Expanding Opportunities for Working Families

New report shows how a working families tax credit would provide an economic boost

Richmond, VA -- As lawmakers of both parties embrace policies with an eye toward revitalizing communities across the commonwealth, there’s one policy idea that should be getting more attention. Targeted working families tax credits have a proven track record of boosting economic opportunity and helping low-wage workers make ends meet. By expanding an existing state tax credit, Virginia lawmakers would further encourage work and support local economies, according to a new report from The Commonwealth Institute for Fiscal Analysis, an economic and policy research organization in Richmond.

These credits, often in the form of an earned income tax credit (EITC), reward and encourage work, give a boost to families, and improve the long-term prospects for children. These credits reduce a family’s income tax bill, ramping up as a person earns more. The federal EITC helps to support over 600,000 families in Virginia each year. However, unlike the federal EITC, Virginia’s state-level EITC is not refundable. That means if the value of the credit exceeds the amount of state income tax a family owes, the family misses out on the full value of the credit. Refundability recognizes that state and local taxes often take a larger share of the incomes of workers earning low wages than that of the highest-income households.

“For families struggling to make ends meet, an expanded credit would make a big difference in terms of helping them put food on the table, keep the lights on, and pay for school supplies,” says Chris Wodicka, author of the report.

In addition, because low-income families spend more of their incomes locally on consumer goods, a stronger state EITC would lead to more local spending. The additional disposable income and increase in consumer spending that would result from a refundable EITC would pump millions of dollars into communities throughout Virginia.

Over time, an expanded EITC could help communities address long-standing economic challenges by providing more opportunities for families and the next generation. Studies show the working family tax credits have a range of benefits – from improved infant health to
increased college enrollment. Children whose families receive the EITC are shown to earn higher incomes in adulthood compared to similar children whose families did not receive the credit.

“When it comes to boosting families and communities, these credits are one of the most effective policy tools we have, and the benefits are wide ranging,” says Wodicka.

The full report, A Targeted Economic Boost, is available online at www.thecommonwealthinstitute.org.

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The Commonwealth Institute for Fiscal Analysis provides credible, independent, and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons. Our products inform fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Visit www.thecommonwealthinstitute.org for more information.