



# **The Brookings Institution**

**Center on Urban and Metropolitan Policy**

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## **Earned Income Tax Credit: The Local Angle**

**NLC Congress of Cities**

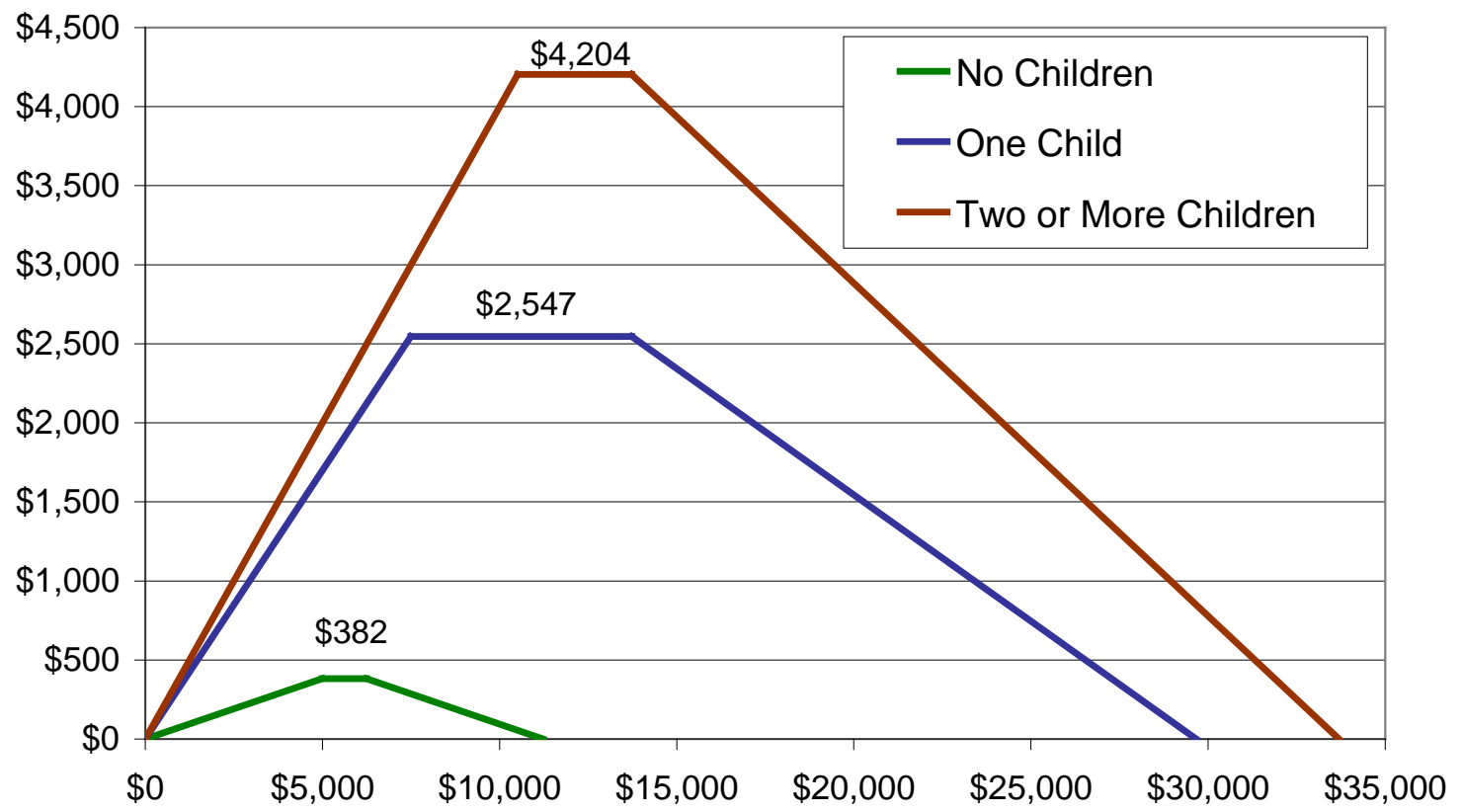
**December 12, 2003**

## For discussion...

- 1. What is the EITC?**
- 2. Why is the EITC important?**
- 3. What are the barriers to realizing the full potential of the EITC?**
- 4. What can local leaders do about it?**

# EITC—A tax credit for low-income working families

Figure 1. Structure of the Earned Income Tax Credit in Tax Year 2003, Head of Household Filers\*



Source: Internal Revenue Service

\* Married couples filing jointly are eligible for slightly higher credit amounts in the "phase-out" range of the EITC.

## The EITC is a *refundable* tax credit

Jane raises one child on her own, earned \$7.50/hour in 2003

Jane's tax calculation:

\$15,600 adjusted gross income  
- 7,000 standard deduction (head of household)  
- 6,100 exemptions (herself and child)

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\$2,400 taxable income

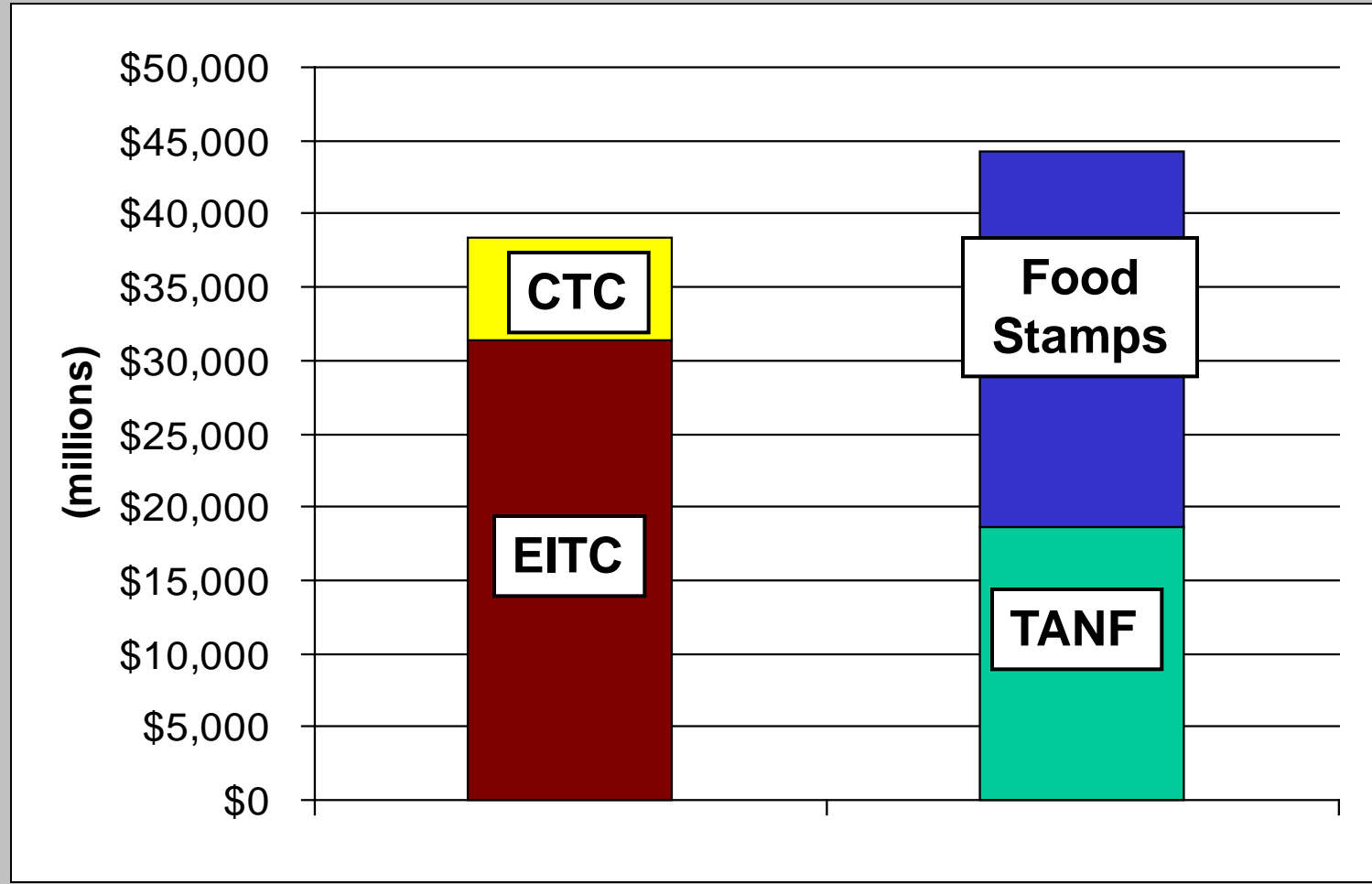
→ \$240 tax owed

EITC: \$2,248

→ Jane owes no taxes, AND gets a \$2,008 refund

# The refundable EITC and CTC are comparable in size to other antipoverty programs

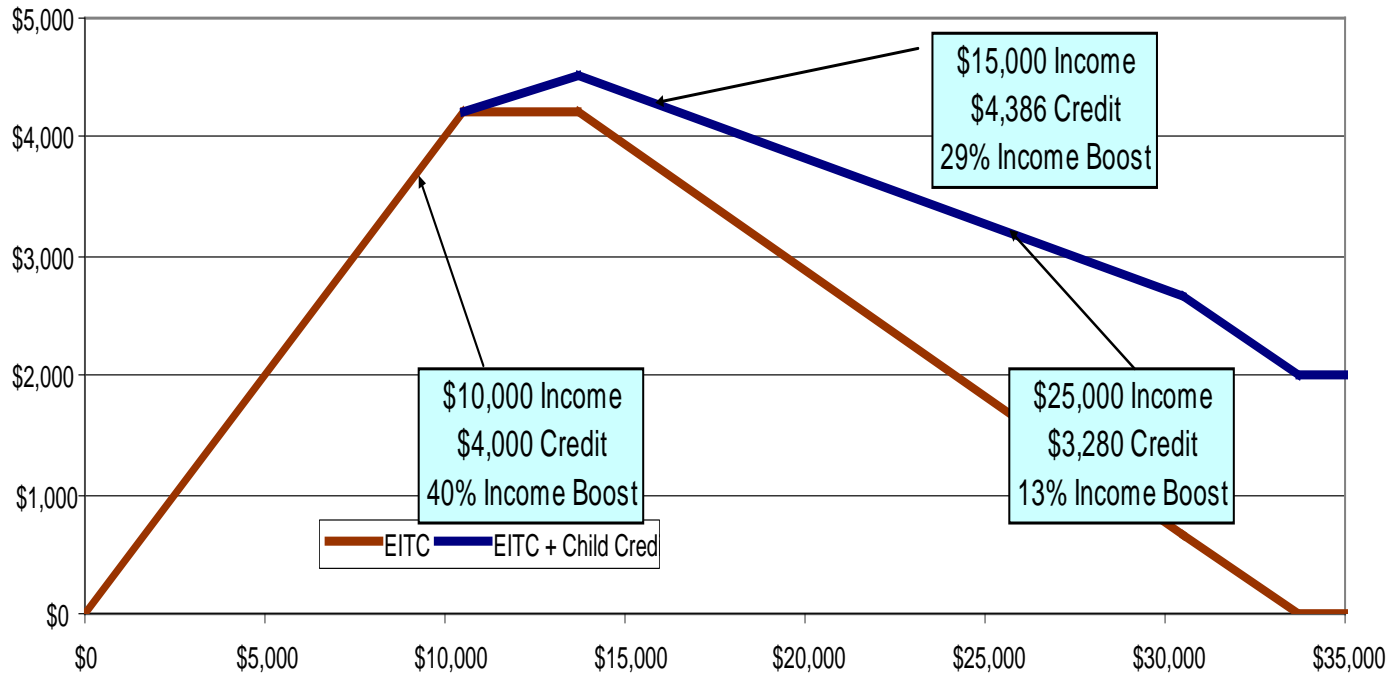
### Projected Federal Expenditures, 2004



Source: FY 2004 Budget of the United States Government, Table 25-2: Outlays by Function, Category, and Program

# The EITC and CTC give working families a big raise

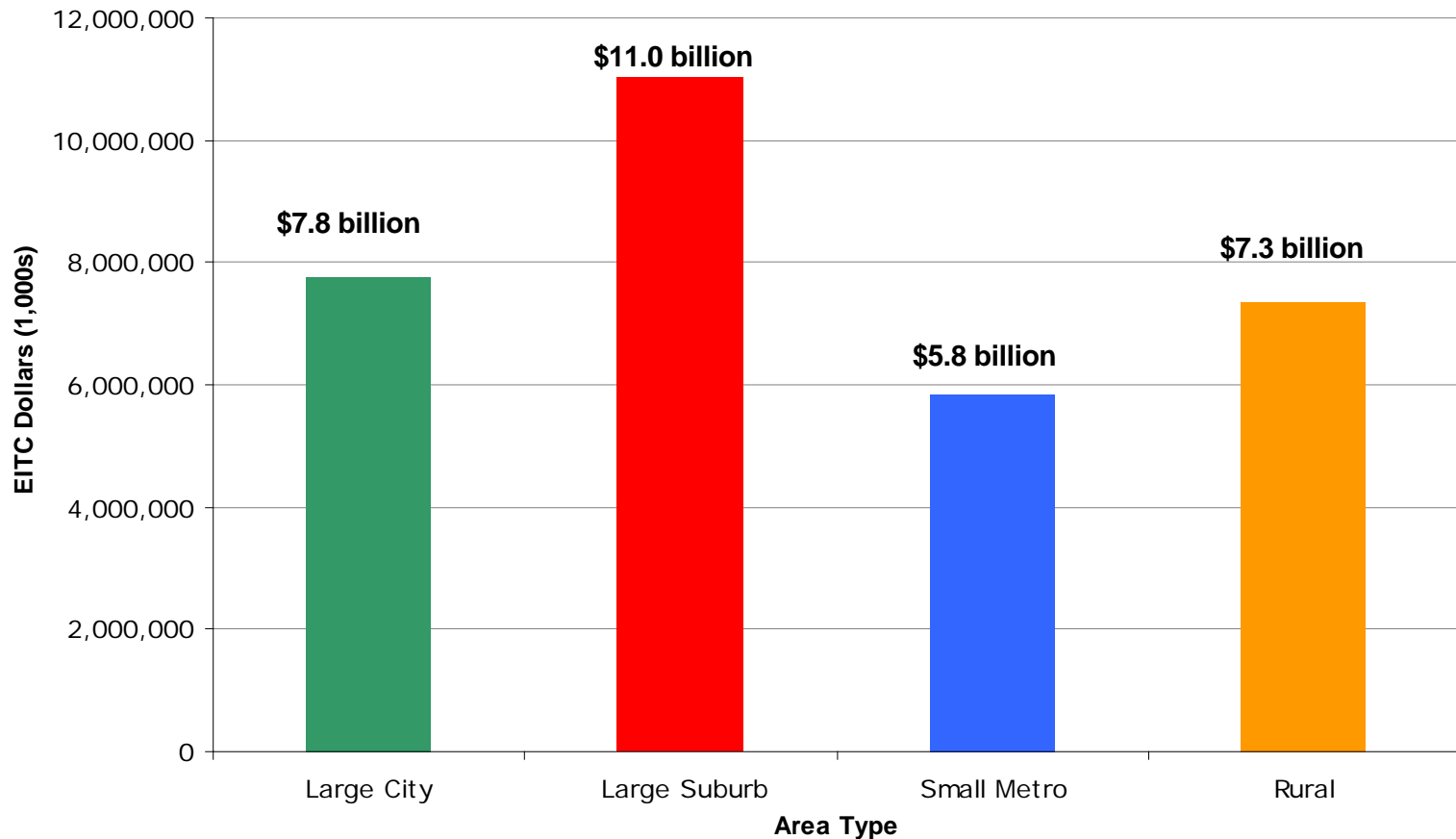
### The Earned Income Tax Credit and Child Tax Credit for Worker with Two Children, Tax Year 2003



Source: Internal Revenue Service

# EITC claimants live practically everywhere

EITC Dollars by Type of Area, TY2001

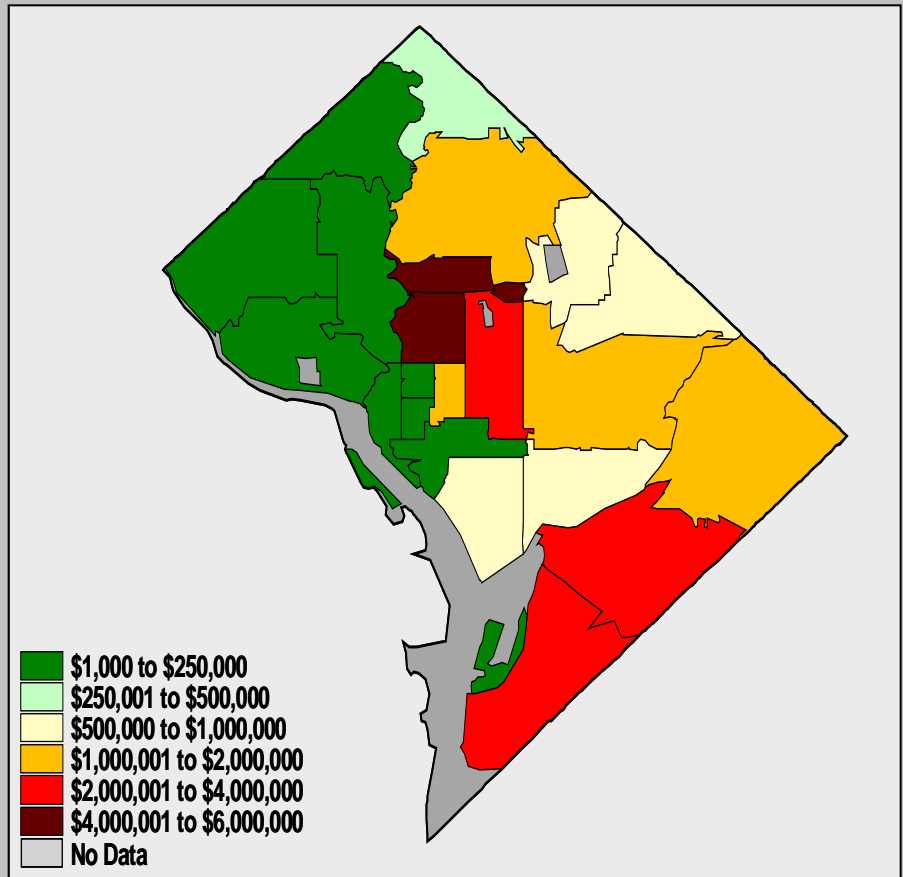


# The EITC is an economic development tool for cities

## Top 10 Cities by % Earning EITC

1	<b>Birmingham</b>	<b>36.6%</b>
2	<b>New Orleans</b>	<b>36.0</b>
3	<b>McAllen (TX)</b>	<b>35.8</b>
4	<b>Newark</b>	<b>34.8</b>
5	<b>El Paso</b>	<b>34.2</b>
6	<b>Mobile</b>	<b>34.0</b>
7	<b>Gary</b>	<b>33.6</b>
8	<b>Miami</b>	<b>32.3</b>
9	<b>Detroit</b>	<b>32.3</b>
10	<b>Hartford</b>	<b>31.6</b>

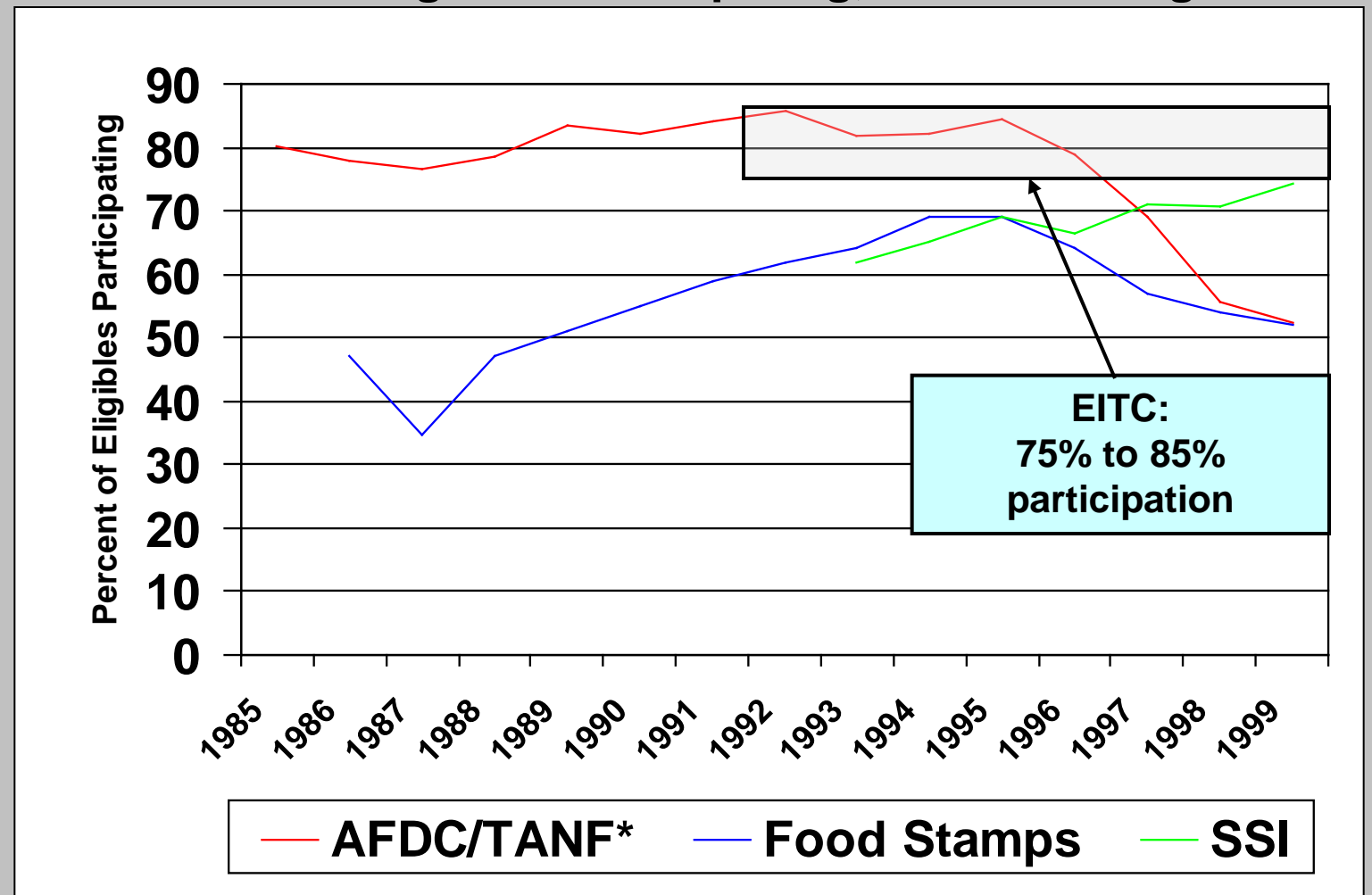
## EITC Amount per Zip code, DC





# 1. Participation: Higher than in “traditional” means-tested programs

### Percent of Eligibles Participating, Selected Programs



\* Cash assistance portion only

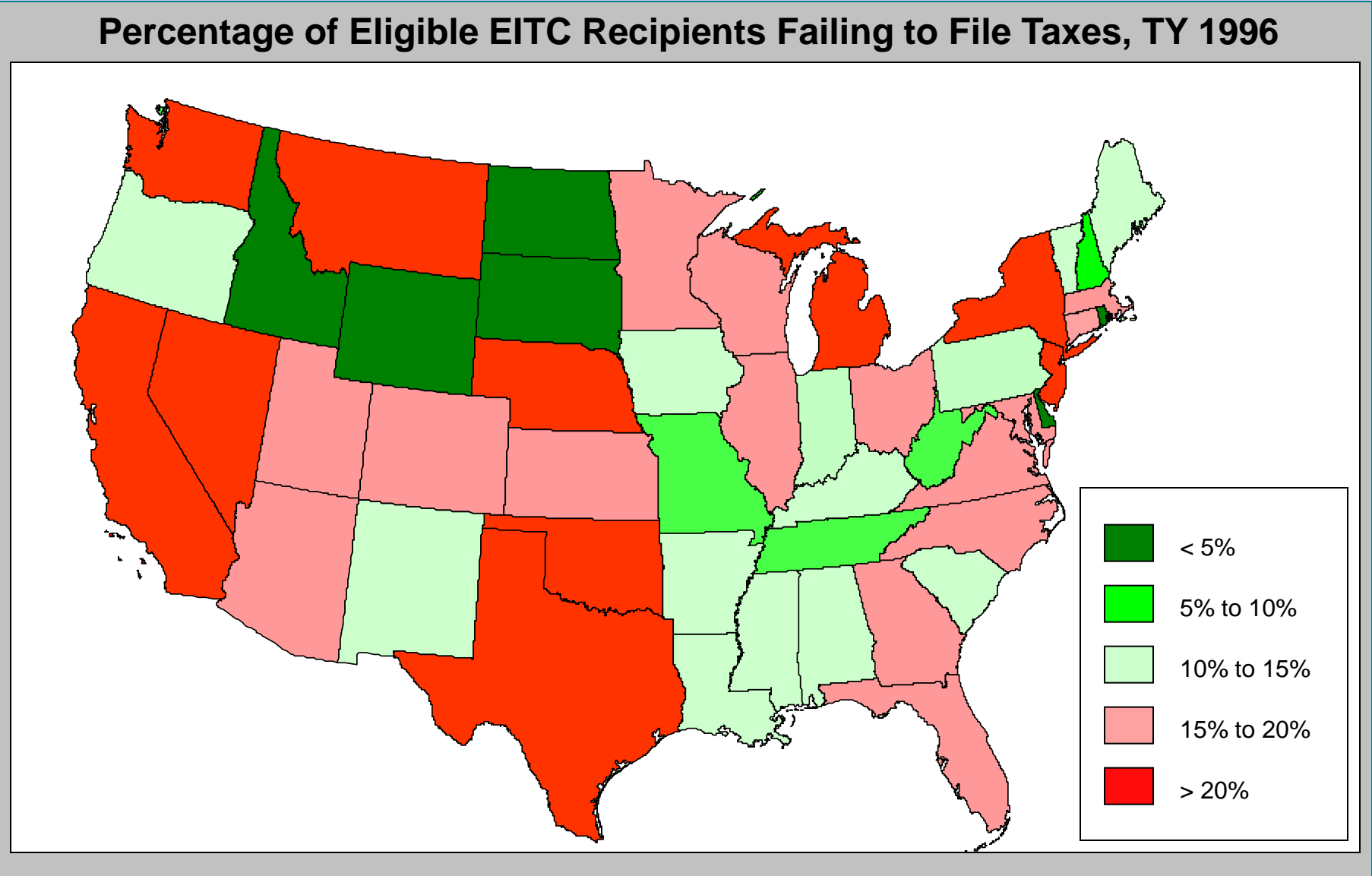
## But a significant portion of eligible filers miss out on thousands of dollars annually

**WHY?** People fail to file taxes.

1. Many eligible filers don't know about the credit.
2. Some low-income families may fear that they'll owe taxes, and so don't file.
3. Others may know about the credit, but fear that they'll lose eligibility for other benefits.

The only way to claim the EITC is to file a tax return.

# Participation in the credit varies greatly across the US



## 2. Access: Many families who claim the credit pay a high price to obtain it

1040A + State Return + EIC + 8812

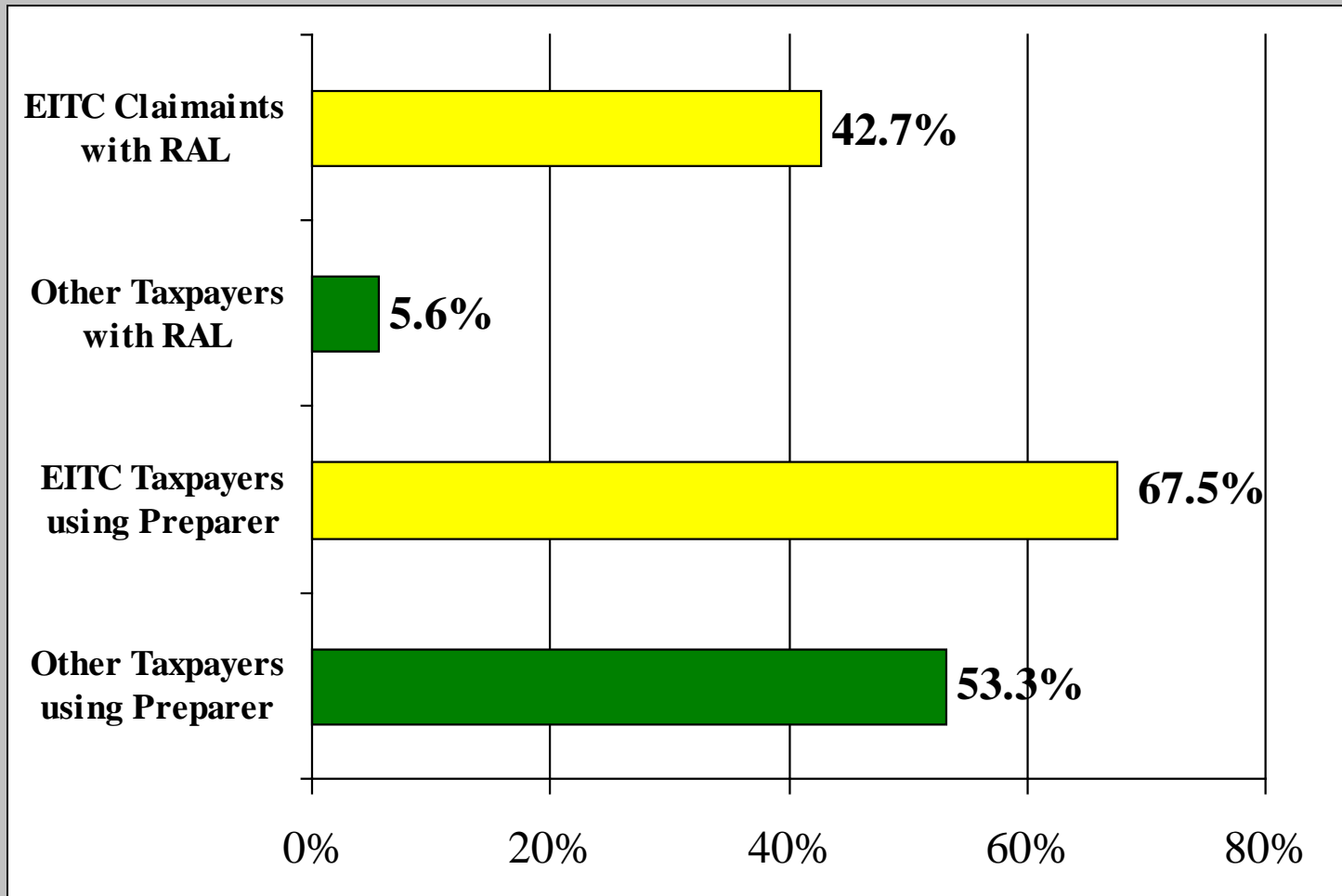
\$85 + \$5 + \$?

+ IRS e-file \$12

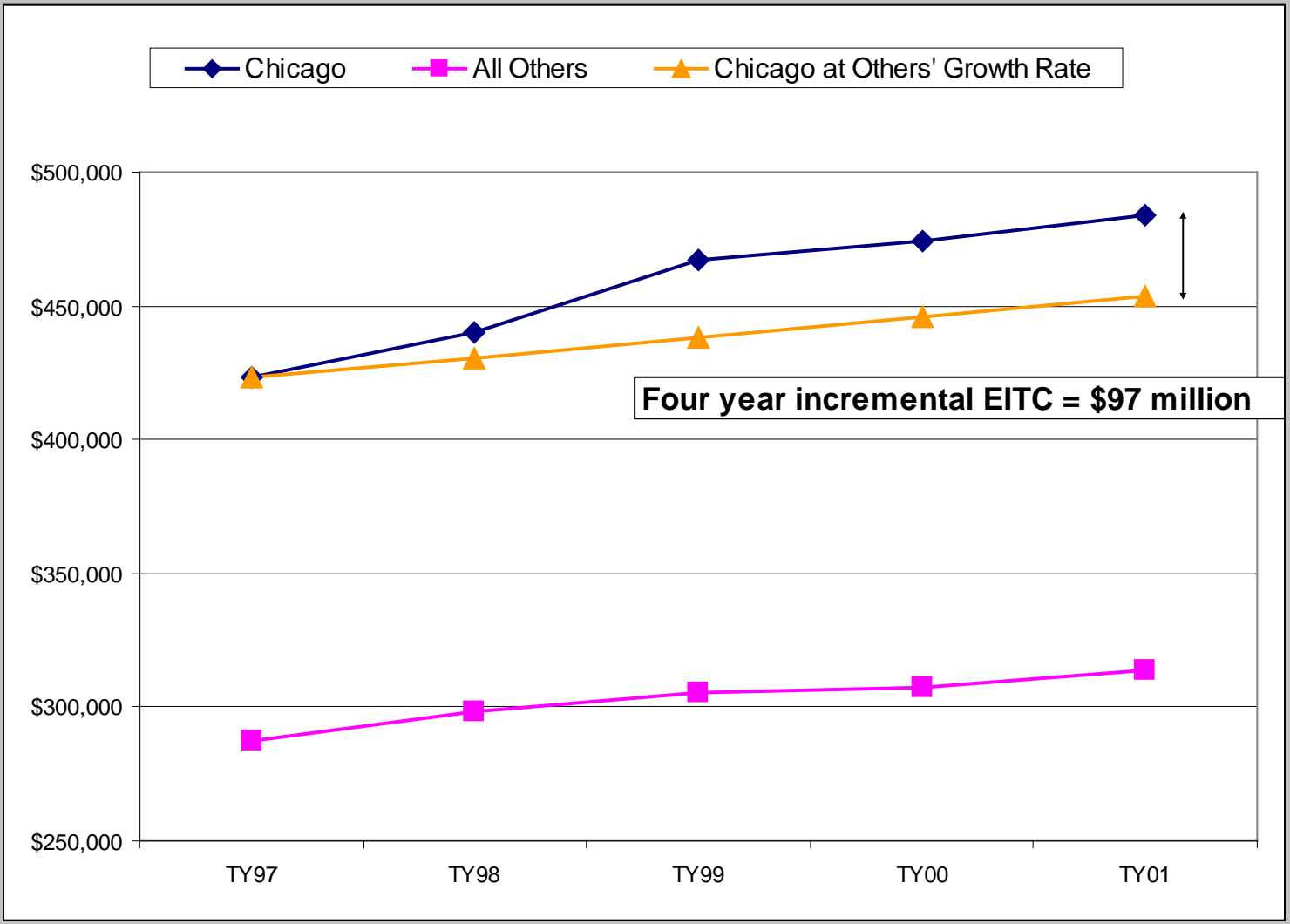
+ SUPERFAST REFUNDS When you want your refund in a hurry! click here \$100-\$150

Total > \$200

# Use of preparers and refund loans very high among EITC recipients



# 1. Outreach: City of Chicago's outreach campaign boosted the EITC dollars flowing to the city's families



## Estimating the effect of an outreach campaign

**Assumption: A significant outreach campaign could net a city's low-income working families an additional 6% in EITC dollars by its second year**

**Bernalillo County, NM (Albuquerque) families earned \$77M in EITC in TY02**

**Beginning from TY02 baseline:**

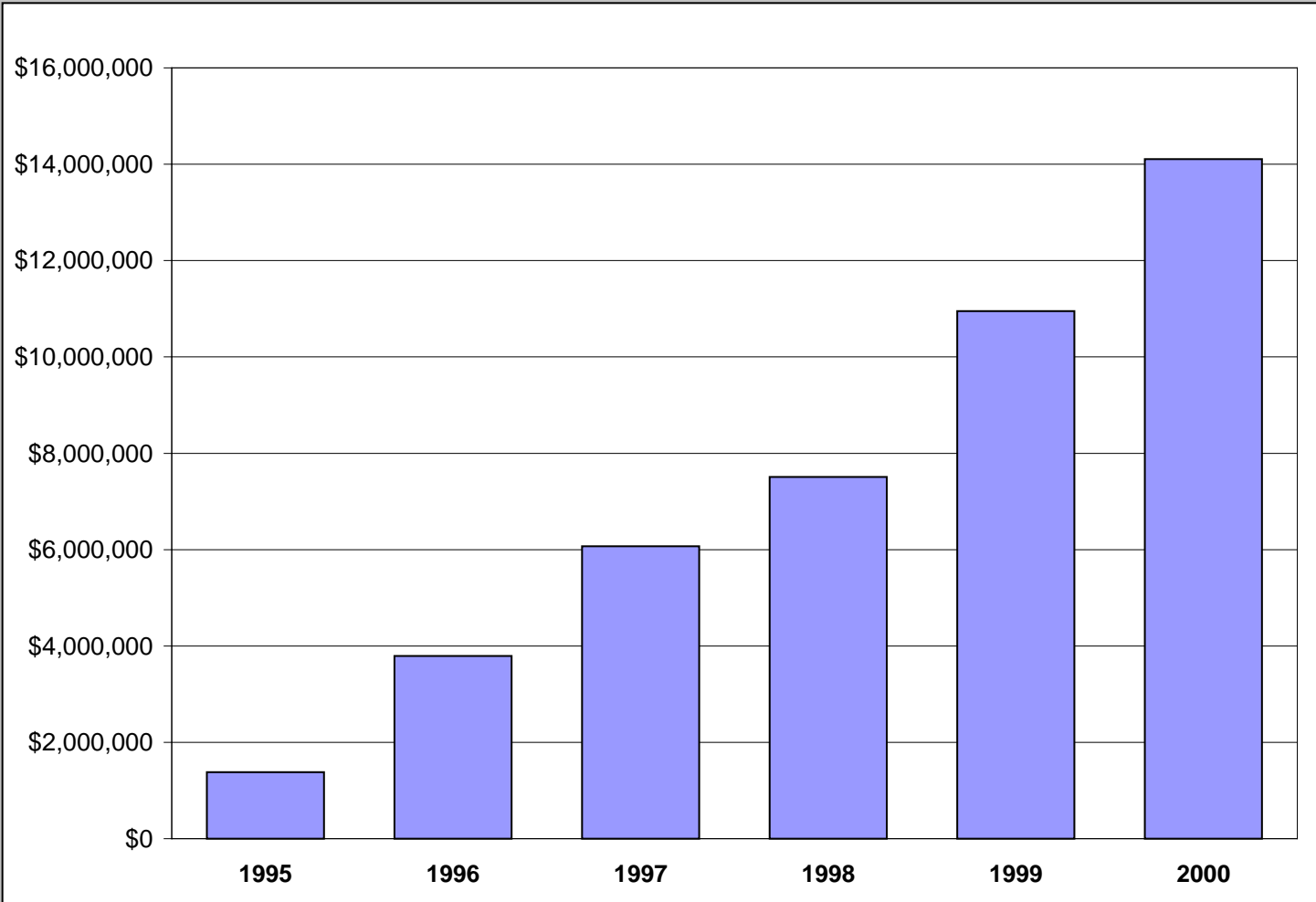
**\$77 million \* 3% in 1st year = \$2,310,000 in TY03**

**\$77 million \* 6% in 2nd year = \$4,620,000 in TY04**

**TWO-YEAR BENEFIT = \$6.9 MILLION**

## 2. Volunteer tax prep: Bolster capacity, usage

The Tulsa Experience - Refunds Returned to Clients, 1995 to 2000





## For data/further information

[www.brookings.edu/urban/eitc](http://www.brookings.edu/urban/eitc)

- EITC data from tax years 1997 through 2001
- Guidance on using and interpreting data
- Reports on impact of credit at the local level, use of refund loans and tax preparers