



CENTER ON URBAN & METROPOLITAN POLICY

Rewarding Work: The Impact of the Earned Income Tax Credit in Greater Washington, D.C.

"...working families live throughout the Washington 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 US, 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 Washington region shows that:²

- In 1997, over 250,000 low-income residents throughout the Washington area earned \$362 million in federal EITC refunds. Residents of the District of Columbia earned almost \$77 million; in Prince George's County, residents earned nearly \$85 million.
- The percentage of families in the District of Columbia that earned an EITC (19 percent) was similar to that in other high cost of living cities like Boston and San Diego. The rate of EITC receipt in the Washington region (10.8 percent) was comparable to rates in other regions of large size and population.
- More than three-fourths of low-income working families in the region lived outside the District of Columbia. While large numbers of families in eastern D.C. earned the EITC, several communities in Prince George's County, Maryland, had equally high percentages of taxpayers receive the credit. In Virginia, parts of Arlington County and Alexandria City also had high rates of EITC receipt.
- In 1999, the Maryland refundable state EITC added nearly \$7.5 million to the budgets of working families who lived in the Maryland portion of the region. The District of Columbia's refundable EITC will provide \$18 million to the city's working families in 2001. Virginia and West Virginia could help make work pay for tens of thousands of working families in the region by creating their own refundable credits.

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 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 Washington 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 Washington metropolitan area, and that the EITC is an important source of income for these families and their jurisdictions.

II. What Is The EITC?

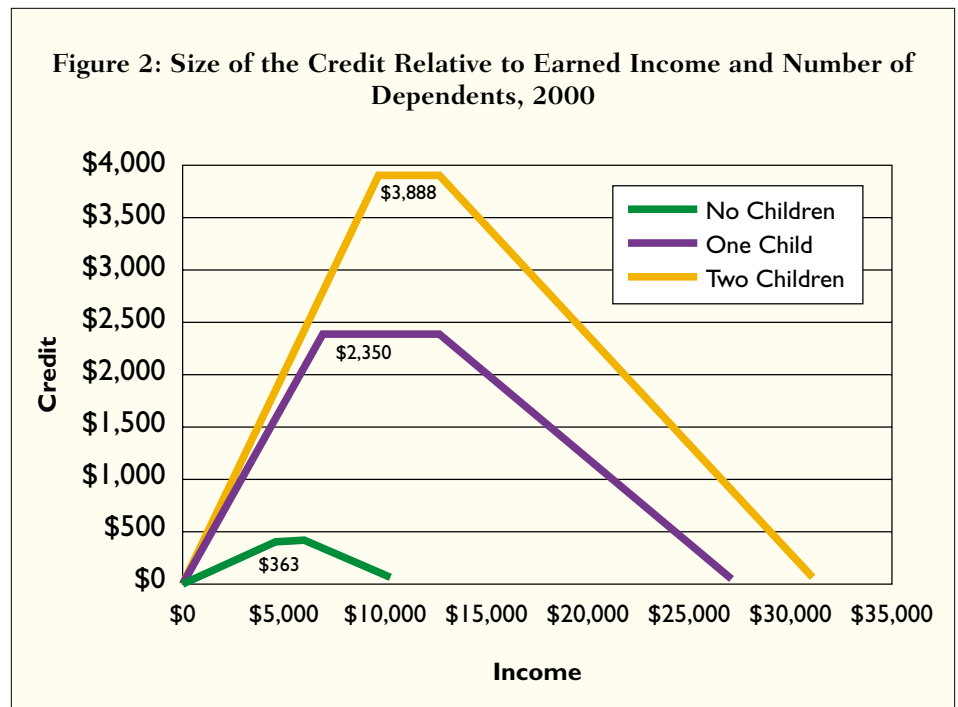
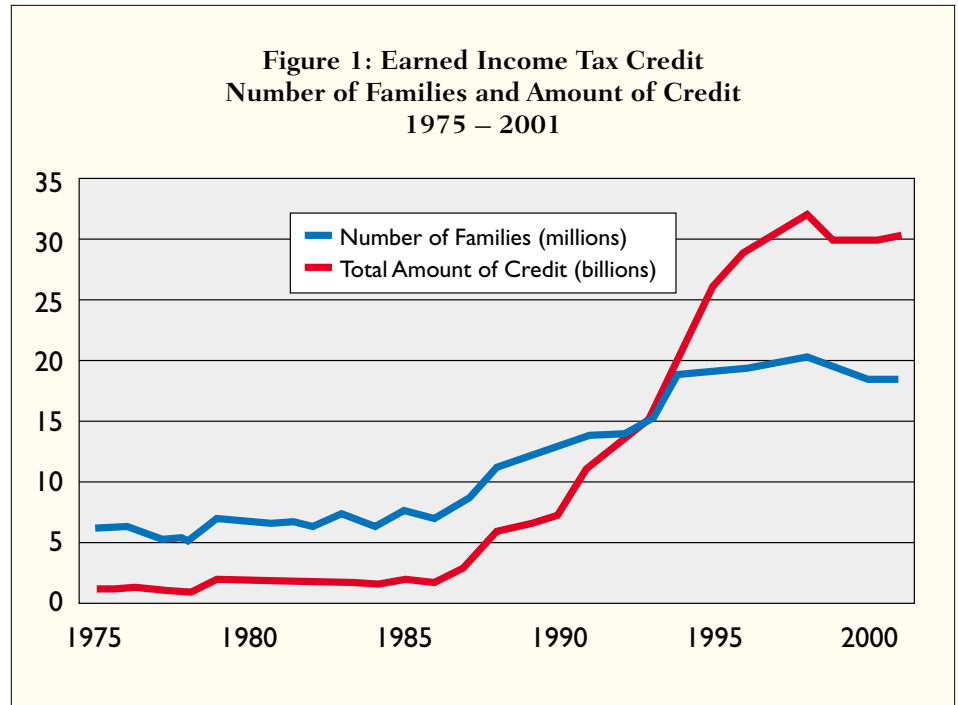
The EITC is a refundable income tax credit designed to make work pay for low-income families. Congress enacted the credit in 1975 in response to high unemployment and the burden that social security taxes imposed on low-wage workers. Substantial increases in the EITC were approved by Congress several 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

Table 1: Who Can Get the Credit?

Occupation	Avg. Annual Salary in the Washington, D.C. Region
Child Care Workers	\$17,740
Ambulance Drivers	\$18,790
Security Guards	\$21,090
Preschool Teachers	\$23,040
Dental Assistants	\$28,740

Source: Bureau of Labor Statistics

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 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 been able to show 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 the District of Columbia, during the late 1990s, the average before-tax

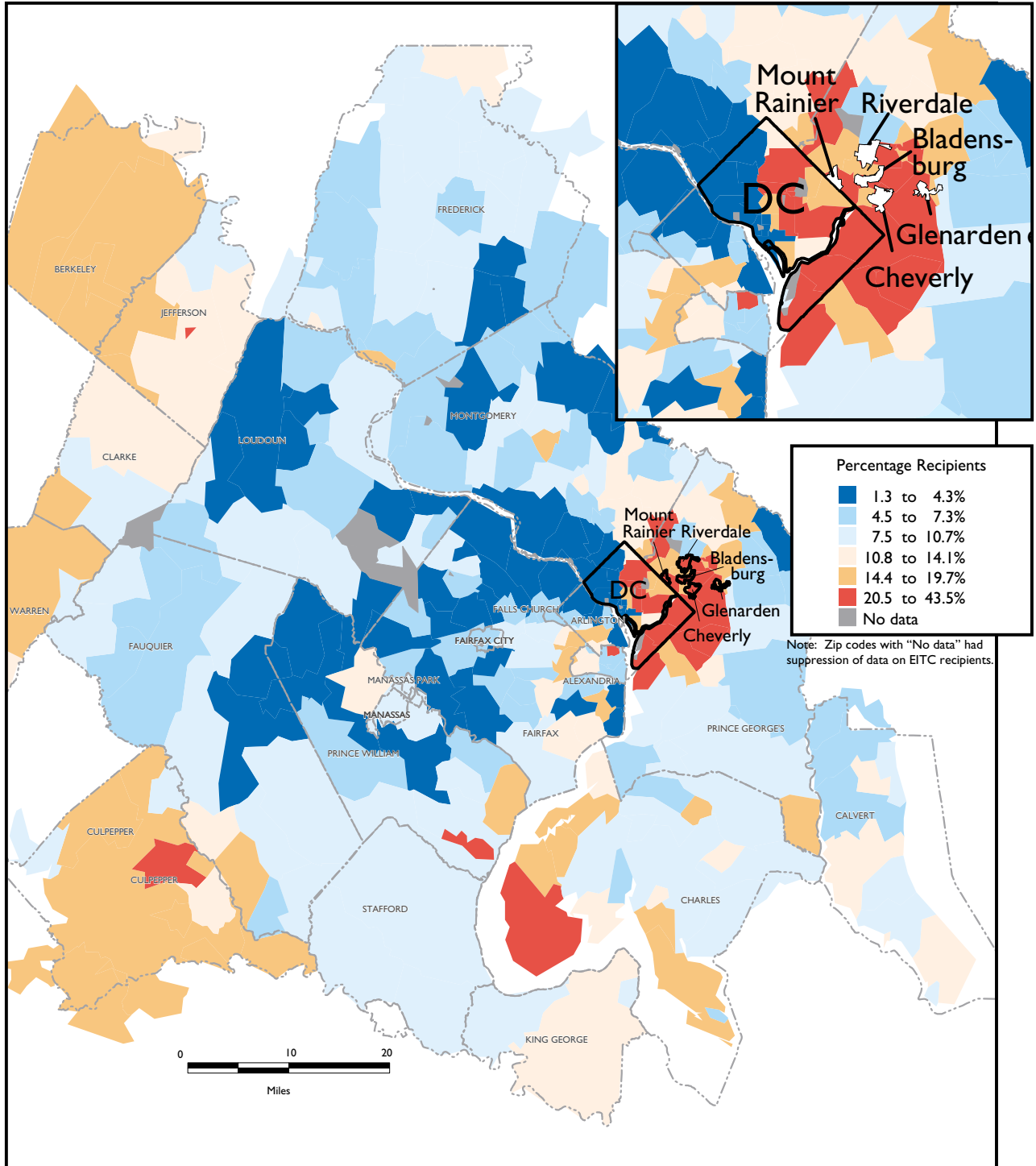
income of a family in the bottom fifth of the income distribution was around \$7,500. Adjusted for inflation, these families were actually earning 22 percent less than they were during the late 1970s. At the same time, families in the top fifth of the distribution had average before-tax income of \$203,000, 75 percent more than during the late 1970s. Maryland, Virginia and West Virginia all experienced similar increases in income inequality over the same time period.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



Washington, DC PMSA:
EITC Recipients as a Percentage of
Total Tax Returns by Zip Code, 1998



Data Source: U.S. Internal Revenue Service.

Note: Zip codes with "No data" had suppression of data on EITC recipients.

III. Findings: The Value of the EITC In Greater Washington

This study examines the spatial distribution of the EITC in the Washington region, which is defined as the Washington Primary Metropolitan Statistical Area (PMSA). This definition includes roughly 9.5 million people living in the District of Columbia, five Maryland counties, two West Virginia counties, and in Virginia, 11 counties and six independent cities. The Washington region is one of the largest, geographically, among the 27 regions studied, and is similar in both size and population to the Atlanta, Boston, and Seattle regions. 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 250,000 low-income residents throughout the Washington, D.C. area earned \$362 million in federal EITC refunds.

Of the \$362 million earned by residents of the Washington region in 1997, over \$77 million in EITC refunds flowed to low-income workers in the District of Columbia. Working families living in Prince George's County, MD earned \$85 million. Large amounts of EITC dollars were also earned by low-income workers in Montgomery County, MD (\$50 million) and Fairfax County, VA (\$42 million).

In the District of Columbia, the EITC lifted the incomes of working families in neighborhoods east of the Anacostia River by significant amounts. Refunds to these areas totaled over \$31 million in 1997. Nearly all of the city's eastern neigh-

borhoods benefited from substantial EITC refunds. For instance, families living in the Brightwood-Petworth neighborhoods earned \$8.5 million.

Consistent with the large size of the Washington region, almost 80 percent of the region's EITC dollars were earned by families living in smaller communities outside of Washington. Cities and towns close to the District of Columbia saw significant dollar flows from the EITC. Residents of Silver Spring (Montgomery County) earned approximately \$6 million, families in Hyattsville (Prince George's County) earned more than \$4 million, and families in Alexandria city earned nearly \$10 million.

The average EITC for families in the Washington region in 1997 was \$1,444. Families in the District of Columbia claiming the EITC earned an average credit of \$1,505, while those in District's suburbs earned, on average, \$1,428 in credits.

Both the District of Columbia and Prince George's County had larger shares of the region's EITC dollars in 1997 than their shares of the region's population (see Appendix A). While the District of Columbia contained less than 12 percent of the region's population, the city received over 21 percent of the region's EITC refunds. Prince George's County, with less than 17 percent of the region's population, received over 23 percent of EITC dollars in the region. However, EITC dollars were still more dispersed than money redistributed by other federal transfer programs that benefit residents of greater Washington. For instance, families in the District of Columbia received over 57 percent of the region's TANF payments in 1997, far greater than their share of the region's EITC dollars.¹⁴

B. More than three-fourths of low-income working families in the region lived outside the District of Columbia.

In 1998, low-income working families were concentrated in the District of Columbia's eastern neighborhoods, communities in eastern Prince George's county, and a few areas farther out in the region. In the District of Columbia, 18.9 percent of taxpayers earned the EITC. This rate was significantly higher than the rate for the entire region, which was 10.8 percent in 1998 (see Appendix B).

The District's low-income workers were particularly concentrated in neighborhoods east of the Anacostia River, where between 33 and 43 percent of taxpayers filed for an EITC. Between 20 and 25 percent of families living west of the Anacostia River and east of 16th Street Northwest earned the credit. This contrasted sharply with the rates of EITC receipt in neighborhoods west of Rock Creek Park, where the percentage of families receiving the EITC was consistently under 3 percent.

Despite the high percentages of families earning the credit in the District, nearly 80 percent of all Washington area low-income workers receiving the EITC lived outside of D.C. Low-income working families who lived in the suburbs were concentrated primarily in western parts of Prince George's County, generally within 10 miles of the District. In these areas, between 20 and 25 percent of tax filers claimed an EITC. In Virginia, there were also a few places where high percentages of tax filers claimed the EITC. These included South Arlington (15 percent) and northern Alexandria (20 percent).

Several areas in the farther reaches of the Washington region also had high percentages of families earn the EITC. Over 16 percent of families in

Berkeley County, WV and Fredericksburg City, VA benefited from the EITC. In southern Charles County, MD, nearly one in four families received the credit.

C. The percentage of families in the District of Columbia that earned an EITC (19 percent) was similar to that in other high cost of living cities like Boston and San Diego.

With 18.9 percent of all tax filers claiming the EITC, the rate of EITC receipt in the District of Columbia was slightly lower than the median rate (24 percent) for the 27 cities surveyed. Compared to other high cost of living cities studied, such as Boston (15 percent) and San Diego (14 percent), the District of Columbia had a somewhat higher percentage of families earn the credit. And while the District's rate of EITC receipt was lower than those of the other Mid-Atlantic cities studied (28 percent in Baltimore, and 24 percent in Philadelphia), the percentages of families earning the credit in several of the city's neighborhoods were comparable to those found in Baltimore's and Philadelphia's neighborhoods.

Region-wide, the percentage of taxpayers who claimed the EITC (10.8 percent) was also slightly lower than the median for the 27 regions surveyed (12.6 percent). This rate was in the same range, however, as those for metro areas of similar size and population—Atlanta (15 percent), Boston (9 percent) and Seattle (8 percent). In part because of its large population, the Washington area ranked fifth among the regions studied in total EITC earned by its residents in 1997.

D. In 1999, the Maryland refundable state EITC added nearly \$7.5 million to the budgets of working families who lived in the Maryland portion of the region. The District of Columbia's refundable EITC will provide \$18 million to the city's working families in 2001.

In 1998, the state of Maryland enacted a refundable EITC within its state income tax code.¹⁵ The credit, initially equal to 10 percent of the federal EITC, boosted the incomes of working families in the Maryland portion of the region by \$7.5 million in 1999.¹⁶ The amount of EITC earned by families in the Maryland counties should be even greater in 2001 as the size of the credit increases to 15 percent of the federal EITC.

The District of Columbia also recently enacted a refundable EITC, which in 2001 will match the federal credit at 25 percent. That year, the D.C. EITC will add approximately \$18 million to the budgets of the District's low-income working families.

By creating a credit that matches the federal credit at 20 percent, the state of Virginia could boost the purchasing power of working families in the region's Virginia counties by \$22 million. West Virginia could provide over \$2 million dollars to low-income workers in Berkeley and Jefferson counties with a state EITC. By creating refundable state EITCs, Virginia and West Virginia would join Maryland, D.C. and eight other states that have already made similar commitments to their working families.

IV. What The Washington Region Can Do To Leverage The EITC Locally

This study confirms that the Earned Income Tax Credit offers significant federal support to hundreds of thousands of working poor residents throughout the Washington region. Policymakers in the Washington 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 greater Washington'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 Washington families claiming the credit was over \$1,444. 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 locali-

ties 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 Washington of \$1,444 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 Washington region, as well as the District of Columbia and the states of Maryland, Virginia and West Virginia, 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.

Appendix A: Value of Claimed EITCs for the Washington, D.C. Region, 1997

County	Value of EITCs Claimed	Share of Regional Total Value of EITCs Claimed	Share of Regional Population
District of Columbia	\$76,919,000	21.2%	11.5%
Calvert, MD	\$4,758,000	1.3%	1.5%
Charles, MD	\$8,616,000	2.4%	2.5%
Frederick, MD	\$10,152,000	2.8%	4.0%
Montgomery, MD	\$50,073,000	13.8%	18.0%
Prince George's, MD	\$84,988,000	23.4%	16.7%
Maryland Counties	\$158,587,000	43.7%	42.7%
Alexandria City, VA	\$9,929,000	2.7%	2.5%
Arlington, VA	\$12,482,000	3.4%	3.8%
Clarke, VA	\$815,000	0.2%	0.3%
Culpepper, VA	\$3,475,000	1.0%	0.7%
Fairfax, VA	\$45,480,000	12.5%	20.6%
Fauquier, VA	\$2,861,000	0.8%	1.1%
Fredericksburg City, VA	\$2,312,000	0.6%	0.5%
King George, VA	\$1,496,000	0.4%	0.4%
Loudoun, VA	\$4,595,000	1.3%	2.9%
Prince William, VA	\$19,180,000	5.3%	6.4%
Spotsylvania, VA	\$5,313,000	1.5%	1.7%
Stafford, VA	\$4,502,000	1.2%	1.9%
Warren, VA	\$2,928,000	0.8%	0.7%
Virginia Counties	\$115,368,000	31.8%	43.4%
Berkeley, WV	\$7,839,000	2.2%	1.5%
Jefferson, WV	\$3,802,000	1.0%	0.9%
West Virginia Counties	\$11,641,000	3.2%	2.4%
Regional Total	\$362,515,000	100%	100%

Source: Internal Revenue Service, 1997 ZIP Code files.

4. Support creation and expansion of refundable state EITCs

Thanks to refundable state EITCs in Maryland and D.C., the incomes of thousands of working families in those sections of the Washington region will be boosted by an estimated \$30 million in 2001. With nearly 90,000 families in the Virginia and West Virginia sections of the Washington region receiving the federal EITC in 1998, state EITCs in Virginia and West Virginia set at 20 percent of the

federal credit could provide over \$24 million annually to these working families. An expansion of the Maryland state EITC from 15 percent to 20 percent of the federal credit could raise the earnings of over 100,000 working poor families in the Washington region's Maryland counties.

Ten states, including Maryland and D.C., 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, states in the Washington region could finance creation or expansion of refundable EITCs with unspent federal TANF dollars, or count state expenditures on such an expansion toward the "maintenance of effort" required under TANF.

New and expanded state EITCs in the Washington region would go one step further towards making work pay for the area's low-income families with children.

Appendix B: Profile of EITCs Received for the Washington, D.C. Region, 1998

County	Avg. Adjusted Gross Income	Total Number of Returns	Total Number of EITCs Claimed	% of Taxpayers Filing for EITC
District of Columbia	\$46,254	265,619	50,192	18.9%
Calvert, MD	\$47,287	33,489	3,166	9.5%
Charles, MD	\$44,409	53,303	5,999	11.3%
Frederick, MD	\$45,110	92,224	7,228	7.8%
Montgomery, MD	\$62,435	422,118	35,319	8.4%
Prince George's, MD	\$38,333	357,100	56,222	15.7%
Maryland Counties	-	958,234	107,934	11.3%
Alexandria City, VA	\$60,957	66,478	6,788	10.2%
Arlington, VA	\$53,426	104,292	8,408	8.1%
Clarke, VA	\$58,225	4,958	581	11.7%
Culpeper, VA	\$38,293	13,978	2,125	15.2%
Fairfax, VA	\$70,694	479,101	31,927	6.7%
Fauquier, VA	\$70,669	23,162	1,861	8.0%
Fredericksburg City, VA	\$41,214	8,798	1,442	16.4%
King George, VA	\$37,765	7,398	979	13.2%
Loudoun, VA	\$70,245	70,206	3,333	4.7%
Prince William, VA	\$49,069	138,667	13,042	9.4%
Spotsylvania, VA	\$39,649	35,838	3,633	10.1%
Stafford, VA	\$41,654	37,681	3,122	8.3%
Warren, VA	\$36,698	13,468	1,968	14.6%
Virginia Counties	-	1,004,025	79,209	7.9%
Berkeley, WV	\$32,127	33,041	5,419	16.4%
Jefferson, WV	\$34,618	19,236	2,631	13.7%
West Virginia Counties	-	52,277	8,050	15.4%
Regional Total	-	2,280,155	245,385	10.8%

Source: Internal Revenue Service, E-File Demographics.

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 state Departments 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.¹⁹

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 zip code 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 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 Jefferey 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/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 “Table CA35,” Regional Economic Information System. Bureau of Economic Analysis. June 2000.
- 15 For further discussion of state EITCs, including Maryland’s, see Nicholas Johnson (2000) “A HAND UP: How State Earned Income Tax Credits Help Working Families Escape Poverty—2000,” Center for Budget and Policy Priorities. <http://www.cbpp.org/11-4-00sfp.pdf>
- 16 “Income Tax Summary Report: Tax Year 1999,” Comptroller of Maryland, Revenue Administration Division. Estimating the value of the state of Maryland’s EITC to the Washington region is complicated by Maryland’s unique non-refundable EITC. Estimates presented here reflect only the value of the refundable state EITC; the total value of the combined refundable and non-refundable state credits is likely much higher.
- 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 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>

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.

Acknowledgements

The Brookings Center on Urban and Metropolitan Policy would like to thank the Annie E. Casey and John S. and James L. Knight foundations for their generous support of our work on working family investments and policies. We would also like to thank Jennifer Bradley, John Bare, Michael Barr, Phil Dearborn, Bob Greenstein, Nicholas Johnson, Michael Laracy, John Monahan, Andrea Kane, John Pawasarat, Isabel Sawhill, and Irene Skricki for their comments on early drafts.

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