Center on Urban & Metropolitan Policy

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

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"...working families live throughout the Chicago 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. An analysis of the spatial distribution of the EITC in the Chicago region shows that[1]:

- **In 1998, the Chicago region benefited from nearly three-quarters of a billion dollars in federal EITC refunds.** Nearly 60 percent of the region's $737 million in EITC refunds—$430 million—was earned by families living in the city of Chicago, much larger than the city's share of the region's population (33 percent).
- **Nearly half a million (470,000) low-income working families in the Chicago region earned an EITC in 1998.** About one-quarter of all taxpayers living in the city of Chicago earned an EITC. Neighborhoods with the highest rates of EITC receipt also had high rates of electronically filed returns, suggesting that many low-income taxpayers may be turning to high-priced tax preparers in order to receive their refunds quickly.
- **The percentages of families earning the EITC in the Chicago region and the city of Chicago were similar to those for the ten largest metropolitan areas and their central cities.** The concentration of EITC dollars in the city of Chicago was also comparable to the median among cities in the ten largest metro areas.
- **Transforming Illinois' state EITC into a refundable tax credit would contribute millions of dollars to the budgets of low-income working families in the Chicago region.** A refundable Illinois state EITC set at 20 percent of the federal credit could provide nearly $150 million to lower-income neighborhoods throughout the Chicago region, and relieve the burden of state income taxes on hundreds of thousands of poor Illinois families.

I. Introduction

Despite a great deal of public and policy interest in working poor 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 survey of Greater Chicago is an extension of our work looking at the value of the EITC to the 100 largest metropolitan areas around the country.[2] Using IRS data, this Chicago survey maps the geographic distribution of the EITC to help policymakers in the Chicago area better understand where its working poor live. This survey confirms that low-income working families live throughout the Chicago 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 intended 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 by more than ten times (Figure 1). In 1998, 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 can earn up to $4,008 in EITC in 2001; families with one child are eligible for a credit of up to $2,428. 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 $10,020 and $13,090 is eligible for a $4,008 refund for tax year 2001.

The data analyzed in this survey are for tax year 1998. In this year, 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.

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

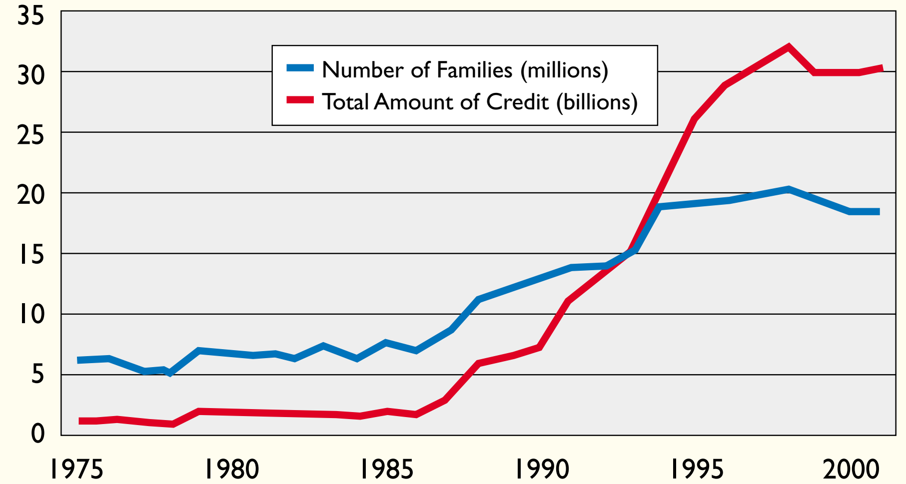
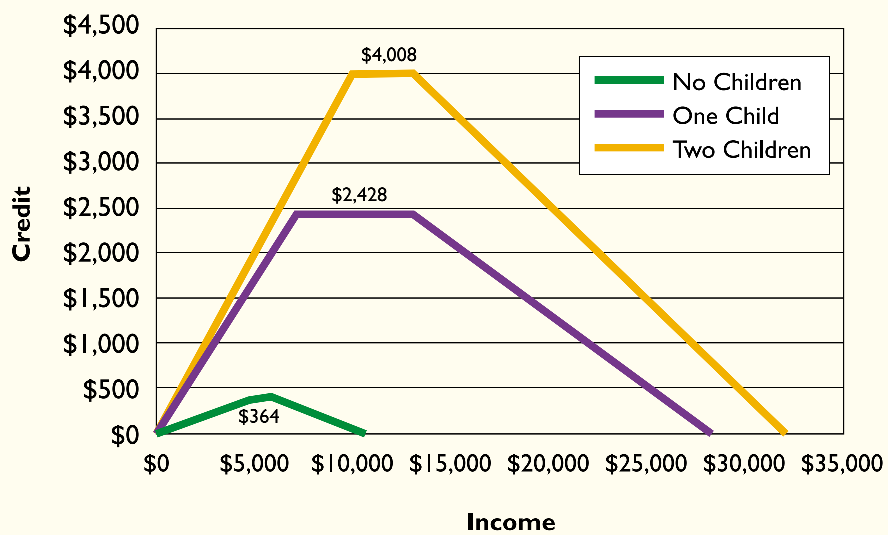


Figure 2: Size of the EITC, By Earned Income and Number of Dependents, 2001



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, and 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.

Table 1: Who Can Get the Credit?

Occupation	Avg. Annual Salary in the Chicago Region
Security Guards	$19,250
Janitors	$20,200
Bus Drivers	$21,440
Butchers	$24,270
Locksmiths	$26,840
Graphic Designers	$24,190

Source: Bureau of Labor Statistics

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 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

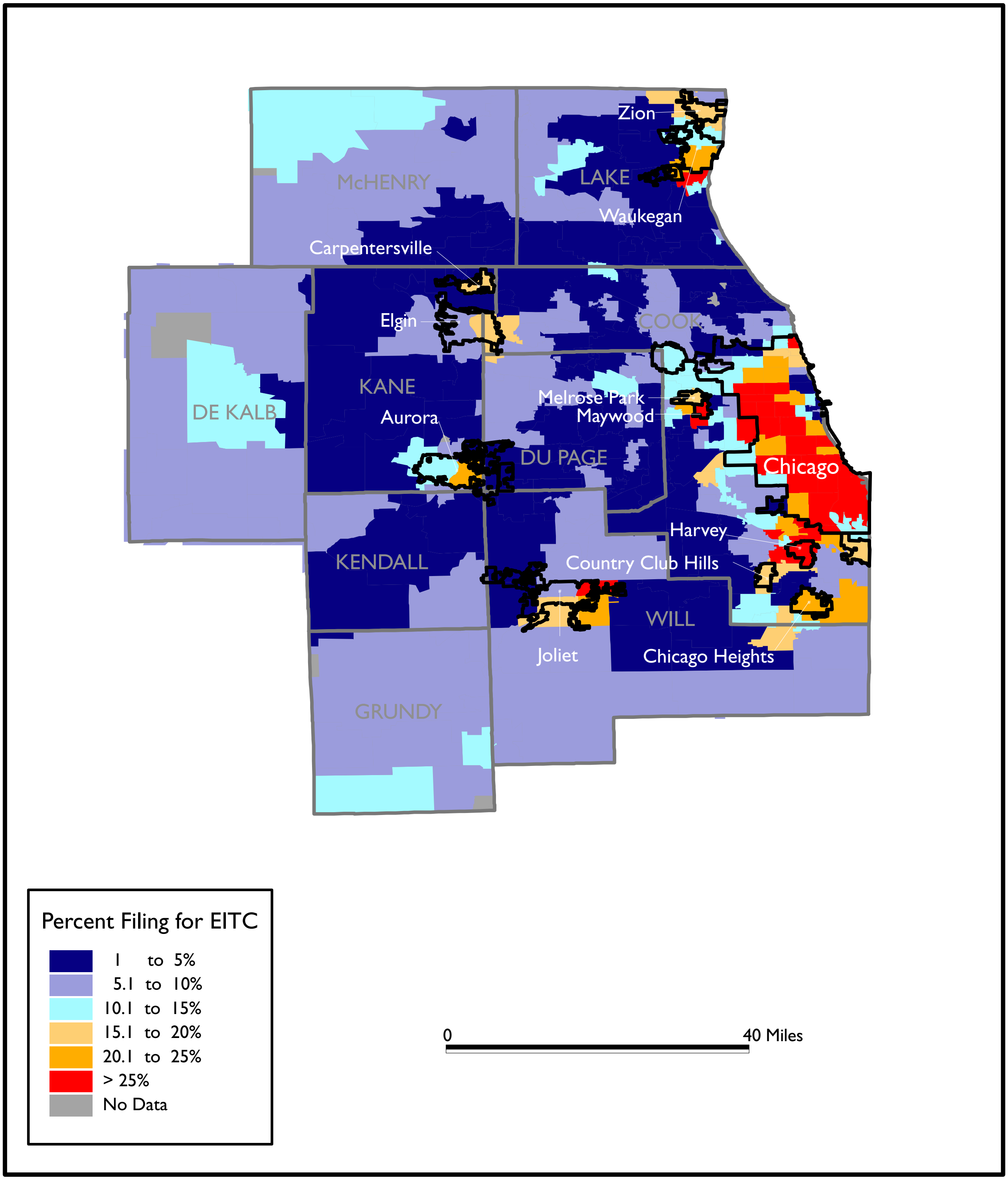
The wages and salaries of the working poor have not kept pace over the last 20 years with those earning larger incomes. Despite strong economic growth over the last decade, the income gap between rich and poor has widened.

In Illinois, during the late 1990s, the average before-tax income of a family in the bottom fifth of the income distribution was around $14,700. Adjusted for inflation, these families were actually earning about 1 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 nearly $141,100, 26 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

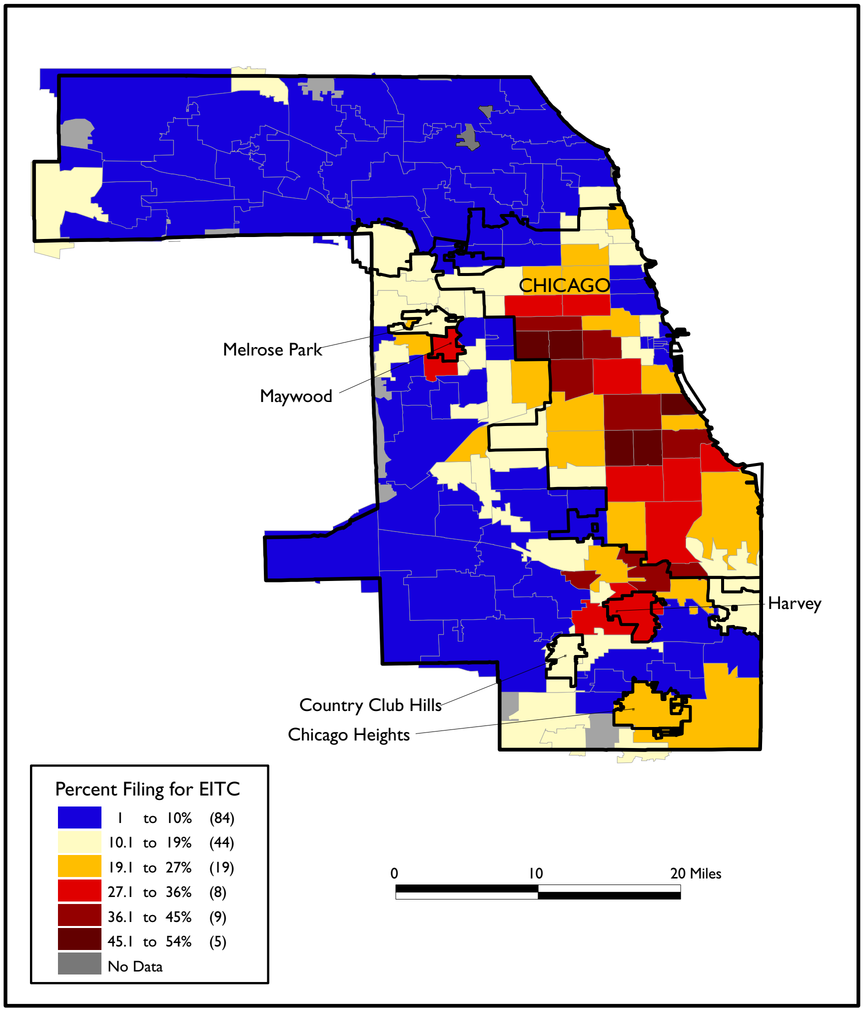
EITC dollars represent additional income coming into the community, increasing families' purchasing power and helping them build assets for the future. The one study to investigate how families use the EITC found that over half of recipients planned to spend their refunds on investments like paying for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

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



Source: Internal Revenue Service

Cook County: EITC Recipients as a Percentage of Total Tax Returns by Zip Code, 1998



Source: Internal Revenue Service

III. Findings: The Value of the EITC to Greater Chicago

This study examines the spatial distribution of the EITC in the Chicago region, which is defined as the Chicago Primary Metropolitan Statistical Area (PMSA). This area is made up of roughly 8.3 million people living in nine Illinois counties: Cook, DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry and Will. The EITC data used for this study, which are publicly available through the Internal Revenue Service, reflect actual credits claimed by taxpayers for tax year 1998 (see Appendix C for further information on the data).[13]

A. In 1998, the Chicago region benefited from nearly three-quarters of a billion dollars in federal EITC refunds.

EITC dollars were largely concentrated in the core of the Chicago metro area in 1998. Of the $737 million in credits earned by residents of the Chicago region, over $600 million—82 percent—flowed to residents of Cook County. Working families living in Lake County earned $33 million. Considerable amounts of EITC dollars were also earned by families in the suburban counties of Kane ($29 million), DuPage ($28 million), and Will ($24 million).

In 1998, families living within the city of Chicago earned over $430 million in EITC refunds. The EITC thus boosted consumer purchasing power by an average of $2 million per square mile throughout the city. In reality, even greater amounts of EITC refunds flowed to some neighborhoods in Chicago. Zip codes in and around the Roseland, North and South Lawndale, and Auburn Park neighborhoods each received over $20 million in EITC refunds in 1998.

The city of Chicago received a share of the region's EITC dollars larger than its share of the region's population. While one-third (33.2 percent) of the metro area's residents lived in Chicago, the city received over 58 percent of the region's EITC refunds (see Appendix A). Still, EITC dollars were more dispersed than money redistributed by other federal transfer programs that benefit residents of greater Chicago. For instance, in 1998, while families in Cook County received around 82 percent of the region's EITC dollars, they received 90 percent and 92 percent of the region's TANF and Food Stamp payments, respectively.[14]

Cities neighboring Chicago also benefited substantially from the EITC. Cook County families in Des Plaines and Harvey earned $20 million and $11 million, respectively; about $11 million also flowed to low-income workers in Waukegan (Lake County). West of Chicago, in Kane County, working families in the city of Aurora earned nearly $13 million in EITC, and families in Elgin received nearly $9 million from the credit.

The average EITC for families in the Chicago region in 1998 was $1,570. Families in the city of Chicago claiming the EITC earned an average credit of $1,640, while families in the suburbs earned an average EITC of $1,482.

B. Nearly half a million (470,000) low-income working families living in the Chicago region earned an EITC in 1998; these families were concentrated in the city of Chicago and a few of the region's smaller cities.

In 1998, one-quarter (24.3 percent) of the city of Chicago's taxpayers earned an EITC (see Appendix A). There were a few neighborhoods in north and northeast Chicago, such as Forest Park and Lakeview, where relatively low percentages of tax filers earned the credit. However, most neighborhoods in the city had significant concentrations of working poor families. Twenty-eight of the city's 51 zip codes had 20 to 30 percent of filers earn the credit; six had rates of 30 to 40 percent; and nine had rates of over 40 percent. The neighborhoods with the largest concentrations of working poor families were located mostly in the western and southern portions of the city. On the far West Side, in Garfield Park, 54 percent of families earned the EITC. On the near southside, about 50 percent of families in the Englewood neighborhood were working poor. Along the South Shore, over one-third of families received the credit.

City neighborhoods that were home to large shares of working poor families were also home to large numbers of paid tax preparers. Chicago zipcodes in which more than 25 percent of the population earned the EITC in 1999 were typically home to 17 tax preparation services that file returns electronically, compared to 11 in other zip codes. In many cases, these services sell high-priced "refund anticipation loans" that, for $100 or more, loan taxpayers their refund dollars only a few days before the IRS could process a Direct Deposit refund. Chicago neighborhoods where more than a quarter of families earned the EITC also had high rates of electronic filing—45 percent of all returns in these zip codes were filed electronically, versus only 20 percent in other zip codes. While some of this disparity reflects the fact that certain forms and schedules filed by upper-income taxpayers cannot be transmitted electronically, it is clear that a large share of lower-income families in Chicago may pay high fees to file very simple forms.

The city of Chicago was not the only place in the region that contained a significant proportion of working poor families. Communities in Cook County with concentrated working poverty could be found immediately south and east of Chicago. Cities including Harvey (36 percent), Maywood (28 percent), and Chicago Heights (22 percent) all had high shares of families working for low wages. Small cities in Lake County (Waukegan and Zion) and Kane County (Aurora) had rates of EITC receipt approaching 20 percent. In parts of Joliet (Will County), nearly one-third of all tax filers earned an EITC.

C. The percentages of families earning the EITC in the Chicago region and the city of Chicago were similar to those for the ten largest metropolitan areas and their central cities.

In our report on the EITC in the nation's 100 largest metropolitan areas, we calculated the share of families receiving the EITC, and the amount of EITC dollars received, in central cities and suburbs. Appendix B shows these calculations for Chicago and the other nine largest metropolitan areas in the country. Compared to central cities located in these metro areas, the percentage of families in Chicago that received the EITC (24.3 percent) was very close to the median (24.2 percent). Chicago's rate of EITC

Table 2. Tax Year 1998—Metropolitan Areas in Illinois: Percent of Taxpayers Filing for EITC, Number of EITCs Claimed, and Total EITC Dollars Claimed

Region	% of Taxpayers Filing for EITC	Number of EITCs Claimed	Total EITC Dollars ($M)
Champaign-Urbana, MSA	12.6	9,646	14.3
Davenport-Moline-Rock Island, IA-IL MSA	12.7	21,749	33.7
Decatur, MSA	15.3	8,125	13.0
Kankakee, PMSA	16.1	7,286	11.6
Peoria-Pekin, MSA	12.5	20,233	31.4
Rockford, MSA	12.6	21,365	32.1
Springfield, MSA	12.5	12,434	19.1

Source: Internal Revenue Service

receipt was very similar to that of cities such as Los Angeles, Philadelphia, Houston and Dallas. With 12.9 percent of all filers earning the EITC, the Chicago region had a rate of EITC receipt slightly lower than the median for the ten largest metropolitan areas (14.4 percent), comparable to the share of families earning the credit in greater Philadelphia (12.2 percent).

In the 100-metro report, we also used the EITC dollar amounts flowing to cities and suburbs to calculate a "concentration index," which measured the share of EITC dollars flowing to the central city, relative to its share of the region's population. Focusing again on the top ten metropolitan areas, the typical concentration index in 1998 was 1.62, indicating that central cities received a share of their regions' EITC dollars that, on average, was 1.62 times greater than their share of their regions' population. Chicago was quite typical in this aspect, too—the region's concentration index in 1998 was 1.64—and similar to the Dallas region.

The Chicago region saw about the same share of its families earn the EITC in 1998 as many other metro areas in the state of Illinois. Table 2 shows that the Champaign-Urbana, Rock Island, Peoria-Pekin, Rockford and Springfield regions all had about the same rates of EITC receipt as the Chicago region (12.9 percent). Decatur (15.3 percent) and Kankakee (16.1 percent) had even larger shares of working poor families throughout their metro areas.

D. Transforming Illinois' state EITC into a refundable tax credit would contribute millions of dollars to the budgets of low-income working families in the Chicago region.

The state of Illinois recently enacted an earned income credit equal to 5 percent of the federal EITC. The Illinois state EITC is nonrefundable—that is, if the credit reduces a family's tax liability below zero, the family does not benefit from the full value of the credit. The small size of this EITC, coupled with the fact that it is nonrefundable, means that many Illinois families with below-poverty earnings still pay state income tax. Meanwhile, 26 of 42 states that levy an income tax exempt poor families from the tax.[15]

Ten states now offer refundable tax credits that build on the federal EITC, and help to make work pay for their low-income families. Refundable state EITCs can provide the urban working poor with an especially crucial income boost, as the federal EITC is not designed to adjust for regional differences in cost-of-living. Many of the states that have enacted refundable EITCs are home to large urban regions like Chicago in which families can benefit significantly from the credit.[16] If Illinois were to transform its small nonrefundable EITC into a refundable credit equal to 20 percent of the federal EITC, the Chicago region could see $150 million flow to its local economy. Low-income families and neighborhoods in the city of Chicago alone could receive an annual $86 million income boost from a 20 percent refundable credit.

IV. What Chicago Can Do To Leverage the EITC Locally

This study confirms that the Earned Income Tax Credit is a significant federal support for working poor residents of the Chicago region. In the current economic environment, knowing where working poor families live, and helping them access the EITC in their communities, is more crucial than ever. With unemployment on the rise, more families will likely have low earnings that qualify them for the EITC. Ensuring that these families obtain the full tax benefits for which they are eligible will help them provide for their families during this difficult period. EITC dollars will also provide a much-needed economic stimulus for the neighborhood, city and metropolitan economies of greater Chicago in the early part of 2002, when families receive their refunds.

Under the leadership of Mayor Richard Daley, the city of Chicago conducts the nation's leading municipal outreach program to make families aware of the EITC, and to provide them with access to free tax preparation services that preserve the value of the credit. Additionally, for many years the Illinois Department of Human Services has conducted outreach statewide to inform low-income families about the federal EITC. State and local leaders can expand on these efforts in a number of important ways to make work pay for low-income Illinois families, to assist families in claiming new refundable federal tax credits, and to help more low-income individuals to enter the financial services mainstream.

1. Relieve the state tax burden on low-income Chicago families with a refundable state EITC

In a declining economy, Illinois and other states will face difficult choices on taxes and spending as they attempt to reduce fiscal shortfalls. State legislators should take steps to avoid balancing their budgets on the backs of those who will suffer most in a recession—low-income working families. Illinois already has one of the most regressive state tax systems in the nation; the state's low-income families pay a much larger share of their incomes in state taxes than middle- and upper-income families.[17] The enactment of the current nonrefundable state EITC helped reduce the state income tax burden on poor Illinois families, but they still pay high sales and property taxes. Expanding—and making refundable—the Illinois state EITC would be a productive step toward protecting low-income families in the Chicago region, and throughout the state, from further tax increases that could exacerbate the problem.

By transforming its nonrefundable EITC into a refundable EITC at 20 percent of the federal credit, Illinois would join ten other states that have made work pay for low-income families with fully refundable state EITCs. At a minimum, the state of Illinois should renew its existing credit, which is set to expire in 2003. The Chicago region, and the city of Chicago in particular, would benefit significantly from the annual economic stimulus that a refundable EITC would provide to low-income families and neighborhoods. In addition to reducing the overall burden of state taxes on low-income workers, a 20 percent refundable state EITC would finally exempt Illinois families with below-poverty incomes from paying state income tax.

2. *Expand outreach and support for free tax preparation services to help families claim new refundable credits*

In Chicago, the Center for Law and Human Service's Tax Counseling Project and the Tax Assistance Project provide free tax preparation services for thousands of low-income filers each year, helping them to access the tax credits they have earned. Their efforts, together with the city of Chicago's EITC outreach campaign, have made low-income families aware of the EITC, and have helped families claim millions of dollars in credits in recent years. Still, the demand for free tax preparation services is high, as thousands of inner-city families still pay exorbitant fees to file their taxes through paid preparers and obtain "rapid refund" loans.

With recent tax law changes, free tax preparation for low-income filers is now an even more vital service. In tax year 2001, many low-income families with children will be eligible for the newly refundable federal child credit. This credit will increase refunds for most families that receive the EITC. However, determining whether one's family qualifies for the credit—and what amount the family is eligible for—will be complicated. Low-income families will need to file a separate form, in addition to Schedule EIC, to claim refundable child credits. The definition of "child" for purposes of the child credit is different than the definition for purposes of the EITC. Low-income families with three or more children may need to file a different refundable child credit form than other families. That form will likely include complicated comparisons between payroll taxes paid and the EITC.[18]

Without information and guidance for low-income taxpayers on the new refundable child credit, the city of Chicago and its region could leave millions of federal dollars on the table when its families need them most. Expanded outreach around the new credit, and expanded support for free tax preparation services, would help the hundreds of thousands of low-income families in the Chicago region who will qualify for these credits to understand them and claim them, both this year and in future years (when the credits become even larger). Free tax preparation could also help to stem the demand for high-priced tax services that reduce the value of the EITC in many lower-income communities.

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

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.[19] 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. In fact, one study found that only 60 percent of Chicago taxpayers who use free tax preparation services own a bank account or credit card, and that 45 percent use a check cashing service to cash their refund checks.[20] Many of these businesses actually charge a premium rate for cashing tax refund checks.

Recognizing this, Chicago's ShoreBank has worked with the Center for Law and Human Services to help many low-income "unbanked" families turn their federal tax refunds into initial deposits into new bank accounts. ShoreBank made these accounts available to filers using the Center's free tax preparation services. The electronically-based transaction accounts have features—including payment of interest—that are attractive to lower-income people, and that reduce costs and risk of overdraft for the bank. Many individuals decided to open an account because they felt that their tax refund gave them the resources to hold an account, and because they felt that the account would make it easier for them to save. Despite having average income of only $9,000 a year, more than 40 percent of account enrollees in 2000 reported that they were able to save at least some of their EITC refund.[21]

Research has shown that once low-income people have accounts, they can be viable customers for a wider range of bank products like auto loans, credit cards and certificates of deposit.[22] The estimated 100,000 unbanked EITC recipients in the Chicago region represent a significant untapped market for financial services. The high rates of electronic filing in low-income neighborhoods indicate that many of these individuals would exhibit a significant demand to receive their refund within days from the IRS via Direct Deposit, at no charge. Other financial institutions in the Chicago area can replicate the ShoreBank model, bringing new customers and millions of dollars into local banks, while saving low-income families precious dollars and helping them to build assets for the future.[23]

Appendix A: Profile of the EITC in Metropolitan Chicago, Tax Year 1998

AREA	% of Taxpayers Filing for EITC	Number of EITCs Claimed	Total EITC Dollars ($M)	Share of Metro EITC	Share of Metro Pop'n
CHICAGO	**24.3%**	**262,477**	**$430**	**58.4%**	**33.2%**
SUBURBS	**8.1**	**207,052**	**307**	**41.6%**	**66.8%**
Cook (excluding Chicago)	9.4	116,277	173	23.5%	31.6%
DeKalb	9.0	3,479	5	0.7%	1.1%
DuPage	4.8	20,886	28	3.9%	11.1%
Grundy	7.5	1,441	2	0.3%	0.5%
Kane	10.6	18,536	29	4.0%	5.1%
Kendall	5.9	1,498	2	0.3%	0.7%
Lake	7.4	22,165	33	4.5%	8.1%
McHenry	5.7	6,684	9	1.3%	3.1%
Will	8.0	16,086	24	3.3%	5.5%
REGION	**12.9%**	**469,529**	**$737**	**100.0%**	**100.0%**

Source: Internal Revenue Service

Appendix B: EITC Estimates for the Ten Largest Metro Areas in the U.S., Tax Year 1998

		Region		Central Cities				
Rank	Region	% of Taxpayers Filing for EITC	Total EITC Dollars ($M)	% of Taxpayers Filing for EITC	Total EITC Dollars ($M)	City Share of Metro EITC	City Share of Metro Pop'n	Concen-tration Index
1	Los Angeles—Long Beach, CA PMSA	21.2	1,293	24.2	595	46.0%	39.8%	1.16
2	New York, NY PMSA	19.7	1,170	21.9	1,090	93.2%	79.9%	1.17
3	**Chicago, IL PMSA**	**12.9**	**737**	**24.3**	**430**	**58.4%**	**35.6%**	**1.64**
4	Philadelphia, PA—NJ PMSA	12.2	429	24.1	228	53.2%	27.8%	1.91
5	Washington, DC—MD—VA—WV PMSA	10.8	371	18.9	79	21.3%	10.4%	2.04
6	Detroit, MI PMSA	11.8	370	32.3	175	47.5%	21.5%	2.21
7	Houston, TX PMSA	19.5	570	24.8	343	60.2%	46.0%	1.31
8	Atlanta, GA MSA	15.8	443	25.4	70	15.7%	9.0%	1.76
9	Dallas, TX PMSA	16.6	408	24.4	201	49.1%	30.8%	1.59
10	Boston, MA—NH PMSA	8.9	338	15.1	57	16.9%	16.3%	1.04
Median for the Ten Largest Regions:		**14.4%**	**$436**	**24.2%**	**$214**	**48.3%**	**29.3%**	**1.62**

Source: Internal Revenue Service

Appendix C: Methodology

The data for this study were derived from IRS zip code-level data for 1998, the most recent year for which these data are available. The data 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 1998 returns. Among these are the number of filers who claimed the Earned Income Tax Credit, and the total amount of Earned Income Tax Credit claimed. We used these data to calculate the amount of EITC that flowed into each county in 1998, the average EITC amount per county, and the share of filers in certain jurisdictions (zip code, city, county, metro area) that receive the credit. The data are available online at **http://www.irs.gov/tax_stats/soi/zip-codes.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—including Chicago—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 Interface System) to determine which zip codes fit well enough within a 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.

Endnotes

1 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.

2 See Alan Berube and Benjamin Forman, "A Local Ladder for the Working Poor: The Impact of the Earned Income Tax Credit in U.S. Metropolitan Areas." Brookings Institution Center on Urban and Metropolitan Policy, October 2001.

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, "Who Knows About the Earned Income Tax Credit?" Urban Institute, 2001. **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, Lawerence 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/tpaeeitc.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/cprwps/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 the credit amounts claimed are, however, refunded to taxpayers—in 1998, over 80 percent of all EITC amounts were refunded.

14 "Table CA35," Regional Economic Information System. Bureau of Economic Analysis. June 2000.

15 Family of three, filer plus two dependents. See Zahradnik et al., "State Income Tax Burdens on Low-Income Families in 2000: Assessing the Burden and Opportunities for Relief." Center on Budget and Policy Priorities, March 2001.

16 The ten states are: Colorado, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New York, Vermont, Wisconsin, and the District of Columbia.

17 See "Who Pays? A Distributional Analysis of Tax Systems in All 50 States." Citizens for Tax Justice, 1996. Since that report was published, Illinois has reduced income taxes on low-income families by expanding personal exemptions and enacting a nonrefundable EITC. However, Illinois' high sales and property taxes account for the overwhelming majority of the state tax burden on these families, so the tax system as a whole likely remains highly regressive.

18 For an explanation of how the new refundable child credit works, see Robert Greenstein, "The Changes the New Tax Law Makes in Refundable Tax Credits for Low-Income Working Families." Center on Budget and Policy Priorities, June 2001.

19 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.

20 Smeeding, Phillips and O'Connor (2000).

21 Sondra Beverly et al (2001). "Linking Tax Refunds and Low-Cost Bank Accounts to Reach the Unbanked." Paper presented at the 23rd Annual APPAM Research Conference, 1–3 November 2001, Washington DC.

22 See, e.g., Jeanne M. Hogarth and Kevin A. O'Donnell (2000). "If You Build It, Will They Come? A Simulation of Financial Product Holdings Among Low- to Moderate-Income Households." *Journal of Consumer Policy* 23(4): 409-44.

23 A new brochure from ShoreBank and the Center for Law and Human Services, "Money in the Bank: The Extra Credit Savings Program," describes how other financial institutions can implement similar programs. Contact Jennifer Tescher at ShoreBank (Jennifer_Tescher@sbk.com) for a copy of the brochure.

Note

This survey is available on the Brookings Institution's website at **www.brookings.edu/urban**. Also available are similar surveys for 28 other metropolitan regions, as well as a survey on the EITC in the nation's 100 largest metropolitan areas.

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