



METROPOLITAN POLICY PROGRAM

THE BROOKINGS INSTITUTION

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The Importance of the EITC to Low-Income Workers and Their Families

Greater Twin Cities United Way
Minneapolis, MN
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The Importance of the **E**arned Income **T**ax **C**redit

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Background on the EITC

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Maximizing the EITC's Benefit

The federal EITC is a refundable tax credit for people who work but have low incomes

- **Created more than 30 years ago**
 - Originally enacted in 1975, the goal of the EITC was to offset rising payroll taxes for low-income working families

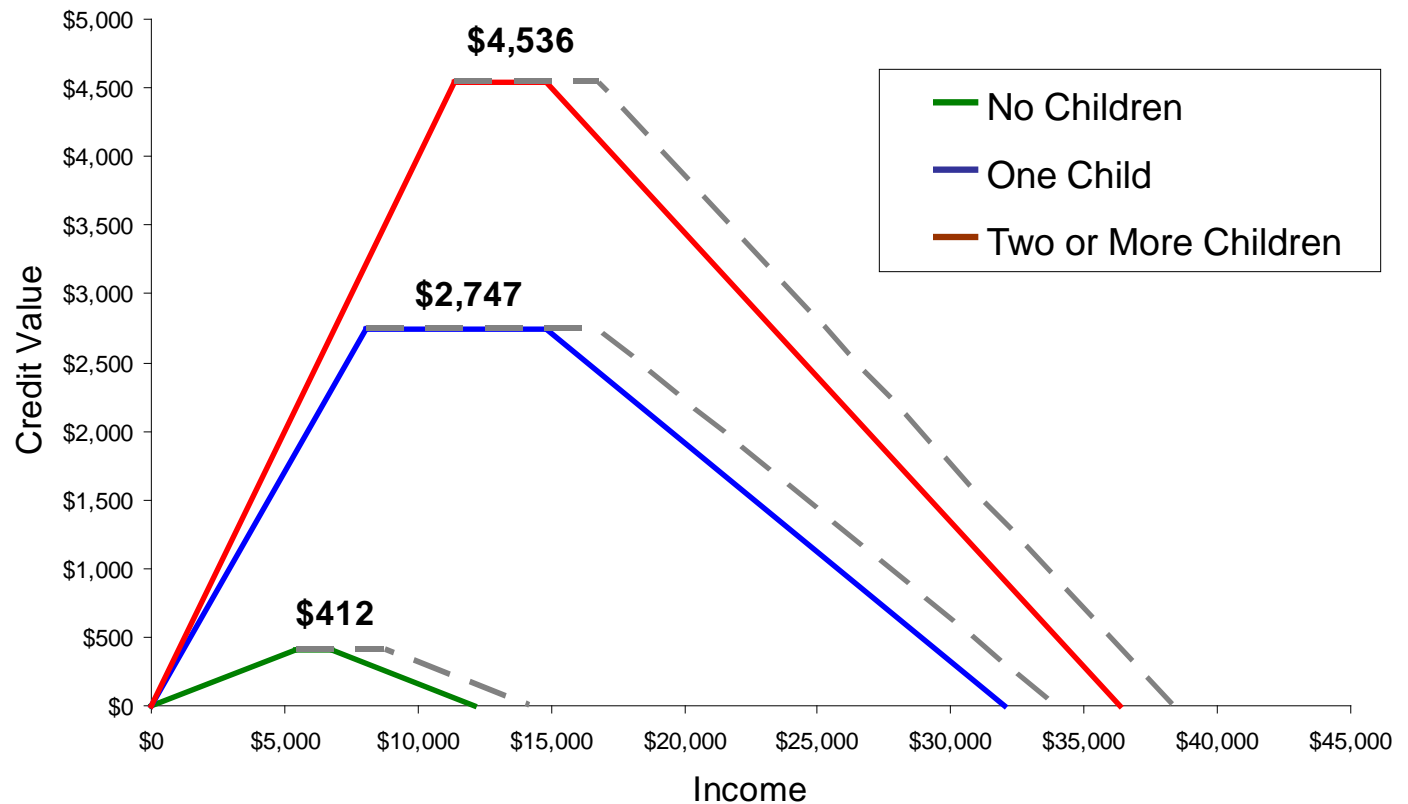
- **History of bipartisan support**
 - It has been expanded four times—in 1986, 1990, 1993, and 2001 (and temporarily in the 2009 ARRA bill)—under both Democratic and Republican administrations

- **Refundability is key**
 - Even if taxpayers have little or no tax liability, workers benefit from this credit in the form of a refund

The amount of EITC for which taxpayers qualify depends on income and family size

Value of the EITC by income and qualifying children, tax year 2007

Source: IRS



*Married couples filing jointly begin phase-out and reached maximum income limits \$2,000 above unmarried filers in TY2007 (shown by dashed lines).

Minnesota's Working Family Credit has been in place since 1991 and has since expanded to reach at least 25% of the federal EITC

➤ **Created in 1991**

- Originally equal to 10 percent of the federal EITC
- It was increased to 15 percent of the federal credit in 1993 and scheduled to increase to 25 percent in 1998

➤ **Restructured in 1998**

- The WFC is now based on earnings rather than the federal EITC to help alleviate higher marginal tax rates during the phase out of the credit
- In 2000 the Legislature raised the maximum credit for all filers to ensure they receive at least 25 percent of the federal EITC

➤ **In TY2009 the maximum credits were:**

- \$110 for workers without children
- \$874 for families with one child
- \$1,686 for families with two or more children

Background

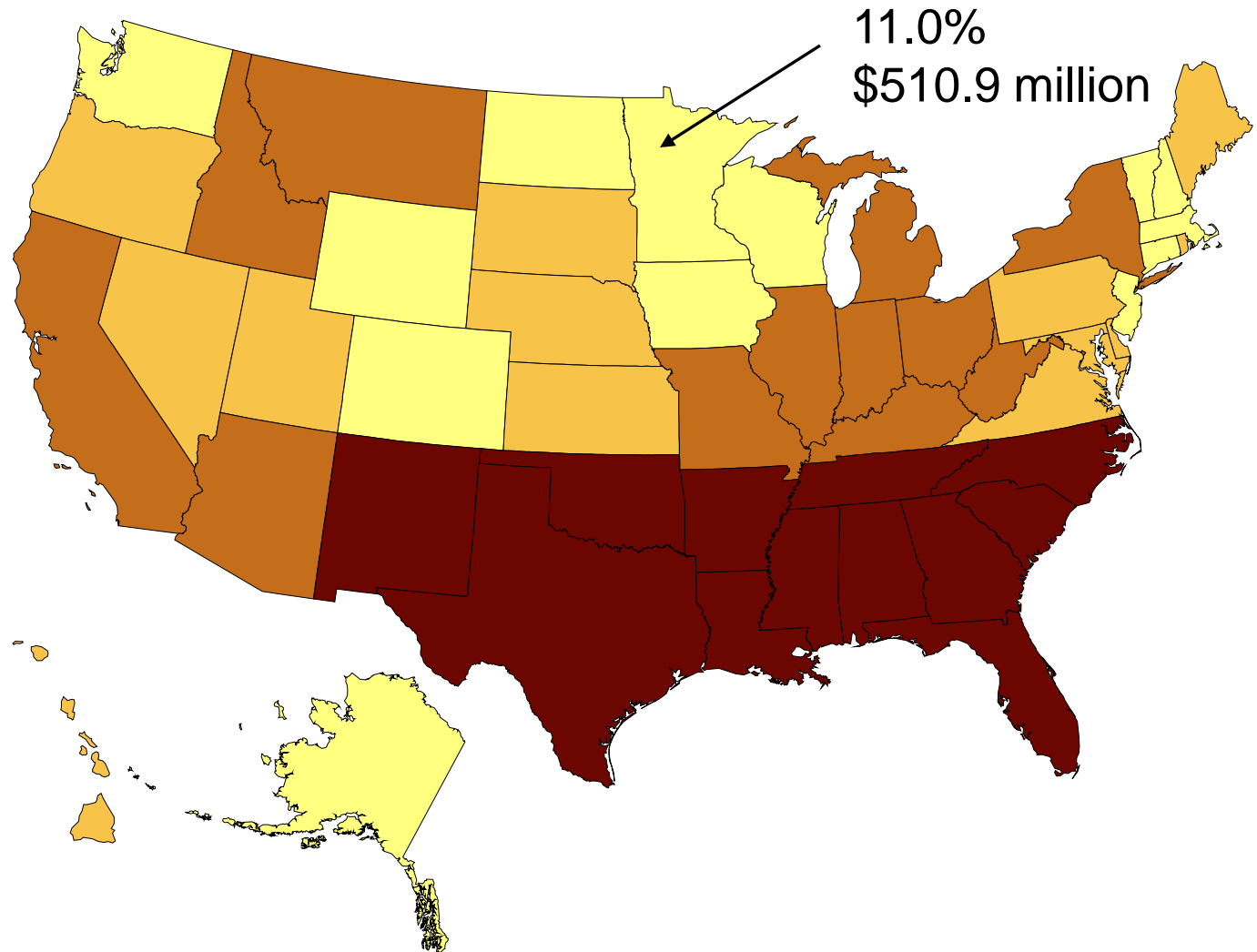
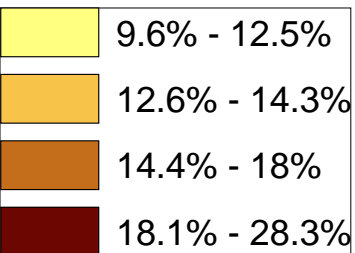
Effects

Maximizing Benefit

16 percent of all tax filers in the U.S. received the federal EITC in 2007 for a total of \$47.5 billion. But rates of EITC receipt varied considerably across the country

Rate of EITC receipt, by state, tax year 2007

Source: Brookings analysis of IRS data



Background

Effects

Maximizing Benefit

In the Twin Cities region, almost 10 percent of filers claimed the EITC in 2007 for an average credit of \$1,746

Rate and amount of EITC receipt in selected metro areas, tax year 2007

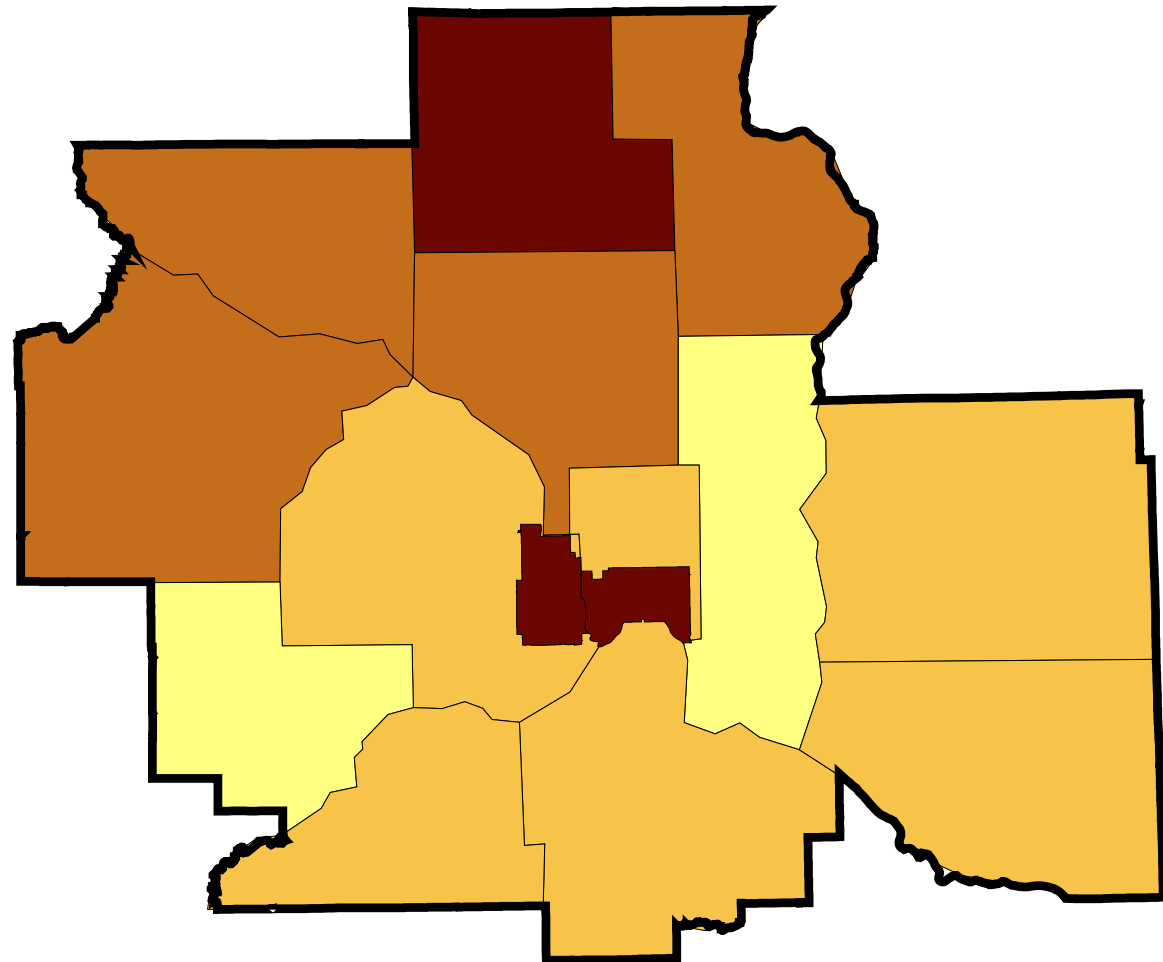
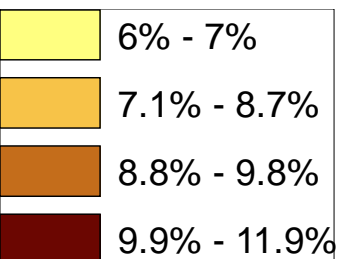
Source: Brookings analysis of IRS data

Rank	Metro Area	EITC Rate	EITC Filers	EITC Amount (\$)
1	McAllen, TX	44.1%	121,793	339,837,061
2	El Paso, TX	34.9%	119,647	295,683,363
3	Jackson, MS	27.6%	70,198	172,417,273
...
94	Minneapolis-St. Paul, MN-WI	9.9%	161,616	282,148,678
95	Seattle, WA	9.6%	165,607	279,556,349
96	Boston, MA-NH	9.1%	213,129	359,148,356
97	San Francisco, CA	9.0%	192,973	311,684,824
98	Bridgeport, CT	8.7%	39,419	69,946,575
99	Madison, WI	8.7%	25,412	40,054,451
100	San Jose, CA	8.6%	74,361	124,713,636

Within the region, Isanti County (12%), Minneapolis (15%), and St. Paul (17%) saw the highest rates of EITC receipt...

Share of Filers Who Received EITC in the Minneapolis-St. Paul metro area, by county and primary city, tax year 2007

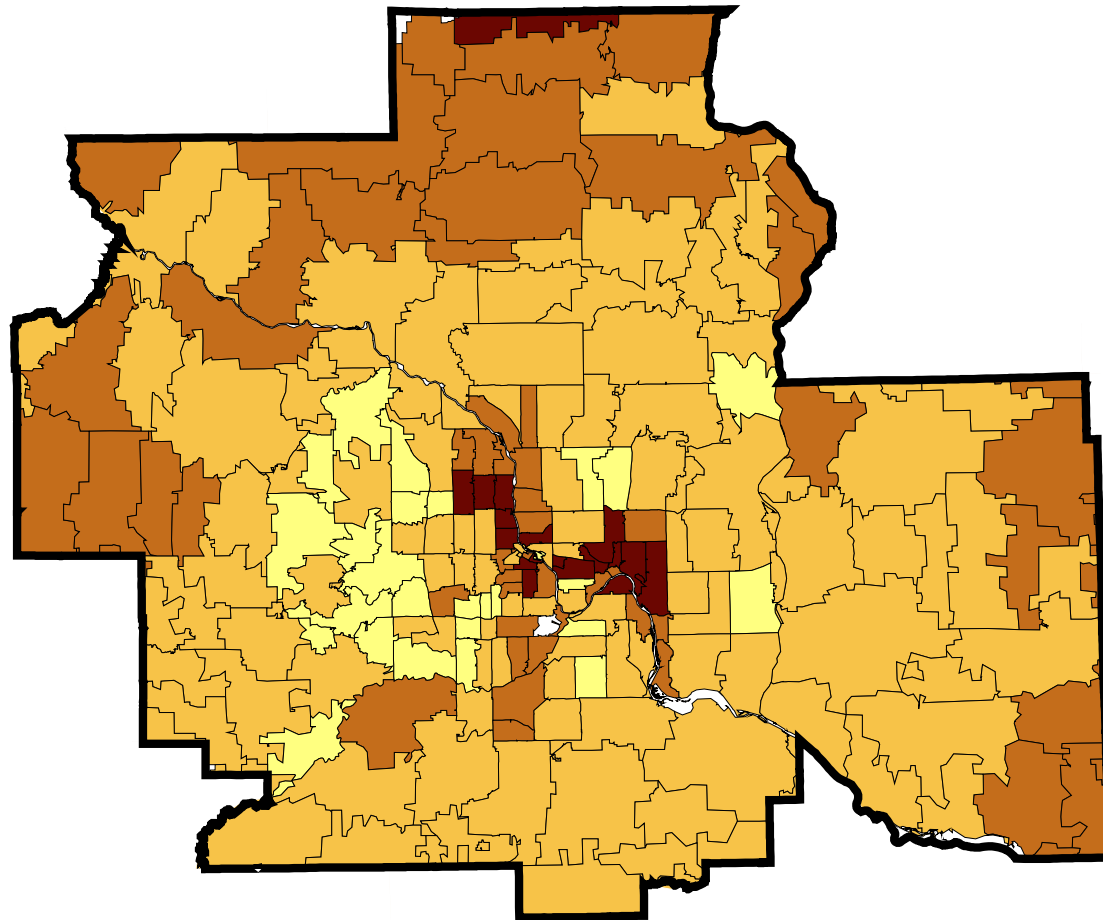
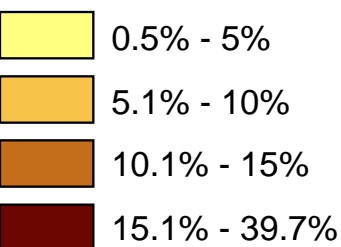
Source: Brookings analysis of IRS data



And several inner-ring suburban and exurban neighborhoods have rates of receipt well above the metro and national average

Share of Filers Who Received EITC in the Minneapolis-St. Paul metro area, by ZIP code, tax year 2007

Source: Brookings analysis of IRS data



The refundable Child Tax Credit provided additional support for many working families as well

EITC filers claiming the Additional Child Tax Credit (ACTC), tax year 2007

Source: Brookings analysis of IRS data

Geographic Area	EITC Returns Claiming ACTC	% EITC Filers with ACTC	ACTC Dollars Received by EITC Filers (\$)
United States	10,585,938	44.5%	9,681,346,534
Minnesota	121,814	41.4%	120,714,477
Minneapolis	10,107	35.6%	9,024,561
St. Paul	9,278	41.6%	9,174,667
Suburbs	47,898	43.2%	47,312,623

And EITC filers in Minnesota received an extra boost to their refunds through the WFC

- **289,283 Minnesotans claimed the WFC in 2007**
- **These filers took home an additional \$163.3 million through the state credit**
- **That makes for an added boost of \$595 on average**
- **In total, low-income workers in Minnesota received roughly \$795 million dollars through federal and state refundable credits (EITC+ACTC+WFC)**

EITC dollars stimulate state and local economies through a “multiplier” effect

If for every \$1 in EITC funds received, \$1.50 ends up being generated locally, low-income neighborhoods are effectively gaining as much as \$18.4 billion annually through the EITC

Source: U.S. Conference of Mayors (2008)

About two-thirds of EITC recipients spend the bulk of their refunds on immediate expenses

Source: Spader, Ratcliffe, and Stegman (2005)

The city of San Antonio estimated that each additional \$1.00 in EITC claimed would generate \$1.58 in local economic activity

Source: Texas Perspectives (2004)

EITC dollars spent in Baltimore generate nearly \$600,000 in annual local income and property tax revenues

Source: Jacob France Institute (2005)

In Michigan, every EITC generates \$1.67 in new earning, meaning residents received an additional \$688 million in new earnings in 2006

Source: Anderson Economic Group (2009)

The EITC also contributes to broader labor market and anti-poverty effects

The EITC annually lifted 6.6 million people above the poverty line in 2009—half of them children

Source: Center on Budget and Policy Priorities (2010)

Increases in the credit in the 1990s reduced welfare usage by 10 percent

Source: Grogger (2003)

EITC expansions accounted for one-third of the increase in employment among single mothers between 1993 and 1999

Source: Grogger (2003)

Single mothers who took jobs because of the EITC in the mid- to late-1990s show larger increases in earnings growth than their peers

Source: Dahl and DeLeire (2009)

But a significant number of families miss out on thousands of dollars annually—and so do their communities

Nationally, the IRS estimates that 75% of eligible filers went on to claim the credit in TY2005 (In MN the figure was 82% in TY1996)

Participation rates increase with the number of children:

- 0 qualifying children = 56%
- 1 qualifying child = 74%
- 2 qualifying children = 86%

About 60% of non-claimants had at least one qualifying child

People in the phase-in range show lower rates of take up, and males lag behind females in claiming the credit

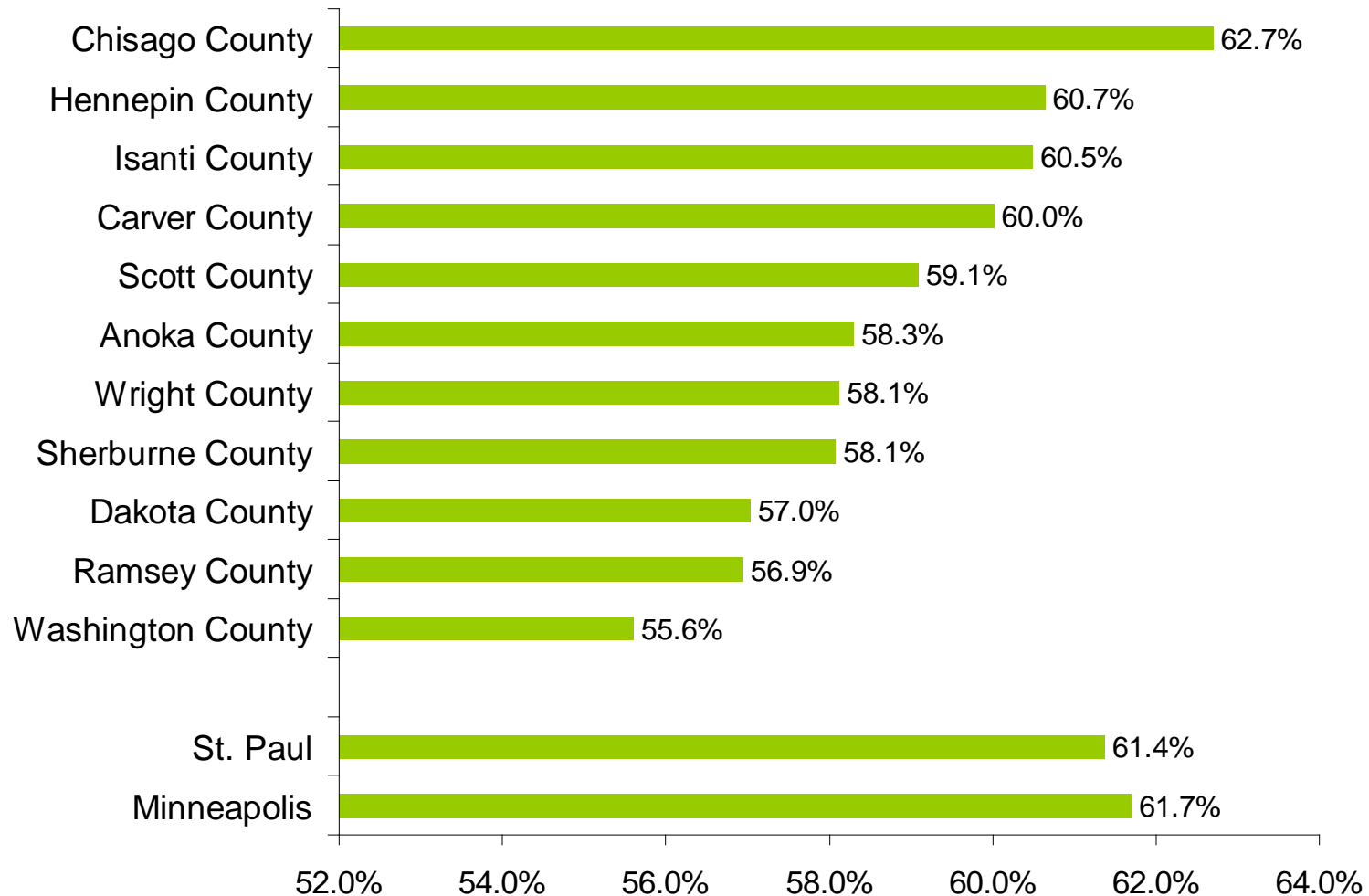
Two-thirds of non-claimants didn't file a tax return.

THE ONLY WAY TO CLAIM THE EITC IS TO FILE!

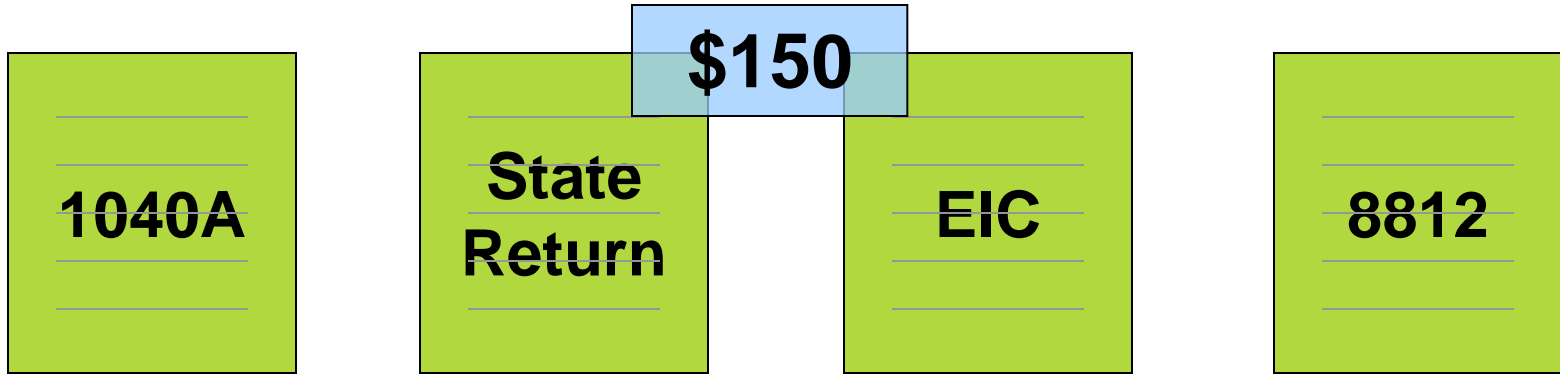
The use of paid preparers remains high among low-income taxpayers — 61 percent of EITC filers in Minnesota paid a preparer to file in 2008

Use of paid preparers among EITC filers, by county, tax year 2007

Source: Brookings analysis of IRS data



15% of EITC filers in MN paid for a refund loan in tax year 2007, while another 13% requested a RAC. Compare that to 1.3% and 4.9% of non-EITC filers, respectively



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\$130 (for average EITC refund)

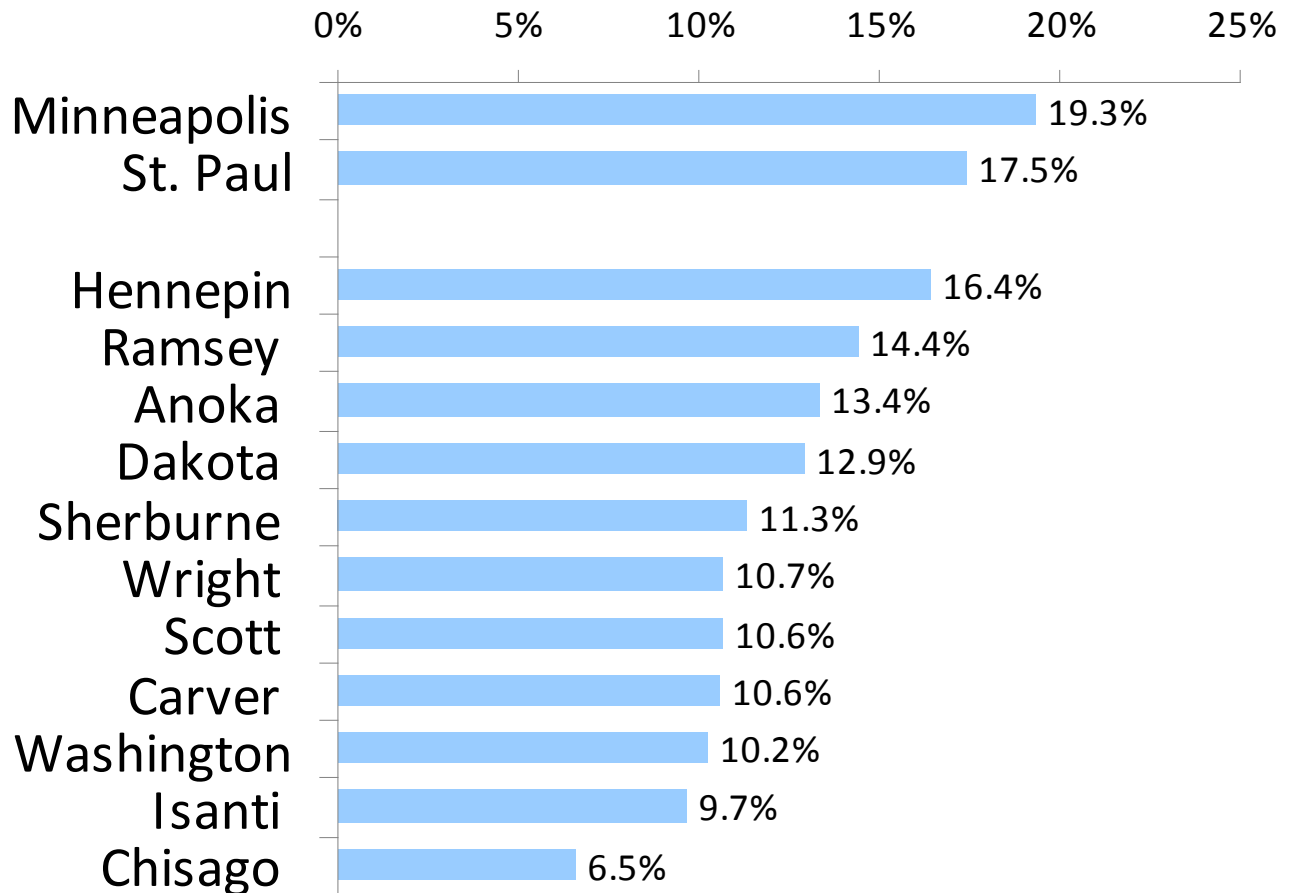
\$130 (loan cost) \$2,780 (loan amount) 365 (days in a year) 10 (term of loan)

171% APR

The share of EITC recipients that purchase RALs differs substantially across the region

Percentage of EITC recipients claiming refund through RAL, tax year 2007

Source: Brookings analysis of IRS data



Background

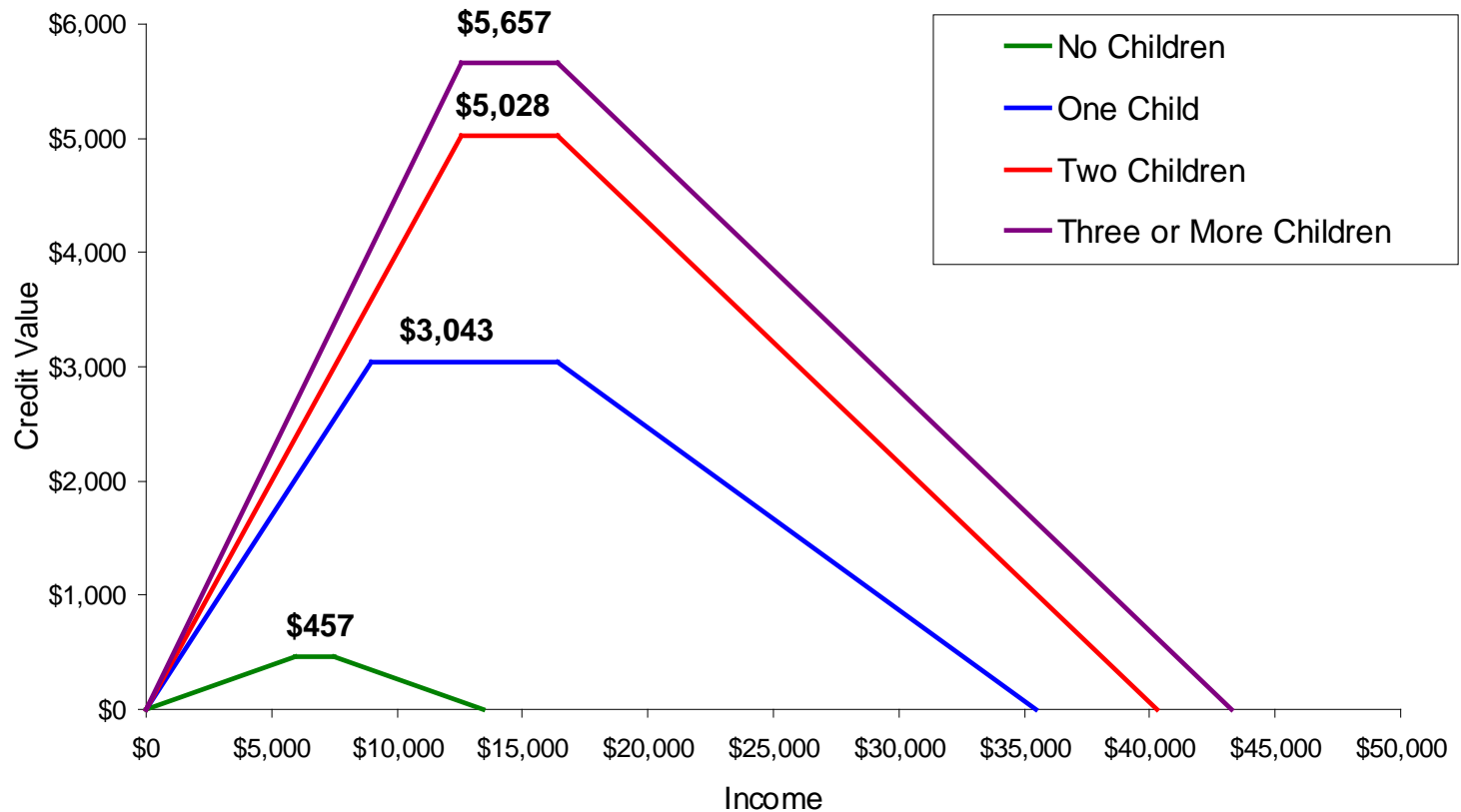
Effects

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There is good news for EITC filers who are married and/or have larger families...they will get more relief in tax years 2009 and 2010 thanks to ARRA

Value of the EITC by income and qualifying children, tax year 2009

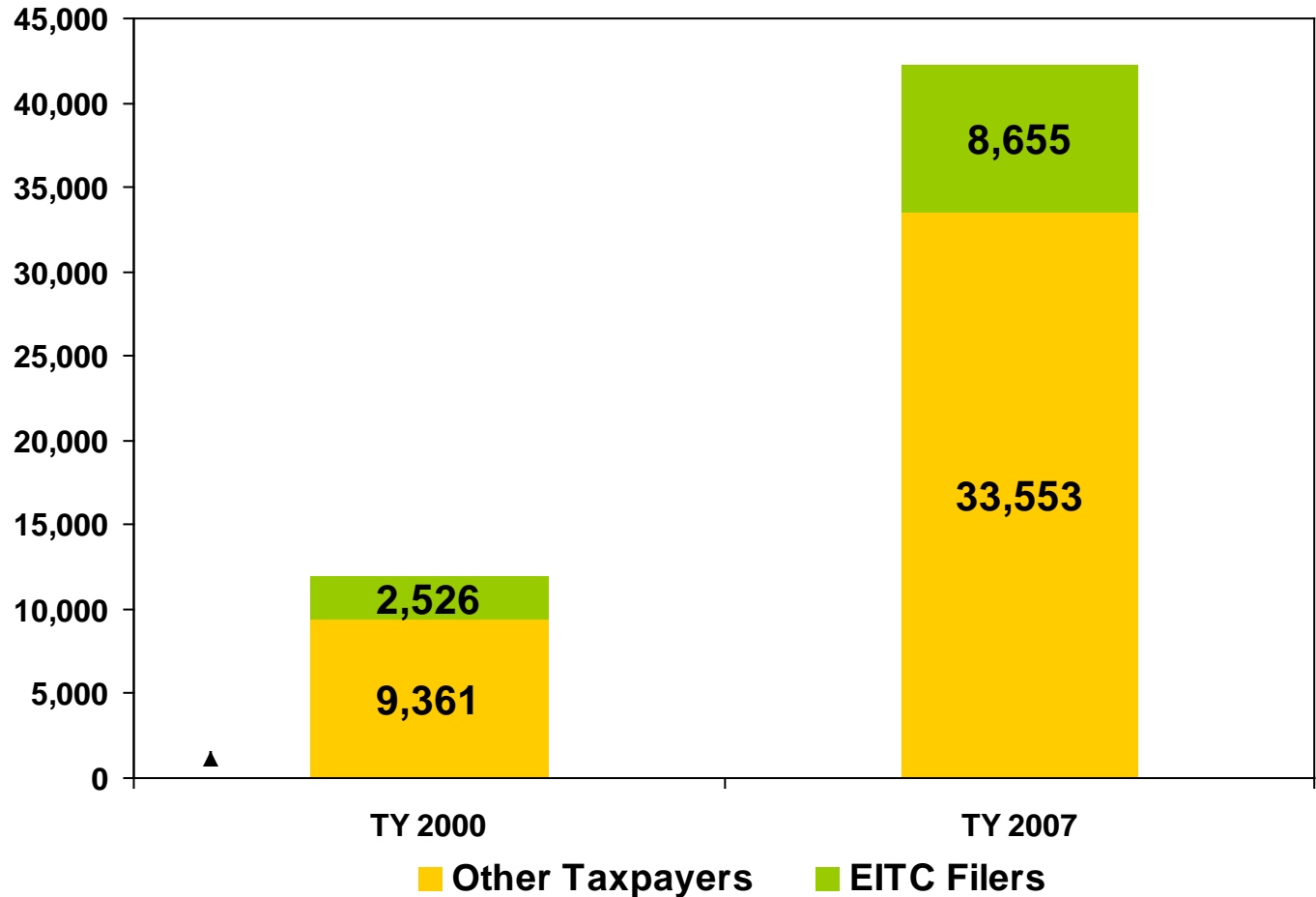
Source: IRS



*Married couples filing jointly begin phase-out and reach maximum income limits \$5,000 above unmarried filers.

Since 2000, the total number of filers using volunteer tax preparation services in the Twin Cities region has more than tripled

Number of filers using volunteer tax preparation services, tax years 2000 and 2007



Source: Brookings analysis of IRS data

What should campaigns be thinking about as they plan for next tax season?

- ❖ **Timing is key** – Summer is not too early to start planning; make sure to allot enough time to have volunteers trained and ready by January
- ❖ **Let the local landscape inform plans and strategies** –
 - Where do families go now to get their taxes done? What do they like/not like about these services?
 - What has been the scale of tax preparation operations in previous years? What local groups and organizations already are involved in tax outreach, tax preparation and wealth-building activities?
 - What are local employers doing about tax outreach and tax preparation?
- ❖ **Learn from the experience of others** – Visit successful campaigns in nearby communities to see what works and what doesn't
- ❖ **Learn from your own experience** – Think about what kinds of goals and benchmarks you want to achieve during tax season and make sure you have the appropriate tools in place to collect info on whether you've met them

There are lots of great resources out there to help campaigns have a successful tax season

- ❖ **Speaking of learning from experience** – Check out *[Earn It, Keep It, Save It](#)* a resource put together by the Annie E. Casey Foundation to help plan for and execute successful campaigns (and the source for most of the great tips we're talking about today)
- ❖ **Maps are powerful planning tools** – Visit [PolicyMap.com](#)
- ❖ **Strike the marketing balance** – Campaigns don't just have to worry about capacity, they also have to make sure people know about these services! CBPP puts out a tool kit each tax year with marketing, and provides factsheets, posters, and fliers in multiple languages. Visit [eitcoutreach.org](#)
- ❖ **Tap into existing networks** – NCTC provides a great forum for sharing ideas, and routinely hosts virtual trainings and in-person events. Visit [tax-coalition.org](#)

Our website provides a range of additional resources on the EITC and other tax policies that support low-income working families

The screenshot displays the Metropolitan Policy Program website. The left sidebar contains navigation links for U.S., WORLD, and ECONOMY, along with a 'Programs' menu listing Economic Studies, Foreign Policy, Global Economy and Development, Governance Studies, and Metropolitan Policy Program. Below this are links for Centers and Research Projects, and a 'Newsletters' section with icons for Multimedia, Podcasts, and RSS. At the bottom of the sidebar is an 'ESPAÑOL' link.

The main content area features the Metropolitan Policy Program logo and a navigation bar with links for Home, About Us, Experts and Staff, Events, Media Room, Projects and Series, and Research & Commentary. A 'Save this Program' button is visible in the top right.

The central section is titled 'Earned Income Tax Credit Series'. The main text reads: 'Expanding the Earned Income Tax Credit to Benefit Families and Places Economic recovery proposals before Congress include tax relief for lower-income working families, including targeted expansions in the Earned Income Tax Credit (EITC). A new Metropolitan Policy Program analysis shows how proposed expansions to the EITC would benefit taxpayers in individual states, metropolitan areas and selected cities around the nation.'

Below the main text is a 'REPORTS' section with the title 'Metro Raise: Boosting the Earned Income Tax Credit to Help Metropolitan Workers and Families'. The text states: 'Slowed economic growth and rising prices for necessities like food, transportation, and child care threaten to exacerbate the challenges already facing America's low-income workers and their families. The federal Earned Income Tax Credit (EITC) could do more to help close the growing gap between stagnant wages and rising prices. "Metro Raise" demonstrates how an expanded and modernized EITC would benefit families and communities in the nation's major metropolitan areas.'

To the right of the main text is an 'INTERACTIVE DATA' section with the heading 'Display and download ZIP code-level tax return information for states, metro areas, counties, cities, and state legislative and congressional districts for tax years 1997 through 2006.' It includes links for 'Create a Report' and 'User Guide'.

Below the interactive data is an 'OTHER EITC RESOURCES' section with links for 'EITC-Eligible Profiles', 'EITC State Zip Code Maps', and 'EITC Data by State Legislative District'.

On the far right, there is a search bar with a 'GO' button and a 'My Portfolio' section. The search bar includes a 'KEYWORD SEARCH' field and a 'GO' button. Below it are links for 'Advanced Search | Tips', 'My Portfolio', and 'My New Content'. The 'My Portfolio' section lists 'Save your settings:' with options to 'Create a Brookings Account' and 'If you already have an account, please login'. Below this are links for 'My Topics', 'My Programs', 'My Experts', and 'Saved Content', each with an 'Edit' link.

At the bottom right, there is a 'Top Topics' section with links for 'Health Care', 'Afghanistan', 'U.S. Economic Stimulus', 'U.S. Congress', and 'Climate Change', along with a 'View All Topics' link. Below this is a 'Related Initiatives' section.

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