



United Way of Pennsylvania  
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## **House Finance Committee Testimony The Cost and Benefits of Enacting a State Earned Income Tax Credit**

Good morning, Chairman Samuelson, and members of the committee. My name is Kristen Rotz, and I am the President of the United Way of Pennsylvania (UWP). The United Way of Pennsylvania is a 501(c)(3) membership organization whose mission is to champion United Way as a leader and partner in building more financially resilient families and thriving communities throughout Pennsylvania. United Way has the expertise and relationships to develop meaningful and lasting solutions to community challenges through root cause analysis. United Ways leverage donors' resources to facilitate cross-sector solutions to the problems their communities face. Through the generosity of donors, United Ways possess the ability to reduce burdens on public sector programs.

United Way of Pennsylvania and PA 211 mobilize communities to action so that every person can thrive. Together, we lead with data-driven, evidence-based solutions to meet critical challenges in health, financial security, youth opportunity, and community resilience. In Pennsylvania, 48 local United Ways work to address community needs related to healthy communities, youth opportunity, financial security, and community resiliency. We envision an inclusive, impactful, and collaborative network of United Ways working with business, community, faith, and government leaders through the Commonwealth to advance equitable access to health, education, and financial security for all Pennsylvanians.

As part of our work to advance financial security, United Way of Pennsylvania is committed to lifting ALICE through community programs and advocacy. ALICE stands for **A**sset **L**imited, **I**ncome **C**onstrained, **E**mployed. ALICE represents the 28% of Pennsylvanians that work but struggle to survive. ALICE households earn above the Federal Poverty Level but earn much less than what is needed to afford basic necessities. The Household Survival Budget estimates the actual bare-minimum costs of basic necessities (housing, childcare, food, transportation, health care, and a basic smartphone plan) in Pennsylvania, adjusted for different cost of living by county of residence and household composition.

Despite the financial challenges ALICE faces, these neighbors often earn too much to qualify for public assistance. And there is no room in ALICE's budget for an unexpected financial emergency. One way that ALICE households receive support is through federal tax credits, like the Earned Income Tax Credit (EITC). To qualify, individuals must be employed and earn income, with the credit amount based on their earnings, filing status, and number of qualifying dependents, with larger credits going to families with children. If the credit amount exceeds their taxes owed, the individual receives the difference as a refund, helping to boost their financial security.

Each year, the federal EITC lifts almost six million people out of poverty, of which about half are children. The federal Earned Income Tax Credit also reduces the degree of poverty for over 10 million more people across the United States annually. According to the IRS, as of December 2024, approximately 23 million workers and families received approximately \$64 billion in EITC for the 2023 tax year. In TY 2023, there were 802,000 claims for EITC in Pennsylvania, with the average EITC amount received was \$2,600. This money is often circulated in the taxpayer's local economy, improving community economic security. The largest component of that spending is made at grocery stores, indicating EITC recipients do, in fact, use their refunds to "make ends meet." Other major expenditures include vehicle repairs, home repairs, and paying down credit card debt. Sometimes they use the EITC to help pay for education or training to boost their job prospects and earning potential. The socio-economic impacts of the tax credit have been studied by a variety of reputable

sources, and one conclusion is clear: Earned Income Tax Credits are a great benefit for middle- and low-income households, and for the local economy. Therefore, United Way of Pennsylvania, and our network are advocating for a state Earned Income Tax Credit in Pennsylvania.

Currently, 31 states and the District of Columbia offer relief to working families in the form of an Earned Income Tax Credit. Of those states, 27 offer a refundable tax credit, meaning any balance remaining, after tax liability is met, is provided in the form of a refund to the taxpayer. Studies show that refundable tax credits have a greater economic impact due to the reinvestment of the funds provided to the recipients, who typically do not save them.

In 2021, UWP secured a grant to commission a study on the economic impact of a 10% - 25% state Earned Income Tax Credit in Pennsylvania. In December, the Child & Family Research Partnership at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin completed their study and provided results, which are beyond anything UWP imagined. For eligible households, the mean benefit will range between \$197 and \$594, depending on the percentage of credit - 10% or 25% as measured by the report - available to the taxpayer.

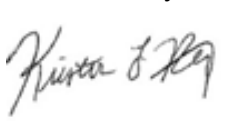
Estimates from the report show that implementing an elective, refundable state EITC program set at 10% of the federal credit will cost the state of Pennsylvania approximately \$80.5 million for the first year, including direct and administrative costs beyond what the state already spends on tax relief. The annual benefits amount to at least \$562 million. For a 25% credit, the expected costs are \$366 million and the likely benefits amount to at least \$1.2 billion.

As a result of increased employment and earnings associated with the implementation of at least a 10% state EITC, Pennsylvania may see an annual benefit of over \$80 million in additional personal income tax revenue (or \$200 million with at least a 25% credit) and reap an annual benefit of approximately \$116 million in state sales, payroll, and UI taxes as a result of at least a 10% state EITC program (or \$291 million with at least a 25% credit). Finally, Pennsylvania may see a reduction of approximately \$190 million in public assistance spending with the implementation of at least a 10% state EITC (or \$475 million with a 25% credit).

United Way is also proud to stand as a driving force behind Volunteer Income Tax Assistance (VITA) programs across the state. These programs offer free tax preparation to qualified workers, as well as seniors, and VITA programs across the nation have a 94% accuracy rate. Currently, 21 local United Ways across the Commonwealth invest, operate, or participate in the operation of VITA sites, including four that are participating in our statewide scheduling initiative through PA 211. Through their work and investments, our local United Ways are assisting qualified households with the EITC and other federal tax credits, which provide much needed financial resources to ALICE families.

Thank you for the opportunity to provide testimony on these important issues and share the perspective of the United Way of Pennsylvania, and our network of local United Ways. We look forward to working with the House and Senate to make 2025 the year that Pennsylvania provides tax relief to working households in the form of a refundable Earned Income Tax Credit.

Submitted by:



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