

## **The Necessity of Extending the Child Tax Credit to Puerto Rico**

**1. Puerto Rican Island Residents families do not have access to the Child Tax Credit (CTC) if they have less than three children. Exclusion of Puerto Ricans with one or two children from this program is both unfair and bad economic policy. Congress and the President should act to correct this unjust, harmful situation in the next tax bill.**

**2. The existing exclusion of Puerto Ricans with one or two children from the CTC program is not fair.** In 2009, a married couple with two children in Puerto Rico earning \$25,000 before taxes ended up with \$23,087.50 after paying federal Social Security and Medicare taxes. The identical family in the states, after paying all federal taxes and also receiving the CTC, ended up with \$25,087.50. That is, the family in the states had \$2,000 more income than the Puerto Rican family because of the CTC. (Similar disparities exist with other family structures and other levels of income.)

**3. The expansion of the CTC to include Puerto Rican families with one or two children would inject \$60 million dollars into Puerto Rico's economy during the first year after these families are made eligible for the program. Within a few years, as Puerto Ricans come to participate fully in the program, this figure would rise to \$250 million annually. With the extension of the CTC implemented for 2012, then for the ten year period through 2021 new funds coming to the island would total more than \$1.5 billion.** The primary and secondary impacts of this injection of funds would not be large, but they would be significant, raising Puerto Rican GNP by \$350 to \$400 million annually when all eligible families are fully participating.

**4. The CTC was originally established to address the concern that the tax structure did not adequately reflect a family's reduced ability to pay taxes as its size increased (i.e., with children). The design of the program is such that it contributes to poverty reduction. Puerto Ricans pay Social Security and Medicare taxes, and the poverty rate in Puerto Rico is substantially higher than on the mainland, with about fifty percent of Puerto Ricans living below the poverty line.** The fact that Puerto Ricans do not pay federal income taxes is not a justification for their exclusion from the CTC. Many people in the states who receive these credits pay no federal income taxes simply because their incomes are too low (e.g., the married couple used as an example in point 2 above). Most important, Puerto Ricans with three or more children can already claim the CTC.

**5. Moreover, while Puerto Rican families with three or more children are eligible for the CTC, there is no credible reason for excluding families with one or two children from the program.**

**6. The CTC encourages people to participate in the paid labor force, and Puerto Rico suffers from an especially low labor force participation rate – 42% in the Territory as compared to 65% in the fifty states. Also, Puerto Rico has a large underground economy (about 25% of economic activity on the island), and the implementation of the CTC on the island would bring some of this activity into the regulated economy, increasing the tax base.**

**7. Both justice and good policy, demand that the CTC be extended to Puerto Rico. President Obama pledged to treat U.S. citizens in Puerto Rico fairly. The President and Congress must act now.**

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· Details of these estimates are available on request.