$8.8M	Ocean	27,301	\$6.5M
Cape May	6,038	\$1.3M	Passaic	46,071	\$11.7M
Cumberland	12,760	\$3.2M	Salem	4,352	\$1.0M
Essex	70,961	\$18.3M	Somerset	11,396	\$2.4M
Gloucester	14,189	\$3.1M	Sussex	5,057	\$0.9M
Hudson	58,125	\$14.2M	Union	37,217	\$8.4M
Hunterdon	2,822	\$0.5M	Warren	4,641	\$1.0M
Mercer	21,230	\$5.0M			

Source: NJPP analysis of Brookings Institute, Earned Income Tax Credit Interactive and Resources, for tax year 2013, April 15, 2015 and 2012 state EITC data, NJ Treasury

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New Jersey Policy Perspective

137 W. Hanover St. Trenton, NJ 08618 | 609-393-1145 | info@njpp.org

Gordon MacInnes President
 Raymond Castro Senior Policy Analyst
 Brandon McKoy Policy Analyst
 Erika J. Nava Policy Analyst
 Sheila Reynertson Senior Policy Analyst
 Carly Rothman Siditsky Development Director
 Jon Whiten Deputy Director

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Endnotes

¹ New Jersey Division of Taxation, *Earned Income Tax Credit Information*, <http://www.state.nj.us/treasury/taxation/eitcinfo.shtml>

² New Jersey Division of Taxation, *Statistics of Income: 2012 Tax Returns*, Summer 2014. http://www.state.nj.us/treasury/taxation/pdf/pubs/soi_tables2012.pdf

³ United Way of Northern New Jersey, *ALICE Study of Financial Hardship*, March 2015. http://www.unitedwaynnj.org/documents/14UW%20ALICE%20Report_NJ_Lowres_3.23.15.pdf

⁴ Ibid 3

⁵ Institute on Taxation and Economic Policy microsimulation model. For more on the methodology, see the Institute's *Who Pays?* report: <http://www.itep.org/whopays/>

⁶ New Jersey Division of Taxation, *A Report on Tax Expenditures in New Jersey*, February 2015. <http://www.state.nj.us/treasury/taxation/pdf/taxexpenditurereport2015.pdf>

⁷ Internal Revenue Service, *Statistics for Tax Returns with EITC*, January 2015. <http://www.eitc.irs.gov/EITC-Central/eitcstats>

⁸ The Brookings Institution, *Using the Earned Income Tax Credit to Stimulate Local Economies*, November 2006. <http://www.brookings.edu/research/reports/2006/11/childrenfamilies-berube>

⁹ The U.S. Conference of Mayors, *Dollar Wise Best Practices: The Earned Income Tax Credit*, 2008. <http://usmayors.org/dollarwise/resources/eitc08.pdf>

¹⁰ Center on Budget and Policy Priorities, *EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds*, April 2015. <http://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>

¹¹ Ibid 10

¹² Brookings Institution, *Fighting Poverty at Tax Time through the EITC*, December 2014. <http://www.brookings.edu/blogs/the-avenue/posts/2014/12/16-poverty-tax-eitc-kneebone-holmes>