



CENTER ON URBAN & METROPOLITAN POLICY

Rewarding Work: The Impact of the Earned Income Tax Credit in Greater Grand Forks

“...working families live throughout the Grand Forks metropolitan area, and the EITC is an important source of income for these families and their jurisdictions.”



Findings

This year the federal Earned Income Tax Credit (EITC) will provide over \$30 billion to 18.4 million low-income taxpayers across the U.S., making it the largest federal aid program for working poor families. This study is the first to describe the spatial distribution of the EITC in 27 metropolitan areas across the country.¹ An analysis of the Grand Forks region shows that:²

- **In 1997, 5,300 residents of the Grand Forks region earned almost \$7 million in federal EITC refunds.** Residents of Grand Forks County received over \$4 million in EITC refunds, a smaller share of the region's EITC dollars than the county's share of the region's population.
- **Working poor families were more dispersed throughout the Grand Forks region than in most other regions studied.** The percentage of families earning the EITC in the city of Grand Forks was nearly equivalent to the rate of EITC receipt for the metro area as a whole, highlighting that low-income workers live throughout the region.
- **The region's low-income working families lived in and around the city of Grand Forks and throughout the eastern portion of Polk County.** Northern sections of the city of Grand Forks, and the towns of Erskine, Winger, Fosston, and Lengby in Polk County, Minnesota, had high percentages of taxpayers file for the credit.
- **Creating a refundable North Dakota state EITC would contribute an additional \$1 million to the budgets of low-income working families in the Grand Forks region.** In 1999, Minnesota's refundable EITC provided over \$750,000 to low-income workers living in the Polk County portion of the region.

I. Introduction

Despite a great deal of public and policy interest in the working poor and working families, particularly in the aftermath of welfare reform, there is little understanding of who the working poor are and where they live. Families may claim an Earned Income Tax Credit (EITC) if they are working but not earning more than roughly 200 percent of the federal

poverty level. Therefore, this survey uses EITC receipt as a measure of the number and location of low-income working residents in a metropolitan area. This Grand Forks survey is one of a series looking at the EITC and its value to 27 regions around the country. Using IRS data, this survey mapped the geographic distribution of the EITC to help these regions better understand where working poor

families in their areas live. This survey confirms that working families live throughout the Grand Forks metropolitan area, and that the EITC is an important source of income for these families and their jurisdictions.

II. What Is the EITC?

The EITC is a refundable income tax credit designed to make work pay for low-income families. Congress enacted the credit in 1975 in response to high unemployment and the burden that social security taxes imposed on low-wage workers. Substantial increases in the EITC were approved by Congress several times during the late 1980s and early 1990s. Between 1984 and 1996, the amount of dollars transferred to working families through the credit increased more than 10 times (Figure 1). In 1997, over 19 million families claimed more than \$30 billion in EITCs—an average of \$1,567 per family. The EITC is now the largest federal aid program targeted to the working poor.

A. How Does the EITC Work?

Eligibility

The EITC is available to families whose incomes range from below the federal poverty line to roughly double the poverty line (see Figure 2). Families with two children could earn up to \$3,888 in EITC in 2000; families with one child are eligible for a credit of up to \$2,353. Very low-income workers with no children are eligible for a small EITC.

The size of the credit increases as earnings increase, up to a point, and then remains constant at a maximum level (based on the number of dependents) before declining with each additional dollar of income (see Figure 2). For example, a household with two children and earnings between \$9,700 and \$12,700 was eligible for a \$3,888 refund for tax year 2000.

Figure 1: Earned Income Tax Credit
Number of Families and Amount of Credit
1975 – 2001

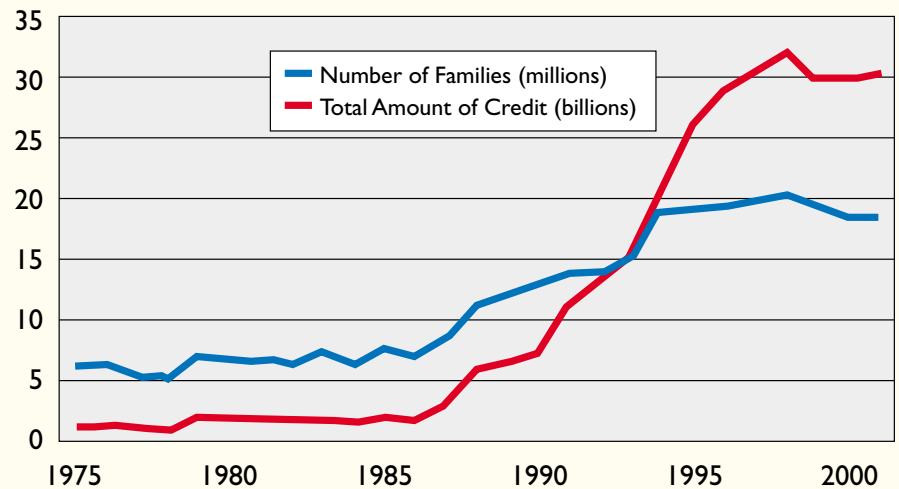


Figure 2: Size of the Credit Relative to Earned Income and Number of Dependents, 2000



The data analyzed in this survey are for tax years 1997 and 1998. In these years, the maximum credit available to families with two children was about \$3,700, and the maximum credit for families with one child was about \$2,250.

Applying

Workers must file a tax return and complete Schedule EIC in order to claim the credit. Taxpayers whom the IRS believes are eligible for the EITC are sent notices if they do not complete Schedule EIC. These taxpayers

may file amended returns, but low-income workers who are otherwise exempt from filing will not receive any notice unless they complete a tax return. Employers can also make the Advance EITC available to their employees, allowing eligible workers to earn a portion of their credit with each paycheck. Nearly all families, however, receive the credit in their tax refund check at the end of the year.

B. Who Actually Claims the EITC?

In tax year 1998, half of all EITC dollars went to families who earned less than \$12,000.³ The remainder went to families earning up to \$29,000.

Larger percentages of eligible families claim the EITC compared to traditional social welfare programs (TANF, Food Stamps, Medicaid). Nevertheless, studies have found that many eligible households, particularly families with very low incomes, former welfare recipients, and those with language barriers, are not filing for the EITC.⁴ Additional research also shows that many of those who are eligible have, at best, a vague understanding of how the EITC works. A recent study showed that minorities, particularly low-income Hispanic households, are less likely to know about the EITC than low-income non-Hispanic parents of any race.⁵

C. Why Is the EITC Important?

A series of recent studies have provided strong evidence that the EITC significantly reduces poverty and income inequality while encouraging work and helping low-income families build assets for the future.

Lifts Families Out of Poverty

The EITC's success in moving families out of poverty is largely attributable to recent increases in the size of the credit and the number of working families eligible for the credit.⁶ In 1993, the EITC helped lift 2.1 million people above the poverty line. By 1999, that figure had more than doubled to

Table 1: Who Can Get the Credit?

Occupation	Avg. Annual Salary in the Grand Forks Region
Child Care Workers	\$15,270
Cooks	\$15,560
Security Guards	\$17,870
Travel Agents	\$17,950
Janitors	\$18,110
Dental Assistants	\$23,960

Source: Bureau of Labor Statistics

4.7 million people. In just that one year, the credit lifted 2.5 million children out of poverty—more than any other federal aid program.⁷

Increases Work

By restricting eligibility to families with earnings, the EITC promotes work. In 1984, prior to large increases in the EITC and changes in other federal transfer programs, 73 percent of single mothers with children worked at some point during the year. By 1996, 81 percent of single mothers were working at some point during the year. One study found that three-fifths of this increase in workforce participation by single mothers was attributable to increases in the EITC.⁸ Researchers have also shown that the EITC increases work for those who previously received welfare.⁹

Supplements Wages

The wages and salaries of the working poor have not kept pace over the last 20 years with those earning larger incomes. Despite strong economic growth over the last decade, the income gap between rich and poor has widened.

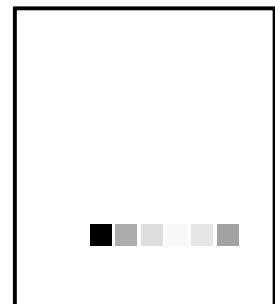
In North Dakota, during the late 1990s, the average before-tax income of a family in the bottom fifth of the income distribution was around \$13,000. Adjusted for inflation, these families were earning only 4 percent more than they were during the late

1970s. In Minnesota, real income for families at the bottom of the income distribution actually declined over the same time period. In the late 1990s, families in the top fifth of the distribution in North Dakota had average before-tax income of nearly \$106,000, 13 percent more than during the late 1970s¹⁰ (incomes for the top fifth in Minnesota grew by 43 percent over the two decades). Research suggests that the EITC, by supplementing the wages of low-income working families, has curbed growth in national after-tax income inequality.¹¹

Builds Wealth and Purchasing Power

EITC dollars represent additional income coming into the community, increasing families' purchasing power and helping them build assets for the future. The one study to investigate how families use the EITC found that over half of recipients planned to spend their refunds on investments like paying for tuition or other educational expenses, increasing their access to jobs through car repairs and other transportation improvements, moving to a new neighborhood, or putting money into a savings account. The study also found that the EITC helped the lowest-income families meet immediate needs such as utilities and rent.¹²

Grand Forks MSA:
EITC Recipients as a Percentage of
Total Tax Returns by Zip Code, 1998



“Policymakers in the Grand Forks region can leverage this investment by partnering with community institutions to preserve the value of the EITC, and by building on the federal credit at the state level.”

IV. What Grand Forks Can Do To Leverage the EITC Locally

This study confirms that low-income working families live throughout the Grand Forks region, and that the EITC is a significant federal support for these families and their communities. Policymakers in the Grand Forks region can leverage this investment by partnering with community institutions to preserve the value of the EITC, and by building on the federal credit at the state level. There are five things that Grand Forks’ communities can do right now to maximize the use and value of the EITC.

1. Help low-income taxpayers learn about and file for the EITC

In 1997, the average EITC for Grand Forks families claiming the credit was \$1,300. Still, evidence suggests that many working families eligible for the credit fail to claim it. In 2000, the City of Chicago launched an education and outreach campaign to increase awareness of the EITC among low-wage workers and their employers, and to make free tax preparation available to eligible families through volunteer organizations. The campaign also alerted employers that their lower-wage workers could qualify for the Advance EITC which, by adding a portion of the value of a worker’s anticipated EITC to each paycheck, serves to boost the take-home pay of eligible families throughout the year.

2. Support community organizations that preserve the value of the EITC

According to researchers, over half of all families who receive the federal EITC file their taxes through a tax preparation service.¹⁶ Unfortunately, many of these services charge an exorbitant fee and even offer “refund anticipation loans”: high-interest loans that—often for \$100 and more—give taxpayers their money only a few days sooner than the Treasury would. The

Center for Law and Human Service’s Tax Counseling Project and the Tax Assistance Project in Chicago, as well as the Community Action Project of Tulsa County in Oklahoma, are examples of organizations that are helping EITC recipients who need assistance in filing their returns to receive the full value of the credit. States and localities can also help recruit volunteers for the IRS Volunteer Income Tax Assistance (VITA) program, which provides free individual tax preparation for taxpayers claiming the EITC.

3. Help families use the EITC as a gateway to financial services

According to the Federal Reserve, 22 percent of families with less than \$25,000 in income (the majority of the EITC-eligible population) lack a bank account of any kind.¹⁷ By not having this most basic access to mainstream financial services, these families must often rely on high-cost check cashing or other alternative financial services that consume large portions of their small incomes, and make it even more difficult for them to put aside small amounts of savings for the future. The average federal EITC refund in Grand Forks of \$1,308 represents a large initial deposit that, with cooperation from local banks and credit unions, could help many lower-income families open an account and begin to build modest amounts of savings. Some states and counties, including those in California and Missouri, are working with banks to make low-cost accounts available to families making the transition from welfare to work. Cities and towns in the Grand Forks region, as well as the states of North Dakota and Minnesota, could make similar efforts on behalf of “unbanked” low-income working families, making it possible for them to receive their tax refunds via Direct Deposit.

4. Enact a refundable North Dakota state EITC

With over 3,200 North Dakota families in the Grand Forks region receiving an EITC in 1998, a North Dakota state refundable EITC set at 20 percent of the federal credit could provide \$1 million or more to the area's working families. Ten states currently make a refundable EITC available to their low-income working families through their state income tax. Because refundable state EITCs support families moving from welfare to work, North Dakota could finance such a credit with unspent federal TANF dollars, or count state expendi-

tures on a refundable credit toward its "maintenance of effort" required under TANF. In addition to supporting welfare-to-work efforts, state earned income credits help to reduce poverty among working families with children while allowing these lower-income families to share in the benefits of state income tax cuts.

5. Use local data to identify eligible families who are not claiming the EITC

While significant percentages of working families are aware of and file for the EITC, new entrants into the labor force—especially individuals making

the transition from welfare to work—may not be aware of the credit. Data from the IRS, the North Dakota State Tax Commissioner and the Minnesota Department of Revenue could make it possible for researchers to identify neighborhoods where EITC participation rates are unexpectedly low and target these areas for outreach. Using this type of data from the Wisconsin Department of Revenue, researchers at the University of Wisconsin's Employment and Training Institute were able to identify neighborhoods in Milwaukee where low percentages of the low-income families filed for the EITC.¹⁸

Appendix A: Value of Claimed EITCs for the Grand Forks Region, 1997

County	Value of EITCs Claimed	Share of Regional Total Value of EITCs Claimed	Share of Regional Population
Grand Forks, ND	\$4,246,000	61.0%	68.5%
Polk, MN	\$2,720,000	39.0%	31.5%
Regional Total	\$6,966,000	100%	100%

Source: Internal Revenue Service, 1997 ZIP Code files.

Appendix B: Profile of EITCs Received for the Grand Forks Region, 1998

County	Avg. Adjusted Gross Income	Total Number of Returns	Total Number of EITCs Claimed	% of Taxpayers Filing for EITC
Grand Forks, ND	\$27,968	29,773	3,213	10.8%
Polk, MN	\$27,249	13,737	1,830	13.3%
Regional Total	-	43,510	5,043	11.6%

Source: Internal Revenue Service, E-File Demographics.



Appendix C: Estimates for 27 Regions and Cities

	Region		Central City		City Share of Regional EITC Value	City Share of Regional Population
	% of Taxpayers Filing for EITC	Value of EITCs Claimed (Millions of Dollars)	% of Taxpayers Filing for EITC	Value of EITCs Claimed (Millions of Dollars)		
Akron	11.2	54.3	20.3	27.7	51.1	31.4
Atlanta	15.8	423.2	25.4	67.0	15.8	11.0
Baltimore	13.9	242.1	28.0	123.0	50.8	26.6
Boston	8.9	321.8	15.1	53.4	16.6	9.5
Denver	10.7	147.0	16.9	52.0	35.4	26.3
Des Moines	9.8	29.2	13.6	14.0	47.9	44.4
Detroit	11.8	348.2	32.3	161.3	46.3	21.8
Gary	13.2	57.3	33.6	19.0	33.1	17.8
*Grand Forks	11.6	7.0	11.7	4.2	60.1	48.7
Hartford	8.8	65.1	31.6	20.6	31.6	11.7
Indianapolis	12.9	146.0	16.4	88.6	60.7	49.4
Los Angeles	21.2	1238.1	24.6	509.0	41.1	39.1
Louisville	14.7	105.8	24.0	41.1	38.8	25.8
Macon	22.6	54.6	35.2	20.7	38.0	35.9
Miami	27.2	393.1	32.3	61.5	15.6	17.4
Milwaukee	10.7	116.7	21.9	78.7	67.4	40.0
New Orleans	25.4	253.8	36.0	125.2	49.3	35.9
Oakland	9.5	130.7	15.9	35.5	27.2	16.1
Philadelphia-Camden	12.2	403.4	24.1	209.3	51.9	29.4
Providence	12.6	74.3	23.6	26.5	35.6	16.7
Saint Louis	13.5	252.4	29.6	70.7	28.0	13.5
San Antonio	23.0	264.9	24.9	195.9	74.0	73.9
San Diego	14.3	253.3	14.4	113.8	44.9	44.0
San Jose	7.9	85.6	11.1	47.4	55.4	52.5
*Savannah	21.6	44.0	24.2	35.7	81.3	48.7
*Seattle	8.2	119.1	8.7	36.3	30.5	23.5
Washington D.C.	10.8	362.5	18.9	76.9	21.2	11.5
Median for all 27 Regions:	12.6%	\$146.0	24.0%	\$53.4	41.6%	26.6%

Source: Internal Revenue Service

*Denotes a central city where a large percentage of zip codes extend beyond the municipal boundaries. See Appendix D.

Appendix D: Methodology

The data for this study were derived from two IRS files (described below). This study uses a 1998 file to map the percentage of taxpayers who received the EITC. In order to determine the actual amount of EITC dollars that went into each jurisdiction, we needed to use a more detailed data file. The 1997 IRS zipcode file is the most recent year for which these detailed data are available.

The 1997 file contains information by zip code on the total number of individual income tax filers, the number of filers with certain tax items (salaries and wages, interest, Schedule C, Schedule F) and total amounts for those items for tax year 1997 returns. Among these are the number of filers who claimed the Earned Income Credit, and the total amount of Earned Income Credit claimed. We used these data to calculate the amount of Earned Income Credit that flowed into each county in 1997, as well as the average EITC amount per county. The data are available online at http://www.irs.gov/tax_stats/soi/zip-codes.html.

The 1998 file contains similar information by zip code, including the total number of filers and the number of filers claiming the EITC, but does not provide the total amount of EITC claimed per zip code. Since these data were for a more recent tax year, we used them to calculate the percentage of filers receiving the EITC in a given zip code, and throughout a given county. These data are based on returns received by the IRS between January 1, 1999 and December 31, 1999; nearly all of these returns were for tax year 1998. The data are available online at http://www.irs.gov/elec_svs/demogrfx.html.

Although the raw data are reported at the zip code level, most of the data in the study are characterized at the county or city level. To calculate the county totals we simply aggregated zip codes based on the county names provided in the IRS file. Estimating accurate totals for smaller levels of geography, i.e. cities, was more difficult. Because zip codes are determined by the United States Postal Service and are designed to facilitate the delivery of mail, their borders very often do not coincide with municipal boundaries. In some cities, zip codes more or less match the actual jurisdictional lines; in others, zip codes that cover large parts of a city extend well into neighboring cities and towns. We used GIS (Geographic Information System) to determine which zip codes fit well enough within a given city's boundaries to associate with that city. If a zip code's center was inside the city's boundaries, then the zipcode was included. In a few cases, where there were a large number of zip codes that extended beyond the city's boundaries in an unusual manner, we included all zip codes that were within, or intersected with, the city's boundaries. In these instances, the total amount of EITC flowing into the central city may be slightly overstated, but the regional totals are as accurate as for other regions. These cities are marked with an asterisk in Appendix C.

Endnotes

- 1 The regions included in this survey series were selected because they are areas where the Annie E. Casey Foundation and John S. Knight Foundation are involved in initiatives aimed at improving the lives of working poor families.
- 2 The 'EITC' referenced throughout this survey is the federal Earned Income Tax Credit. All references to EITCs claimed or the value of EITCs claimed are for the tax year to which we refer.
- 3 David Campbell, Michael Parisi, and Brian Balkovic (2000). "Individual Income Tax Returns, 1998." *Statistics of Income Bulletin*, Fall 2000. US Department of the Treasury.
- 4 See John Karl Scholz (1994). "The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness." *National Tax Journal* 48: 64-85. Scholz found that between 80 and 86 percent of those eligible actually claim the credit. His study was based on 1990 data. Significant increases in the value of the EITC have probably altered actual participation rates. Also see Carolyn J. Hill, V. Joseph Hotz, Charles H. Mullin, John Karl Scholz (1999). "EITC Eligibility, Participation, and Compliance Rates for AFDC Households: Evidence from the California Caseload." http://www.jcpr.org/wpfiles/hotz_eitc.pdf
- 5 Katherin Ross Phillips (2001). "Who Knows About the Earned Income Tax Credit?" Urban Institute. http://newfederalism.urban.org/html/series_b/b27/b27.html
- 6 Between 1993 and 1999, the number of families receiving the EITC increased by 29 percent. The number of people lifted out of poverty by the EITC increased by 124 percent over the same time period.

- 7 The increasing contribution of the EITC to the safety net contrasts sharply with trends in other federal aid programs in the 1990s. Social security insurance, for example, lifted 300,000 less people out of poverty in 1999 than it did in 1993. Food stamps helped about 700,000 less people in 1999 than in 1993. And means-tested cash benefits, mainly TANF, lifted 600,000 less. See "Poverty and Income Trends: 1999," Center on Budget and Policy Priorities.
- 8 For increase in labor market participation see Nada Eissa and Jeffrey Liebman (1996). "Labor Supply Response to the Earned Income Credit." *Quarterly Journal of Economics*, CXI, 605–647. Another set of estimates by Bruce Meyer and Dan Rosenbaum suggest that more than 60 percent of the increase in annual employment of single mothers was due to increases in the EITC. Welfare waivers contributed one-sixth and AFDC benefit cuts about one-eighth. Changes in Medicaid, employment training, and child care programs played a smaller role.
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http://www.jcpr.org/wpfiles/hotz_mullin_scholz_final.pdf
- 10 The income distributions by state are from the Current Population Survey. The data was pooled for larger sample sizes. The years analyzed were 1978–1980 and 1996–1998. See Jared Bernstein, Elizabeth C. McNichol, Lawrence Mishel, and Robert Zahradnik (2000). "State-by-State Analysis of Income Trends." Center on Budget and Policy Priorities and Economic Policy Institute. <http://www.cbpp.org/1-18-00sfp.htm>.
- 11 Jeffrey B. Liebman (1998). "The Impact of the Earned Income Credit on Incentives and Income Distribution." From *Tax Policy and the Economy*, Volume 12, (James Poterba, Editor), MIT Press.
<http://www.ksg.harvard.edu/jeffreyliebman/tpaeetc.pdf>
- 12 Timothy M. Smeeding, Katherin Ross Phillips, and Michael O'Connor (2000). "The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility." Center for Policy Research, Working Paper Series No. 13.
<http://www.cpr.maxwell.syr.edu/pdf/wp13.pdf>
- 13 The IRS data on the EITC, and the data presented in this survey, reflect credits claimed, and not necessarily dollars refunded. Some EITC offsets tax owed, and does not result directly in a refund. The overwhelming majority of credit amounts claimed are, however, refunded to taxpayers—in 1997, over 80 percent of all EITC amounts were refunded.
- 14 These estimates are based on calculations for the State of North Dakota by the Center on Budget and Policy Priorities. (See <http://www.cbpp.org/11-11-99sfp.pdf>).
- 15 "1999 Income Tax Processing File—Working Family Credit by County." Memo. Minnesota Department of Revenue.
- 16 "Earned Income Tax Credit: Profile of Tax Year 1994 Credit Recipients," General Accounting Office. GAO/GGD-96-122BR. http://www.access.gpo.gov/su_docs/aces/aces160.shtml; "Nationwide Analysis of the Individual Tax Return Records for Partial Tax Year 1998," Internal Revenue Service Publication 3493.
<http://ftp.fedworld.gov/pub/irs-utl/p3493.pdf>.
- 17 Arthur B. Kennickell, Martha Starr McCluer, and Brian Surette. "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of the Consumer Finances." *Federal Reserve Bulletin*, January 2000.
- 18 Lois M. Quinn and John Pawasarat (2001). "The Milwaukee Neighborhood Indicators/Asset Mapping Project: Employment and Income Growth in Central City Milwaukee Neighborhoods." University of Wisconsin—Milwaukee, Employment and Training Institute.
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Note

This survey is available on the Brookings Institution's website at: www.brookings.edu/urban. Also available are similar surveys for 26 other metropolitan regions.



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