



CENTER ON URBAN & METROPOLITAN POLICY

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

"...working families live throughout the Indianapolis 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. An analysis of the Indianapolis region shows that:²

- In 1997, over 97,000 low-income residents throughout the Indianapolis region earned \$146 million in federal EITC refunds. Residents of the city of Indianapolis earned approximately \$87 million, a larger share of the region's EITC dollars than the city's share of the region's population.
- The region's low-income working families were concentrated in Indianapolis and in a few smaller cities. While the city of Indianapolis had a high percentage of families who earned the EITC, other cities in the region—including Speedway, Lawrence, and Anderson—also had high percentages of taxpayers file for the credit.
- The percentage of families in the Indianapolis region that earned an EITC (13 percent) was similar to the median for the 27 regions surveyed. The cities of Boston, Denver and Oakland saw roughly the same share of families earn the credit as the city of Indianapolis did (16 percent).
- Creating a refundable state EITC would contribute an additional \$26 million to the budgets of low-income working families in the Indianapolis region. An Indiana state EITC set at 20 percent of the federal credit would help make work pay for nearly 100,000 low-income families in 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 Indianapolis 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



Indianapolis 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.

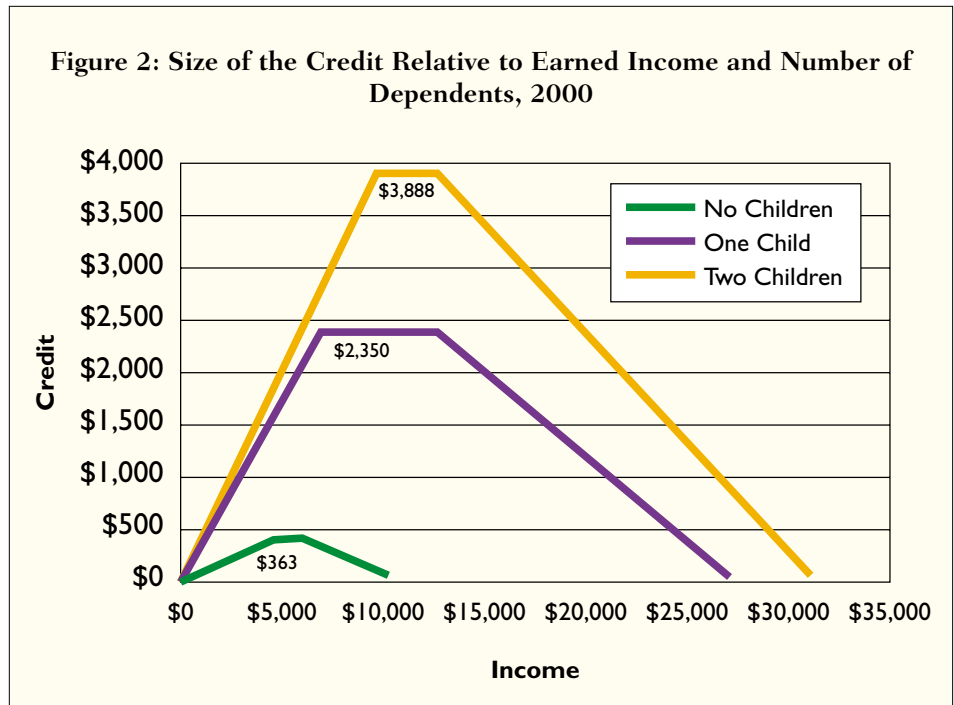
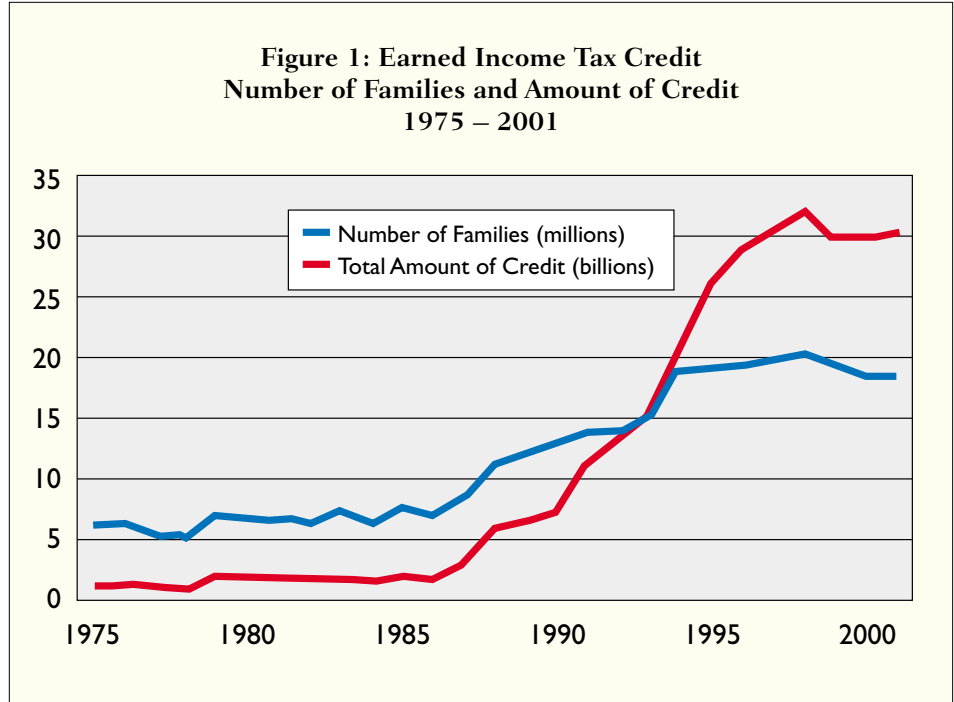
A. How Does the EITC Work?

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.

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 Indianapolis Region
Bank Tellers	\$17,200
Cooks	\$17,360
Janitors	\$19,310
Medical Secretaries	\$21,860
Bakers	\$22,270
Bus Drivers	\$22,520

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 Indiana, during the late 1990s, the average before-tax income of a family in the bottom fifth of the income distribution was around \$16,700. Adjusted for inflation, these families were earning about 8 percent more than they were during the late

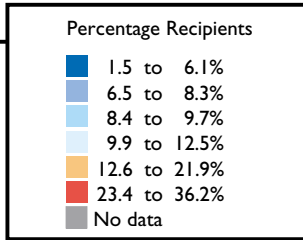
1970s. At the same time, families in the top fifth of the distribution had average before-tax income of \$122,000, 37 percent more than during the late 1970s.¹⁰ Research suggests that the EITC, by supplementing the wages of low-income working families, has curbed growth in national after-tax income inequality.¹¹

Builds Wealth and Purchasing Power

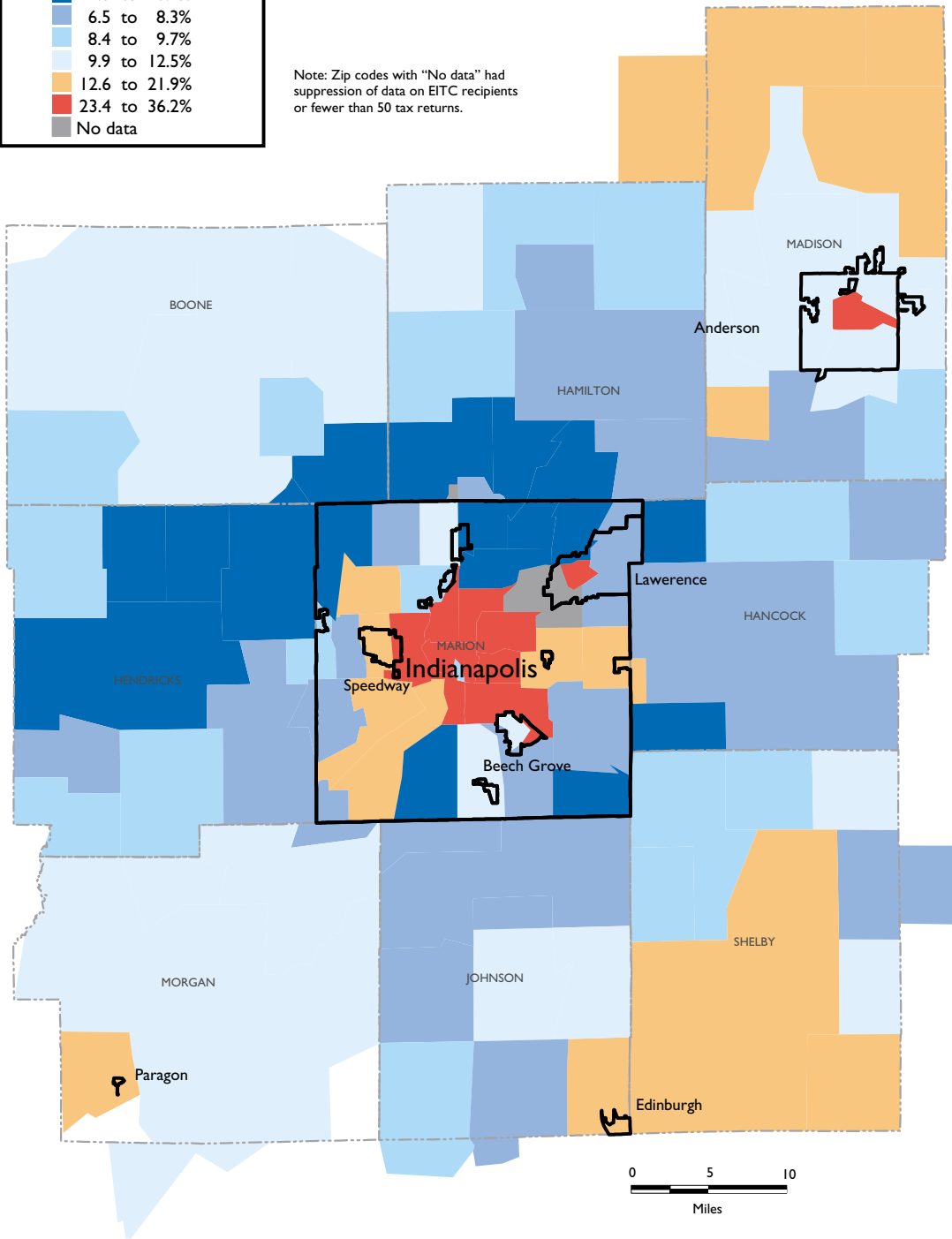
EITC dollars represent additional income coming into the community, increasing families' purchasing power and helping them build assets for the future. The one study to investigate how families use the EITC found that over half of recipients planned to spend their refunds on investments like paying for 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



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



Note: Zip codes with "No data" had suppression of data on EITC recipients or fewer than 50 tax returns.



Data Source: U.S. Internal Revenue Service.

III. Findings: The Value of the EITC in Greater Indianapolis

This study examines the spatial distribution of the EITC in the Indianapolis region, which is defined as the Indianapolis Metropolitan Statistical Area (MSA). This definition includes roughly 1.6 million people living in nine Indiana counties (Boone, Hamilton, Hancock, Hendricks, Johnson, Madison, Marion, Morgan, and Shelby). The EITC data used for this study, which are publicly available through the Internal Revenue Service, reflect actual credits claimed by taxpayers for tax years 1997 and 1998 (see Appendix D for further information on the data).¹³

A. In 1997, over 97,000 low-income residents throughout the Indianapolis region earned \$146 million in federal EITC refunds.

Of the \$146 million in EITC refunds flowing into the Indianapolis region in 1997, \$105 million was earned by working families in Marion County (see Appendix A). In that year, the EITC lifted the incomes of low-income families in the city of Indianapolis alone by almost \$89 million. Particularly large refunds were earned by families living in Center Township. Towns in Marion County not part of the city of Indianapolis also benefited significantly from the EITC. Lawrence (\$6 million), Speedway (\$4.5 million), and Beech Grove (\$1 million) all received considerable amounts from the credit.

Working poor families living in Madison and Johnson counties also earned large amounts in EITC refunds—\$12.8 million and \$6.7 million, respectively. Low-income workers in Anderson, a city in Madison County 25 miles northeast of Indianapolis, earned credits worth approximately \$6 million. EITC refunds earned by working residents of Franklin, 15 miles south of Indianapolis in

Johnson County, boosted incomes by nearly \$2 million.

The average EITC for families in the Indianapolis region in 1997 was \$1,503. Families in the city of Indianapolis claiming the EITC earned an average credit of \$1,540, while those in the city's suburbs earned, on average, \$1,450 in credits.

The city of Indianapolis received a larger share of the region's EITC dollars than its share of the region's population. While the city of Indianapolis contained less than half of the region's population, the city received more than 60 percent of the region's EITC refunds (see Appendix C). Nonetheless, EITC dollars were still more dispersed than money redistributed by other federal assistance programs that benefit residents of greater Indianapolis. While 72 percent of the region's EITC dollars flowed into Marion County, 81 percent of the region's TANF funds went to Marion County residents.¹⁴

B. The region's low-income working families were concentrated in Indianapolis and in a few smaller cities.

In 1998, 16.4 percent of all taxpayers in the city of Indianapolis earned an EITC refund. Neighborhoods with much higher rates of EITC receipt were found throughout central Indianapolis. For example, in Center Township, approximately one out of every three taxpayers earned an EITC. In parts of both Wayne and Warren townships, the percentage of taxpayers earning the EITC was nearly as high. By contrast, in outer townships such as Franklin, Pike, and Washington, generally less than 10 percent of filers were low-income workers.

Communities in the region with high concentrations of working poor families were found not only in the city of Indianapolis. For example, in Marion County, nearly 19 percent of taxpayers in the town of Speedway

earned the EITC. In the southern part of the town of Lawrence, one out of every four tax filers earned the credit. In Madison County, nearly one-third of taxpayers in one of Anderson's neighborhoods benefited from the EITC. Rates of EITC receipt in the outer reaches of Shelby and Morgan counties were considerable as well.

C. The percentage of families in the Indianapolis region that earned an EITC (13 percent) was similar to the median for the 27 regions surveyed.

With 12.9 percent of all families earning the EITC in 1998, the Indianapolis region was comparable to the typical region studied, where 12.6 percent of taxpayers received the credit (see Appendix C). In this respect, the Indianapolis metro area was also quite similar to other Midwestern regions studied, including Akron (11 percent), Detroit (12 percent), Gary (13 percent) and Milwaukee (11 percent).

The share of families the city of Indianapolis benefiting from the EITC (16 percent) was lower than the median for the 27 cities surveyed, and lower than in the other Midwestern cities studied. Detroit (32 percent), Gary (34 percent) and Milwaukee (22 percent) had notably higher percentages of families earn the credit. As noted above, however, the overall rate of EITC receipt in Indianapolis masks a great deal of diversity among the city's neighborhoods—the percentage of families earning the EITC in 1998 ranged from 2.6 percent in outer Franklin township to 36 percent in sections of Center township. The cities of Boston, Denver and Oakland were home to similar overall shares of low-income working families.

D. Creating a refundable state EITC would contribute an additional \$26 million to the budgets of low-income working families in the Indianapolis region.

Indiana could create a refundable state EITC that matches the federal EITC at a fixed percentage. Such a credit would not only help to make work pay for low-income residents of the Indianapolis region, but also it would relieve the burden of Indiana state income taxes on poor families.¹⁵ At 20 percent of the federal credit, an Indiana state EITC could add at least \$26 million to the incomes of the region's working poor in 2001. Low-income families in the city of Indianapolis could earn an additional \$15 million.¹⁶ By creating a refundable state EITC, Indiana would join 10 states that have already made similar commitments to their working families.

IV. What Indianapolis Can Do To Leverage the EITC Locally

This study confirms that there are thousands of low-income working families living throughout the Indianapolis metropolitan area, and that the Earned Income Tax Credit is a significant federal support for these families and their communities. Policymakers in the Indianapolis 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 Indianapolis's 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 Indianapolis families claiming the credit was \$1,500. 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.¹⁷ Unfortunately, many of these services charge exorbitant fees 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 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.¹⁸ 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 Indianapolis of \$1,503 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 Indianapolis region, as well as the state of Indiana, 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 Indiana state EITC

Although Indiana offers a small "earned income credit" through its income tax, the credit is quite different in structure from other state EITCs, and benefits only very poor families with incomes below \$10,000. With nearly 100,000 families in the Indianapolis region receiving an EITC in 1998, an Indiana refundable state EITC set at 20 percent of the federal credit could provide \$26 million or more to the area's communities. 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, Indiana could finance such a credit with unspent federal TANF dollars, or count state expenditures 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. Importantly, with a state EITC set at 20 percent of the federal credit, Indiana would join 26 other states that have exempted their working poor families from state income taxes.¹⁹

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 and the Indiana 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 identified neighborhoods in Milwaukee where low percentages of low-income families filed for the EITC.²⁰

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

County	Value of EITCs Claimed	Share of Regional Total Value of EITCs Claimed	Share of Regional Population
Boone	\$2,332,000	1.6%	2.9%
Hamilton	\$5,231,000	3.6%	10.3%
Hancock	\$2,647,000	1.8%	3.5%
Hendricks	\$3,764,000	2.6%	6.1%
Johnson	\$6,725,000	4.6%	7.1%
Madison	\$12,861,000	8.8%	8.8%
Marion	\$105,000,000	71.9%	54.1%
Morgan	\$4,480,000	3.1%	4.3%
Shelby	\$2,986,000	2.0%	2.9%
Regional Total	\$146,026,000	100%	100%

Source: Internal Revenue Service, 1997 ZIP Code files.

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

County	Avg. Adjusted Gross Income	Total Number of Returns	Total Number of EITCs Claimed	% of Taxpayers Filing for EITC
Boone	\$51,325	20,518	1,567	7.6%
Hamilton	\$76,105	77,856	3,837	4.9%
Hancock	\$46,848	25,445	1,883	7.4%
Hendricks	\$46,452	41,359	2,578	6.2%
Johnson	\$42,762	53,875	4,683	8.7%
Madison	\$36,437	61,429	8,541	13.9%
Marion	\$51,654	406,545	66,084	16.3%
Morgan	\$35,583	26,709	2,979	11.2%
Shelby	\$38,237	18,729	2,190	11.7%
Regional Total	-	732,465	94,342	12.9%

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 EITC, and the total amount of EITC 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 zip code 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 (unless otherwise noted). 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. <http://dsl.nber.org/papers/w7363.pdf>
- 9 V. Joseph Hotz, Charles H. Mullin, and John K. Scholz. (2000) "The Earned Income Tax Credit and Labor Market Participation of Families on Welfare." Joint Center on Poverty Research. 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/tpaeitc.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 "Table CA35," Regional Economic Information System. Bureau of Economic Analysis. June 2000
- 15 A recent study found that Indiana had the fourth lowest state income tax threshold in the nation for single-parent families of three. These families had positive state income tax liability in 2000 when their annual income reached only \$9,500, well below the federal poverty line. See Robert Zahradnik, Nicholas Johnson and Michael Mazerov (2001). "State Income Tax Burdens on Low-Income Families in 2000: Assessing the Burden and Opportunities for Relief." Center on Budget and Policy Priorities. <http://www.cbpp.org/3-1-01sfp.pdf>
- 16 These estimates are based on calculations for the State of Indiana by the Center on Budget and Policy Priorities. <http://www.cbpp.org/11-11-99sfp.pdf>
- 17 "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>.
- 18 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.
- 19 In 26 of 42 states that levy income taxes, a working single parent with two children with a poverty-level income has zero or negative tax liability. See Zahradnik (2001).
- 20 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. <http://www.uwm.edu/Dept/ETI/reports/dor99.htm>

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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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