

PROMOTING ECONOMIC SECURITY THROUGH COMMONSENSE TAX REFORM

August 2018

Modernizing and expanding the Working Families Tax Rebate would rebalance our state tax code, increasing economic opportunity for working people and families and strengthening local economies.

Overview

In an inclusive economy, all Washingtonians would have access to economic security and the opportunity to prosper. While Washington state's economy is growing – and by many measures, outpacing other parts of the country¹ – progress is not reaching everybody equally. Income inequality in Washington has increased over the past several decades,² and the average income of those in the top 1 percent is now 24 times higher than the average income of the other 99 percent.³

One of the most significant barriers to opportunity is Washington state's inequitable tax code, which is the most upside down in the nation. Low- and middle-income Washingtonians pay up to six times more in state and local taxes as a share of their income than the top 1 percent do. By asking those with the least to pay the most – while giving special breaks to those at the very top – our tax code directly contributes to rising income and wealth inequality. And combined with the rising cost of living and housing, it pushes many people into poverty.

Instead of exacerbating these imbalances, our tax code should ensure everyone is given the chance to climb the economic ladder. And it can. **Modernizing and expanding the Working Families Tax Rebate – our state's version of the federal Earned Income Tax Credit (EITC) – would transform our tax code from one that holds back hardworking but low-paid Washingtonians to one that promotes economic security by increasing opportunities, mitigating the effects of historically racist policies, and strengthening the economy.**

About *Progress in Washington 2018*

This is the third publication in the Budget & Policy Center's *Progress in Washington 2018* series. This series examines ways our state can reach the goal of an inclusive Washington state economy with shared prosperity for everyone. The series originated with "[Building an Inclusive Economy](#)," a report that provided a framework for understanding how to advance opportunity for all Washingtonians. It emphasized the need for our state's leaders to address the fact that people with low incomes and many people of color continue to be excluded from economic progress and opportunity.

A modern Working Families Tax Rebate is a potent tool to address our upside-down tax code

Washington state has the most regressive state and local tax code in the country. On average, the poorest fifth of households – those with annual incomes below \$26,000 – pay nearly 17 percent of their annual incomes in taxes; those in the middle pay 10 percent; and the richest 1 percent of households – those with at least \$507,000 in annual income – pay less than 3 percent.⁴ It's not hard to see how this has made it difficult for many people in our state to make ends meet.

The state's overreliance on retail sales taxes and other excise taxes contributes significantly to our broken tax code and the resulting lack of economic opportunity.⁵ For example, the purchase of toiletries, clothes, and other common goods account for a disproportionately large share of annual family budgets among households with low incomes. Everybody buys these items, but the associated sales taxes take up a larger portion of family budgets on the lower end of the income scale than those at the very top.

The Working Families Tax Rebate would help fix the state's broken tax code by refunding some of the sales taxes low- and middle-income Washingtonians pay through a tax rebate. The rebate encourages participation in the workforce by allowing workers in the lowest-income households to increase their incomes and get a larger cash benefit as a result.

The federal EITC, on which our state's Working Families Tax Rebate is modeled, is among the most effective federal programs for bringing families out of poverty.⁶ But since the creation of the EITC in 1975 and the Working Tax Families Rebate in 2008, jobs, demographics, and state and local economies have changed. Modernizing the rebate (as described in Table 1) would build on the success of the federal EITC and enable policymakers to address the significant social and economic changes that have occurred over the past several decades. It would also put a meaningful amount of money back into the pockets of Washingtonians who work hard for low and moderate pay.



About the Working Families Tax Rebate

The Working Families Tax Rebate is Washington state's version of the federal Earned Income Tax Credit (EITC), which provides workers who make low wages with a boost to their incomes in the form of a tax refund. Although Washington's legislature passed the rebate in 2008 and provided some startup funding, the program was suspended due to budget cuts during the Great Recession. As a result, lawmakers have never provided enough funding to begin issuing refunds – forgoing a vital opportunity to increase economic opportunity for close to half a million Washingtonians with low incomes. If funded, the program would allow low-income workers to receive a matching credit from Washington state equal to 10 percent of the benefit they receive from the federal EITC. In 2017, qualifying low-wage workers could have received a rebate that ranged from \$50 to \$632.

The proposal outlined in Table 1 envisions significant expansions of the 2008 Working Families Tax Rebate, which have the potential to achieve sweeping positive outcomes in communities throughout Washington.

Table 1

Modernize the Working Families Tax Rebate to build on the proven success of the EITC

The modernized rebate would:	The limitations of the 2008 rebate:	How the modernized rebate would have a greater impact:
Expand the program for workers without children.	Workers without children must be age 25 or older and have extremely low incomes to qualify for a rebate that is smaller than the rebate available to workers with children.	Increase eligibility and the rebate amount for workers without children, including workers age 19 and older – making their rebate comparable to the benefit received by workers with one child.
Use a modern definition of work.	Rebates are limited to people who work at traditional jobs and receive regular paychecks.	Provide a basic rebate to people who forgo working in traditional jobs to provide necessary care for young children, elderly relatives, or family members with disabilities. This proposal would also include college students from low-income families who delay full-time work to improve their career potential with education.
Recognize more workers who contribute to economic growth.	Rebates are generally limited to U.S. citizens.	Extend eligibility to immigrant workers who are not currently eligible, in recognition of their contributions to Washington's growing economy.
Maximize the impacts of rebate payments.	Rebates are paid out in a single annual payment.	Provide options for periodic payments, such as quarterly or monthly payments.
Make the rebate available to more people with moderate incomes.	Maximum qualifying incomes for single filers range from \$39,617 to \$48,340, depending on number of children in the household. For married filers, qualifying incomes range from \$45,207 to \$53,930.	Expand the number of workers who qualify by increasing the maximum qualifying income in all cases to \$50,000 (or the current federal EITC maximum qualifying income, whichever is higher).
Increase the size of the rebate.	Rebates are equal to 10 percent of the federal EITC amount.	Increase the rebate to 50 percent of the federal EITC amount.

Under this proposal, workers earning up to \$50,000 per year⁷ would qualify for a tax rebate (in the form of a refund) equal to half of their federal EITC award, with maximum benefits reaching about \$3,100 per year. The amount of the rebate would depend on a person’s tax filing status, the number of children they have, and their earned income. Maximum rebate amounts under the expanded Working Families Tax Rebate are shown in Table 2.

Table 2
Maximum proposed Working Families Tax Rebate amount by number of children

No children	One child	Two children	Three or more children
\$1,200	\$1,700	\$2,808	\$3,159

A robust rebate would boost economic opportunity and growth

Expanding the Working Families Tax Rebate would improve the economic prospects of hardworking low- and middle-income Washingtonians in the following ways:

Take a significant step toward rebalancing Washington’s upside-down tax code. Expanding the Working Families Tax Rebate is one of the most efficient ways to create economic opportunities for low- and middle-income families. As Figure 1 (on the next page) shows, the current tax code requires those at the bottom and middle to contribute the most (between 10 percent and 17 percent of their incomes), while those at the top enjoy tax breaks to keep their effective tax rate very low (below 3 percent of their incomes). By comparison, a broad-based tax rate reduction – such as cutting the sales tax rate – would be a less efficient way to improve economic opportunities for all Washingtonians.

NOTE ABOUT THE INTERSECTION OF RACE, INCOME, AND ASSETS:

It’s important to note that while not all low-income communities are communities of color, and not all people of color have low incomes or are in poverty, there is an overlap that cannot be ignored. Communities of color represent a disproportionate share of those living in poverty. This is in large part because of intentional and unintentional policies and practices – such as redlining, employment discrimination, and limited access to credit – that have advanced structural and institutionalized racism.

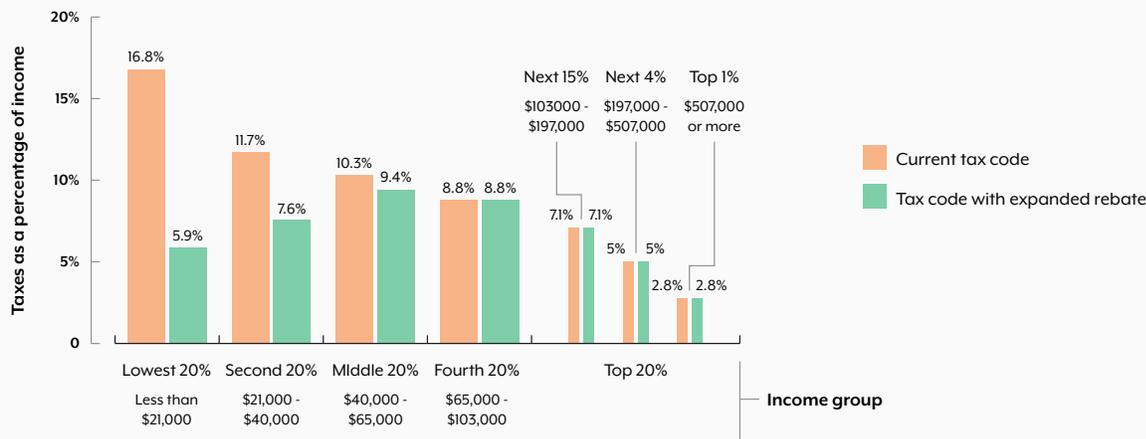
It would also do less to rebalance the tax code, because it would include the wealthiest households who don’t need more tax cuts.⁸

Remove barriers to opportunity for communities of color. Communities of color in Washington state continue to face barriers to family-wage jobs, education, and other types of opportunities associated with economic progress. For example, although 30 percent of all Washingtonians are low income (making \$40,180 or less for a family of three), the numbers are lower for white people (25 percent), and much higher in some communities of color: more than half of Latinx people and almost half of American Indians, Blacks, and Pacific Islanders are low income.⁹

Even though statewide unemployment is low,¹⁰ it is highest among American Indians, Blacks, and Pacific Islanders.¹¹ Importantly, having a job hasn’t translated into family financial stability for all people. This is especially true for people of color because of barriers to opportunity created through institutional and structural racism. In fact, the number of people who work and still experience poverty has increased over the last several decades and is highest in immigrant communities of color. One in four Latinx immigrants works full time,

Expanding the Working Families Tax Rebate would rebalance the state tax code

Washington state and local taxes as a share of family income by income group, with and without the expanded rebate, 2015



Source: Institute on Taxation and Economic Policy

but still lives below 200 percent of the federal poverty level.¹²

An expanded Working Families Tax Rebate would have outsized positive impacts for these immigrant communities and communities of color by providing an income boost for workers who are trying to make ends meet (see Figure 2 on the next page). Under the proposed modernizations, one in five recipients of the Working Families Tax Rebate in Washington would be immigrants, and more than three in 10 would be people of color.¹³

Strengthen local economies in rural areas. The areas of the state that would benefit the most from the modernized and expanded Working Families Tax Rebate are those areas with high concentrations of working people living in poverty, particularly the rural areas in Washington. As our analysis in Figure 3 (on page 7) illustrates, the Working Families Tax Rebate would benefit more than half of the population in the southeast corner of Washington, as well as delivering significant benefits to rural areas on the Olympic Peninsula and along the northern border of the state. Because

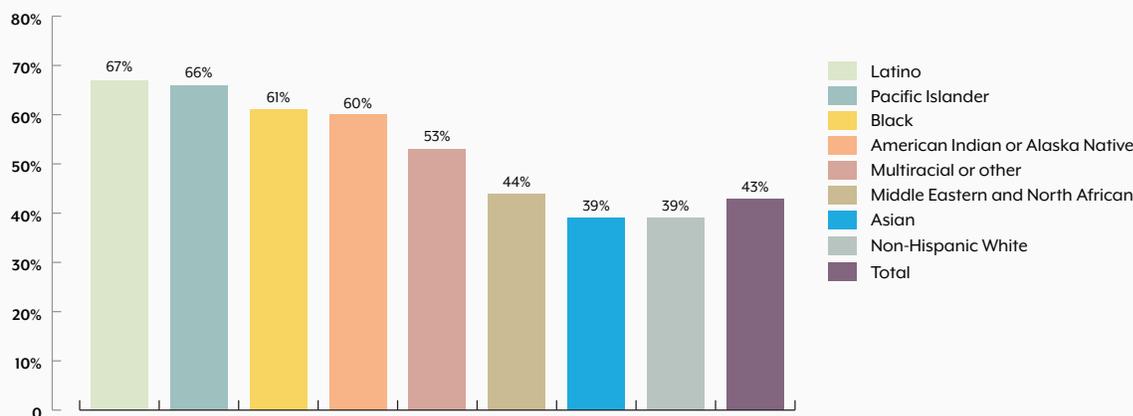
of the concentration of higher-wage households in King and surrounding counties, a relatively smaller percentage of residents along the Interstate 5 corridor would receive the rebate.

Promote work to drive economic growth and prosperity. Research on the federal and state EITCs shows that putting money into the pockets of hardworking people translates into putting money into their local economies. The EITC encourages work, especially among the lowest-wage workers,¹⁴ because the value of an individual's tax rebate increases with every additional dollar earned from wages until reaching the maximum amount. Single mothers, in particular, have been shown to increase work in response to these incentives, which allow them to work more without losing benefits. A National Bureau of Economic Research study found that a \$1,000 increase in the EITC benefit leads to an increase of seven percentage points in employment among single mothers with children.¹⁵

Families use the money they receive from the credit to pay down debts or save, to make

Over half of Latino, Pacific Islander, Black, American Indian, and Multiracial/other race tax filers would benefit from expanding the rebate

Percent of tax filers eligible for expanded rebate by race and ethnicity, Washington state, 2013 to 2015



Source: Budget & Policy Center estimates of 2015 3-year ACS IPUMS USA data

larger necessary purchases, or to buy things for their kids that they couldn't otherwise afford.^{16, 17} Combined with pro-worker policies like a strong statewide minimum wage and paid family and

medical leave, workers in Washington who receive the rebate would be better able to make ends meet and contribute to their local economies. This fosters progress for families, businesses, and communities alike.

The modernized rebate by the numbers:*

1.4 million

The number of working Washingtonians who would receive an income boost to help keep up with the rising cost of living

\$1,258

The average annual amount put back into workers' pockets through the rebate

130,000

The number of people who would be brought out of poverty by the rebate, including more than 54,000 children

16 percent

The amount by which statewide poverty would drop overall as a result of this proposal

24 percent

The amount by which childhood poverty would drop in our state

*Under this proposed modernization of the Working Families Tax Rebate

This proposal would improve the well-being of all Washingtonians

Implementing an expanded Working Families Tax Rebate would not only improve the economic plight of working individuals and families; it would also improve the health and economic vibrancy of Washington's communities. The federal EITC is a proven and powerful tool that has promoted economic security, tax fairness, and financial stability for many families across the country. State-level EITCs like the Working Families Tax Rebate have delivered the same results.¹⁸

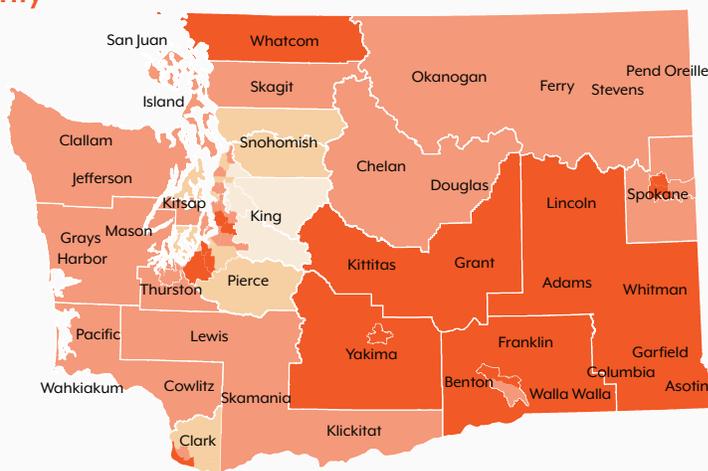
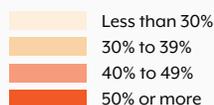
The impacts of the federal and state EITC programs on individuals would have broad and lasting impacts on the well-being of our entire state. Across the

Figure 3

Expanding the Working Families Tax Rebate would boost prosperity in rural communities

Share of tax filers eligible for expanded rebate by Public Use Microdata Area

Percent of Credit Filers by Public Use Microdata Area



Source: California Budget & Policy Center's estimates of 2015 3-year ACS IPUMS USA data. Public Use Microdata Areas (PUMAs) are generally drawn to contain a population of about 100,000. They vary in geographic size from being fairly small in densely populated urban areas to very large in rural areas, often with one or more counties contained in a single PUMA.

country, the EITC and state-level programs like the Working Families Tax Rebate correspond to:

- **Improved health outcomes** for infants¹⁹ and mothers²⁰ with positive ripple effects across entire neighborhoods;²¹
- **Better educational outcomes** for children, and a higher likelihood of college attendance;²² and
- **Increased work and higher wage growth**, especially for households headed by women.²³

Advocates, elected officials, and community leaders in Washington state should look to a modernized and expanded Working Families Tax Rebate as a critical tool to rebalance our state tax code, strengthen local economies, and promote economic opportunity for hundreds of thousands of hardworking Washingtonians.

NOTE ABOUT DATA:

Wherever possible, data are disaggregated to provide a preliminary understanding of disparities by race, ethnicity, gender, and nativity. Data are not always available for all races and ethnicities. Data about gender are also rarely available for non-binary and gender-nonconforming people. As a result, without additional context, the statistics throughout this report tell a limited story about the populations being represented – and, in some cases, the numbers don't reflect people's lived experiences. We encourage readers of this report to engage with the communities represented in the data to develop a more accurate and meaningful understanding than the numbers allow.

Endnotes

- 1 United States Bureau of Economic Analysis, “Annual Gross Domestic Product (GDP) by State,” GDP in current dollars, compound annual growth rate between 2009 and 2017, all states, <https://bit.ly/2LTq6kP>, (accessed June 2018).
- 2 National Equity Atlas, “Income inequality: Gini: Washington, 1980 to 2015,” <https://bit.ly/2JMCLoP>, (accessed June 2018).
- 3 Economic Policy Institute, “The Unequal States of America: Income Inequality in Washington,” <https://bit.ly/2LRYix0>, (accessed July 2018).
- 4 Institute on Taxation and Economic Policy, “Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,” Fifth Edition, January 2015, <https://bit.ly/2H30e6W>, (accessed June 2018).
- 5 Our tax code also relies substantially on other regressive taxes, such as property taxes and business taxes.
- 6 Austin Nichols & Jesse Rothstein, “The Earned Income Tax Credit (EITC),” The National Bureau of Economic Research, Working Paper No. 21211, May 2015, <https://bit.ly/2tdUezE>, (accessed June 2018). See also: Center on Budget and Policy Priorities, “Policy Basics: The Earned Income Tax Credit,” April 2018, <https://bit.ly/2ELc1Xx>, (accessed June 2018).
- 7 Or up to the applicable maximum qualifying income under the federal EITC, whichever is higher.
- 8 To illustrate, every \$100 million the state invests in the proposed expanded Working Families Tax Rebate would reduce taxes among low-income households by about \$88 dollars per year on average; investing the same amount in reducing the sales tax would only cut taxes among the same households by about \$12 per year. Note: Estimates reflect the impact on the second-poorest 10th of households. Washington State Budget & Policy Center calculations of data from the Department of Revenue’s Tax Alternative Model, <https://bit.ly/2LPMeMP>, (accessed June 2018).
- 9 Budget & Policy Center analysis of 2015 5-year American Community Survey (ACS) Integrated Public Microdata Series (IPUMS) USA data.
- 10 Washington State Employment Security Department, “Monthly employment report for May 2018,” <https://bit.ly/1uDeRNr>, (accessed June 2018).
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- 12 Jennifer Tran, Julie Watts, Kelli Smith, and Melinda Young-Flynn, “Building an Inclusive Economy,” Washington State Budget & Policy Center, December 2017, <https://bit.ly/2Eu0gnp>, (accessed June 2018).
- 13 Budget & Policy Center analysis of 2015 5-year ACS IPUMS USA data.
- 14 Center on Budget and Policy Priorities, “Policy Basics: The Earned Income Tax Credit,” April 2018, <https://bit.ly/2ELc1Xx>, (accessed June 2018).
- 15 Hilary Hoynes and Ankur J. Patel, “Effective Policy for Reducing Inequality? The Earned Income Tax Credit and the Distribution of Income.” NBER Working Paper 21340, July 2015, National Bureau of Economic Research, <https://bit.ly/2ld7ocx>, (accessed June 2018).
- 16 Sykes, Kriz, Edin, and Halpern-Meekin, “Dignity and Dreams: What the Earned Income Tax Credit (EITC) Means to Low-Income Families,” American Sociological Review, 2015 Vol. 80(2) 243-267, <https://bit.ly/2JFii9E>, (accessed June 2018).
- 17 Paying out the rebate on a monthly basis would likewise produce positive results for local economies. In studies exploring periodic payments of the EITC, researchers found that participants enjoyed stronger economic security, relied less on risky, short-term loans to get by, and could better afford basic needs, like child care. See Steve Holt, “Periodic Payment of the Earned Income Tax Credit revisited,” Metropolitan Policy Program at Brookings, December 2015, <https://brook.gs/2tcKqFJ>, (accessed June 2018).
- 18 Erica Williams and Samantha Waxman, Center on Budget and Policy Priorities, “States Can Adopt or Expand Income Tax Credits to Build a Stronger Future Economy,” February 7, 2018, <https://bit.ly/2JgGkXn>, (accessed June 2018).
- 19 Markowitz, Komro, Livingston, Lenhart, and Wagenaar, “Effects of state-level Earned Income Tax Credit laws in the U.S. on maternal health behaviors and infant health outcomes,” National Bureau of Economic Research, August 2017, <https://bit.ly/2v7F6TP>, (accessed June 2018).
- 20 William Evans and Craig Garthwaite, “Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health,” American Economic Journal, Vol. 6, No. 2, May 2014, <https://bit.ly/1ULUNHY>, (accessed June 2018).
- 21 Jeannette Wicks-Lim and Peter S. Arno, “Improving population health by reducing poverty: New York’s Earned Income Tax Credit,” SSM - Population Health, March 2017, <https://bit.ly/2Mu0Y55>, (accessed June 2018).
- 22 Michelle Maxfield, “The Effectiveness of the Earned Income Tax Credit on Child Achievement and Long-Term Educational Attainment,” Michigan State University, November 2013, <https://bit.ly/2Hb7i2w>, (accessed June 2018).
- 23 Center on Budget and Policy Priorities, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” October 2015, <https://bit.ly/2fPQn5P>, (accessed June 2018). These bring the related benefits of reducing the number of households receiving cash welfare and important downstream benefits, such as increasing Social Security benefits as a result of higher income. See also Hilary Hoynes, “A Revolution in Poverty Policy: The Earned Income Tax Credit and the Well-Being of American Families,” Pathways, Summer 2014, <https://stanford.io/X4Vvh>, (accessed June 2018).

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