

Proposed tax credit would lift island's economy

Study reveals that Earned Income Tax Credit could convince low-income families to fully participate in labor force

BY LUIS A. RAMOS

Some 20,000 low-income workers could increase their participation in Puerto Rico's employed labor force if the island adopts its own version of the federal Earned Income Tax Credit (EITC), according to a recent study presented by the Center for the New Economy (CNE) during a workshop at the Bankers Club in Hato Rey last week.

The EITC is a monetary subsidy that gives money back to low-income workers who file tax returns, thus enticing nonworkers to become employed and nonfilers to join the formal economy.

The target population to benefit from the proposed EITC is taxpayers with children and with adjusted gross incomes of \$15,000 or less. The amount of the EITC would level off as the taxpayer reaches a certain income level, with refunds going first to pay any outstanding tax obligations. By increasing poor families' earnings (and tax filings), the EITC would also have a positive effect on the general economy.

Puerto Rico has a work force participation rate of only 49%. That means only 49% of the available work force is either employed or looking for a job.

"The adoption of a state EITC in Puerto Rico could increase employment by 20,000 workers and would benefit 160,000 families and 289,000 children, most of them poor," said Maria Enchautegui, labor economics professor and author of CNE's study, "Reaping the Benefits of Work: A Tax Credit For Low-Income Working Families in Puerto Rico."

"A state Earned Income Tax Credit would help the working poor and would alter the logic behind local welfare programs by rewarding the efforts of those that decide to join the formal labor force," said CNE Executive Director Miguel Soto.

According to the CNE study, it would cost between \$162 million and \$183 million to implement the EITC in Puerto Rico, which could be an obstacle to the credit's adoption by the Commonwealth of Puerto Rico. The local Treasury Department has deemed manageable the administrative costs associated with the EITC program. On the other hand, there is no exact information about the magnitude of the resources that must be assigned to reduce tax evasion.

"While this is an expensive program, it is no less true that poverty has placed a heavy lag on Puerto Rico's economic development. Thus, the question isn't whether we can afford an EITC but whether we can afford not to have one," said CNE's Soto.

The EITC was implemented on the U.S. mainland in 1975 and has proved to be an effective antipoverty and tax return instrument ■