

The Necessity of Extending the Earned Income Tax Credit to Puerto Rico

1. Puerto Rican Island Residents do not have access to the Earned Income Tax Credit (EITC). Exclusion of Puerto Ricans 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 from the EITC 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 EITC, ended up with \$27,356.50. That is, the family in the states had \$4,269 more income than the Puerto Rican family because of the EITC. (Similar disparities exist with other family structures and other levels of income.)

3. The EITC would inject close to half a billion dollars into Puerto Rico's economy during the first year after island residents are made eligible for this program. Within a few years, as Puerto Ricans come to participate fully in the program, this figure would rise to over a billion dollars annually. With the extension of the EITC implemented for 2012, then for the ten year period through 2021 new funds coming to the island would total more than \$9 billion. Over half of all Puerto Rican households would be directly affected. The primary and secondary impacts of this injection of funds would raise Puerto Rican GNP by roughly 1% annually in the early years and by as much as 3% annually as the program becomes fully utilized.

4. The EITC was originally put in place and expanded to offset regressive payroll taxes and to alleviate poverty. 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 sometimes cited as a justification for their exclusion from the EITC, but this is a spurious argument. Many people in the states who receive these credits pay no federal income taxes simply because their incomes are too low. (Also, Puerto Ricans with three or more children can claim the Child Tax Credit, demonstrating that their exclusion from the federal income taxes does not present a bureaucratic barrier to extending the EITC to island residents.)

5. The EITC 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 EITC on the island would bring much of this activity into the regulated economy, significantly increasing the tax base.

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

· Details of these estimates are available on request.