

Income Gap Reward the working poor with a local tax credit

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At a time when everyone's wallets are thinner, the Bush administration has proposed tax cuts that will disproportionately benefit the rich.

San Francisco residents who need it most -- approximately 25 percent of the labor force who earn less than \$15 an hour -- will be left out in the cold. However, we have an opportunity to level the playing field locally, by putting hundreds of additional dollars into the pockets and savings accounts of the working poor. By creating a local "working families tax credit" modeled on the federal Earned Income Tax Credit, we can reward families that play by the rules yet struggle to get ahead.

The earned income tax credit is a special federal tax benefit for workers with low or moderate incomes. Each year, it rewards more than 25,000 San Francisco working families with cash refunds and pumps about \$40 million into the local economy. By today's tax-filing deadline, more than 20 million Americans are expected to apply for more than \$30 billion through the tax credit.

The credit's beauty lies in its simplicity: People who work are quickly and easily rewarded through the tax system. In 2001, families earning up to \$32,000 could get a refund as high as \$4,000.

For example, an African-American single mother who lives in the Fillmore (she asked that her name not be used) received a \$2,500 earned income credit to supplement the \$13,000 she earned last year from working two jobs: one driving a van for local senior citizens and another as a night monitor at a homeless shelter. Unlike many recipients of federal earned income tax credits who must use their credit to pay the rent or put food on the table, this woman said she put the \$2,500 aside to help pay for her 17-year-old daughter's future college education.

Because the credit provides extra income to working families, it increases people's incentive to work and improves job retention. The earned income tax credit is one of our country's most effective anti-poverty tools. More than half of the national decline in child poverty between 1993 and 1997 is attributable to this credit.

San Francisco should build upon the success of the earned income tax credit by creating a local "working families credit." It could match federal earned income tax credit refunds at a rate of 20 percent, boosting the average annual income of local eligible families by approximately \$250.

Under this plan, the Fillmore resident mentioned above would receive an additional \$500. The work incentive and anti-poverty benefits would mirror those of the federal tax credit on a smaller scale. Since eligibility would be based on the federal credit, local administrative costs would be minimal. In 2002, Denver successfully implemented a local tax credit, using a flexible portion of its federal and state welfare allocation. In San Francisco, declining caseloads have also resulted in an increase of available discretionary welfare dollars per recipient. The city could choose to use these dollars as one source of funding for a working families credit.

Our city's cashiers, hotel workers and day-care providers wouldn't be the only ones to benefit. In 2001, only 75 percent of city residents eligible for the earned income tax credit actually applied for it. San Francisco left more than \$10 million unclaimed that could have been spent at local businesses and boosted our economy.

A local working family's credit would elevate the profile of the federal earned income tax credit. More people would apply for it and spend more dollars at a time when our businesses badly need it.

Our government has a long history of using tax policy to promote desirable behaviors. More than \$300 billion in tax benefits flow to those above the poverty level to reward home ownership, savings for retirement and investing in businesses. Tax policy can and should be used to provide similar incentives to those on the bottom rung of the income ladder. Well-designed local policies such as a working family credit can begin to correct the imbalances of the federal ones.