

# Ten Years of the EITC Movement: Making Work Pay Then and Now

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*For over ten years, concerted efforts across the United States have increased knowledge and awareness of the Earned Income Tax Credit (EITC) and connected households to the EITC and similar tax credits and other financial supports. In today's environment of reassessing public and philanthropic priorities and resources, this brief reflects on what this "EITC Movement" has achieved and looks ahead to building on its accomplishments and lessons.*

## I. Introduction

**T**he Earned Income Tax Credit (EITC) is an earnings supplement available through the income tax system that offsets payroll taxes and supports low- and moderate-income workers raising children. It has grown to be called the nation's largest federal anti-poverty program. The EITC has had significantly beneficial effects for its recipients and their communities. These include encouragement of work, reduction of poverty, and boosting of local economic activity (Holt 2006).

The EITC has always had features that distinguish it from traditional family support and tax policies. It is predicated on work. It is claimed not through caseworkers and onerous application processes but by filing a tax return. And it is refundable, meaning that the amount of the credit is not tied to one's federal income tax liability. Pioneered by the EITC, these are now features of several programs.

The new approach of the EITC created a new environment. The credit has spawned a remarkable array of social, business, and political activity. There is a national network devoted to promoting the existence of the credit, a large business sector (commercial tax preparers) and a burgeoning non-profit industry (community tax programs) each closely tied to it, financial services and products reliant on it, and significant political activity related to it.

This brief describes this activity, labeling it the "EITC Movement". This is not a traditional social movement. In fact, it is the work of dispersed actors pursuing sometimes disparate goals. It has been about a decade since this EITC Movement began to emerge in earnest, and it has now reached a maturity characterized by greater stability and institutionalization.

This brief reflects on what the EITC Movement has achieved. Making this assessment is a challenge. As a collection of distinct (however interrelated) efforts, there is not a clear set of goals to use as the standard for measuring accomplishments. An added complication is the limited data available for empirical observations.

This brief also looks ahead at the future for the EITC Movement. Challenges to the relatively stable environment of the past decade are likely. All levels of government are experiencing budgetary pressure that could affect both policy and program, and the typical cycle of philanthropy points to a period of re-evaluation and change. It is time to examine fresh approaches.

After setting the historical context for the past decade, the paper describes how the EITC Movement coalesced and grew. It then evaluates the impact of these efforts from various perspectives before concluding with a look forward to potential developments.

## II. The Historical Context

**T**he roots of the EITC Movement lie in a prior decade of community outreach and promotion work and in market shifts that saw the growth of the commercial tax preparation industry in low-income communities.

### Community Outreach and Promotion

The EITC (or EIC) was first made available in 1975 and offered up to \$400 to low-income workers with children.<sup>2</sup> The credit was made permanent in 1978, and the Tax Reform Act of 1986 enacted the first of a series of significant expansions.

The 1986 law had two particular impacts on low-income workers with children. The expanded EITC became a significant source of assistance, and increases in the personal exemption and standard deduction meant that a greater amount of income was not subject to federal income tax. The combined effect was paradoxical: fewer households needed to file a tax return to satisfy payment obligations, but only by filing a return could households claim the increased refundable tax credit.

Several organizations with low-income constituencies recognized the need to inform families about the importance of filing a tax return even when not legally required to do so. The Center on Budget and Policy Priorities (CBPP), a Washington-based non-profit organization focused on tax and budget issues affecting low-income Americans, spearheaded a national outreach campaign. In 1989, the Center produced and disseminated about 10,000 copies of an outreach kit consisting of posters in English and Spanish, information and fact sheets on the credit, and suggestions for conducting outreach campaigns.

In July 1991, CBPP convened a meeting of 15 national, state, and local organizations working on EITC outreach to think about new challenges posed by the institution of Schedule EIC and the new supplemental credits.<sup>3</sup> The expanded 1992 outreach kit addressed these issues and also shared outreach approaches being used successfully at the state and local levels. CBPP staff conducted numerous training sessions across the country.

Through the 1990s, CBPP enhanced the outreach kit, addressed new issues presented by changes in the credit and in eligibility rules, and identified and developed strategies for populations less likely to know about the credit. Staff traveled to provide 10 to 20 outreach training sessions each year and reached out to large employers of low-wage workers. The Internal Revenue Service (IRS) developed and distributed promotional materials. A growing number of state and local organizations and coalitions implemented innovative approaches. Partners included public assistance agencies, utility companies, and grocery stores. By 2000, CBPP was distributing 25,000 outreach kits each year.

A key constituency was mayors and other elected officials. The expanded EITC represents a substantial flow of potential federal dollars into local economies, but this infusion can be realized only by motivating eligible workers to claim their credits. The Mayor's office in Milwaukee spearheaded creation of an EITC outreach campaign there in 1990 based on this realization. A subsequent initiative led by Chicago Mayor Richard Daley has been particularly influential.

### Community Tax Programs (VITA)

Groups involved in EITC outreach would frequently try to direct taxpayers to Volunteer Income Tax Assistance (VITA) sites for free preparation of their returns. Congress had recognized the need for free filing assistance for low-income taxpayers by creating the VITA program in 1969.<sup>4</sup> In 1970, the program

served 104,000 taxpayers (TIGTA 2004). It remained relatively small in the 1990's, and many communities had little capacity to accommodate referrals.

For much of its history, VITA was managed by local IRS Taxpayer Education offices. IRS personnel would recruit and train volunteer tax preparers and assign them to sites in the community such as libraries and community centers. Local outreach campaigns eventually not only promoted existing sites but also recruited new volunteers and secured additional sites. With the advent of electronically-prepared returns, the IRS sometimes provided supplemental computer equipment.

The change in the filing needs of low-income taxpayers also spurred the organization of volunteer assistance efforts among tax professionals. Organizations from this period that continue today include Community Tax Aid in the Washington, DC area (founded in 1987) and Tax-Aid in San Francisco (founded in 1988).

### **Commercial Tax Preparation for Low-Income Taxpayers**

The switch in policy emphasis during the 1990s from traditional welfare cash payments to work-based benefits claimed through the tax system—reflected in the expanded EITC—created a new environment in low-income communities. Rather than completing a lengthy benefits application with a caseworker, an EITC claimant could just file a relatively short tax return. Although this permitted a do-it-yourself approach, for many it meant contracting to have a return prepared. The locus of activity moved from the welfare office to commercial tax preparers. Noting the proliferation of tax firms along a major street in one low-income neighborhood, a *New York Times* reporter observed:

[T]ax season on King Drive is more than a simple morality play of poor people going to work. It is a showcase of the competing dynamics involved in the makings of a new working class: low pay and large Government subsidies; old habits and new beginnings; streetwise versions of the white lies that accompany tax season everywhere, and a few outright scams (DeParle 1999).

The commercial tax industry encompasses a wide range of businesses, from local offices of national chains to mom-and-pop shops to fly-by-night operators. The largest and oldest commercial preparer—H&R Block—was already well-established when tax-based benefits increased demand for service in the 1990s. But what soon became the second-largest firm—Jackson Hewitt—was in many ways a product of that changed environment.<sup>5</sup> The firm's target market was lower-income households (those making less than \$50,000 or even \$30,000 a year). It went from having 22 offices in 1986 to 515 in 1992 and 900 in 1993.

An important aspect of the explosive growth of Jackson Hewitt and other commercial preparers was the auxiliary product known generically as a refund anticipation loan, or RAL. Marketed often as an "instant" or "rapid" refund, a RAL is an advance of a taxpayer's expected refund that is facilitated by the preparer. It is in fact a short-term bank loan secured by assignment of the refund. The interest rate on the loan is often extremely high, and there are usually additional charges. A RAL can also be the vehicle for payment of the return preparation fee, enabling a taxpayer to obtain services without any out-of-pocket expense. RALs siphon away taxpayer refunds and are highly profitable to preparers.

The IRS facilitated the development of RALs through provision of a "direct deposit indicator." This enabled the preparer to assess the quality of the loan collateral (the refund) by indicating whether there would be any offsets for prior tax debts, child support arrearages, defaulted student loans, or other obligations collected against tax refunds. This substantially reduced the risk of making the RAL.

The importance of the direct deposit indicator to the development of RALs and the broader expansion of the commercial preparation industry could be seen when the indicator was terminated in 1994 over its role in facilitating fraud committed using electronically-filed returns. RAL volume dropped dramatically. Jackson Hewitt—for which RAL income was nearly a quarter of its annual revenues in 1994—defaulted on obligations, closed offices, and changed management.

However, by the end of the decade, RALs were beginning to resurge. In 1999, the IRS instituted a Debt Indicator Program that was very similar to the earlier direct deposit indicator. One motivation was a 1998 law stating that 80 percent of all individual returns should be filed electronically by 2007.

These “e-filed” returns had dropped after the earlier indicator was terminated, and the IRS correctly predicted that the Debt Indicator would facilitate more electronic filing (Wu 2005).

### **Growth in the EITC**

Between 1975 and 1986, the number of households receiving the EITC fluctuated in a range between 5.2 million and 7.4 million. It then grew dramatically to 8.7 million in tax year 1987, 11.1 million in 1988, and on to 14 million claimants in 1992. These were years associated with greatly expanded eligibility for the credit, but outreach and promotion mattered as well. A study by CBPP found that, for tax year 1990, the number of eligible families increased by 3.5 percent but the number receiving the credit rose by 8 percent (CBPP 2010). The study also found the largest increases in those states with the strongest outreach campaigns. The commercial tax industry undoubtedly played a major role in expanded EITC use as well; there was a widely-distributed network of firms with strong self-interest in publicizing the availability of credit-generated refunds and identifying and serving as many eligible taxpayers as possible.

## **III. The Coalescing of an EITC Movement**

Contemporary EITC work emerged from this historical environment in the context of some key institutional shifts. By 2003, there was a recognizable movement.

### **Institutional Shifts**

#### ***IRS Reorganization***

A fundamental change occurring in 2000 was an IRS reorganization that created Stakeholder Partnerships, Education and Communication, or SPEC. SPEC is the outreach and education office of the IRS’s Wage and Investment Division. Its creation led to a new vision of the IRS role in VITA. The emphasis shifted to developing and supporting community partnerships rather than direct service provision. SPEC began looking to others to secure VITA sites, recruit and train volunteers, and manage site operations.

#### ***Community VITA***

More local groups—often connected in some way to the CBPP-led outreach efforts—had by this time developed the capacity and infrastructure to operate free tax sites. Some were able to obtain grants through the IRS Low-Income Taxpayer Clinic (LITC) program.<sup>6</sup> The highly-publicized launch of Mayor Daley’s EITC initiative in Chicago spotlighted the free return preparation work of the local organization now known as the Center for Economic Progress (CEP), which had incorporated much of the approach developed by the Community Action Project of Tulsa County (CAPTC). These programs and ones in Detroit and Minnesota were discussing the possibilities for a cross-community free tax preparation coalition.

#### ***Philanthropy***

The Annie E. Casey Foundation (AECF) had become involved in the EITC field as a funder of outreach and policy work at CBPP. Beginning in 1999, AECF was making grants to a broad range of institutions to address the expansion and enhancement of public policy support—particularly through the tax code—for low- and moderate-income families. Some of this work was specifically targeted to opportunities created by proposals for tax cut legislation being offered by the candidates in the 2000 presidential election. Other AECF research-oriented grants focused specifically on better understanding the EITC-recipient population; in 2001, the Brookings Institution released an AECF-funded report using IRS data to examine the impact of the EITC on metropolitan areas.

AECF also became involved in funding the local work. This included support for the emerging leaders in the field and pilot support in 2001 for VITA expansion (in Camden and Milwaukee). AECF funded CEP to create manuals to guide replication of Mayor Daley’s efforts, and it provided travel and facilitation support for a strategy and training meeting in Tulsa led by CAPTC.

### **National Networks**

Separate from but parallel to the work specific to the EITC, national foundations and others supported national networks devoted to the development and dissemination of high-quality data and policy analysis concerning low-income workers and children. These include KIDS COUNT (spearheaded by AECF), the State Fiscal Analysis Initiative (SFAI, coordinated by CBPP), and the Economic Analysis and Research Network (EARN, led by the Economic Policy Institute), and their state-based affiliate organizations.

### **Policy Change**

In 2001, Congress enacted a sweeping package of tax cuts. These included changes to the Child Tax Credit (CTC)—developed and pushed by the AECF-funded policy network of CBPP, Brookings, and others—that made the credit more like the EITC. Now partially refundable, the CTC further increased the assistance available to low-income working families at tax time.

### **Commercial Expansion**

Following the institution of the Debt Indicator that reinvigorated RALs, the commercial tax industry resumed its expansion in low-income communities.<sup>7</sup> In 2002, the National Consumer Law Center (NCLC) and the Consumer Federation of America (CFA) estimated annual RAL borrowing costs at \$810 million. Brookings released a report describing how Jackson Hewitt and other firms were growing rapidly with offices disproportionately located in areas with large numbers of EITC claimants (Berube et al 2002). A new firm—Liberty Tax Service, created by the founder of Jackson Hewitt—emerged to become the third-largest preparer. These large operations represented only a fraction of the commercial industry, with seasonally-operated, one-person storefronts and off-the-books services also significant presences in the market (Berube et al. 2002). Retailers located in low-income communities—notably furniture stores, used car dealers, and appliance outlets—began to offer the ability to apply tax refunds to purchases by preparing returns and facilitating a version of a RAL.<sup>8</sup>

### **Broadened Vision**

As commercial tax preparers and other businesses were attracted to the large refunds sometimes associated with the EITC, AECF and others were seeing the potential for financial services to recipients. The initial theoretical framework was straightforward: many free tax preparation clients would receive large refunds due to tax credits; receipt of a large tax refund is a financial windfall presenting an opportunity to save; and free tax preparation sites and other community groups could help families convert tax credits into savings by offering bank accounts and other asset building opportunities.

A key impetus for this broadened vision was another movement of the same period focused on asset-building strategies to alleviate poverty. Spearheaded by the book *Assets and the Poor* (Sherraden 1991), this work included two IDA (Individual Development Accounts) pilot projects begun in the late 1990's. There was overlap among funders and program operators (for example, the Tulsa and Chicago organizations with tax sites were also IDA pilot sites). The connections gradually became more explicit.<sup>9</sup>

### **A Movement**

This collection of developments generated significant momentum. Through its National Tax Assistance for Working Families Campaign (NTA), AECF was soon supporting VITA-related work in 22 communities. The foundation had identified connecting low-income working families to the tax code as a key anti-poverty strategy for its Making Connections initiative. A convening of several existing tax programs in June 2002 resulted in spontaneous creation of a Tax Roundtable working group that evolved into the National Community Tax Coalition (NCTC).<sup>10</sup> An AECF cross-site learning exchange in November 2002 led to annual gatherings, coordinated among AECF and NCTC, for peer-to-peer exchange, training, and strategic development.

The core principles of the broad array of EITC-related work were represented in the NTA's "Earn It, Keep It, Save It" campaign theme launched in January 2003. It was important to promote awareness of the availability of financial support for workers in low-wage jobs and the need to file a tax return to receive the EITC. Eligible workers and their families should be able to claim the benefits they have

earned without spending large sums. Households receiving significant refunds have an opportunity to build a more secure financial future.

In 2003, Brookings launched an interactive website facilitating access to IRS data on tax filers and EITC use at the local community level. Local coalitions formed to build an infrastructure to promote the EITC (plus the CTC and other tax credits), offer free tax return preparation, connect to other public benefit programs and financial education and services, and advocate for public policies favorable to low-income working families.

Also in 2003, AECF, CBPP, NCTC, the IRS, and the National League of Cities convened the National EITC Outreach Partnership in cooperation with other national organizations. This partnership works to promote the EITC as a means of increasing family economic success.

In 2004, a small group of foundations formed the EITC Funders Network to increase awareness of and share information about EITC-related projects and to foster collaboration. Today, more than 200 national, regional, local, corporate, and family foundations participate in the network.

In recent years, the IRS has coordinated an annual EITC Awareness Day to generate media attention, and the “Earn It, Keep It, Save It” idea has been seeded in many communities. SPEC reported an increase in community partnerships from six in 2000 to 290 in 2006 (IRS 2006). Its development of national partnerships facilitated increased involvement by government agencies, the National League of Cities, financial institutions, United Way of America, Goodwill, the Points of Light Foundation, the National Disability Institute, and many others. CBPP continues to produce and distribute the authoritative outreach kit (encompassing the CTC and other refundable credits), and it conducts an annual train-the-trainer seminar to build the national outreach network.

#### IV. Evaluating the EITC Movement

Program evaluation typically involves identifying the objectives sought to be achieved and the planned strategies, documenting actual implementation, determining accomplishments, and comparing those to the desired goals.

In the case of the EITC Movement, there was no single program or even a carefully coordinated set of programs. Organizations of varying sizes, capacities, interests, and goals came to this work over time. The strands considered here as the EITC Movement are quite varied.

Although there is information available on particular programs, documentation of the work of the EITC Movement as a whole is rather scant. Despite the size and scope of the field, evaluative studies are relatively rare. Data availability is one reason, so evidence of impact is difficult to obtain. Diffusion of goals is another complication; it can be hard to pin down the expected outcomes against which performance can be measured.

This reality requires a modesty of expectation in evaluating the EITC Movement. So the aim here is to look broadly at what can be considered the goals of the last decade’s work and to identify potential evidence of achievement. The purpose is not so much to render judgment as to understand better what has occurred with an eye to discerning how best to move forward.

##### A Framework

The “Earn It, Keep It, Save It” theme captures well what appear to be the three basic motivations for EITC Movement work:

- ▶ Ensuring that eligible households know about and claim the EITC (as well as other tax credits and other assistance).
- ▶ Helping claimants avoid costly transaction fees and other expenses.
- ▶ Using tax credit-influenced refunds as an opportunity for asset development.

There is strong anecdotal evidence of significant activity affecting all of these areas, including marketing and promotion, community outreach, consumer education, provision of free return preparation services, and linkages to benefits programs and financial services.

## Quantitative Indicators

The following are examples of specific individual “Earn It, Keep It, Save It” behaviors:

- ▶ filing a tax return that claims the EITC
- ▶ having a return prepared for free at a VITA site
- ▶ not otherwise paying to have a return prepared
- ▶ not utilizing a RAL
- ▶ having a tax refund directly deposited to a financial institution account

The advantage of this particular list is the availability of data for each from the IRS. Unfortunately, the data are not as complete (or as current) as one would like. Nonetheless, using this framework permits some observations about the EITC Movement’s work.

### ***The EITC Movement built upon a program with a high take-up rate.***

Since its early days, the EITC has had a high participation rate relative to other public programs that support the working poor. This is undoubtedly a product of its design. The credit is readily available, without stigma, to the substantial proportion of the population that would be filing a federal income tax return anyway.

The EITC participation rate is very hard to determine, so there are few definitive studies.<sup>11</sup> However, Blumenthal, Erard, and Ho (2005) estimated that 69 percent to 74 percent of eligible households were claiming the credit in tax year 1988 (with a 89 percent rate among those required to file a return). Scholz (1994) found an overall participation rate of 80 percent to 86 percent for tax year 1990.

It is likely that two of the precursors of the EITC Movement—the CBPP-led outreach and promotion campaign and the commercial tax preparation industry’s presence in lower-income communities—were significant factors in the credit’s successful take-up rate. CBPP’s work specifically targeted those workers who were not required to (or may not have seen a reason to) file a tax return, as well as filers who may have overlooked the credit during return preparation. Commercial preparers were motivated to increase filing and ensure that filers claimed available credits and received the greatest refund possible. It was upon this already strong foundation that the EITC Movement worked to build.

### ***It is hard to identify the effect of the EITC Movement on EITC participation.***

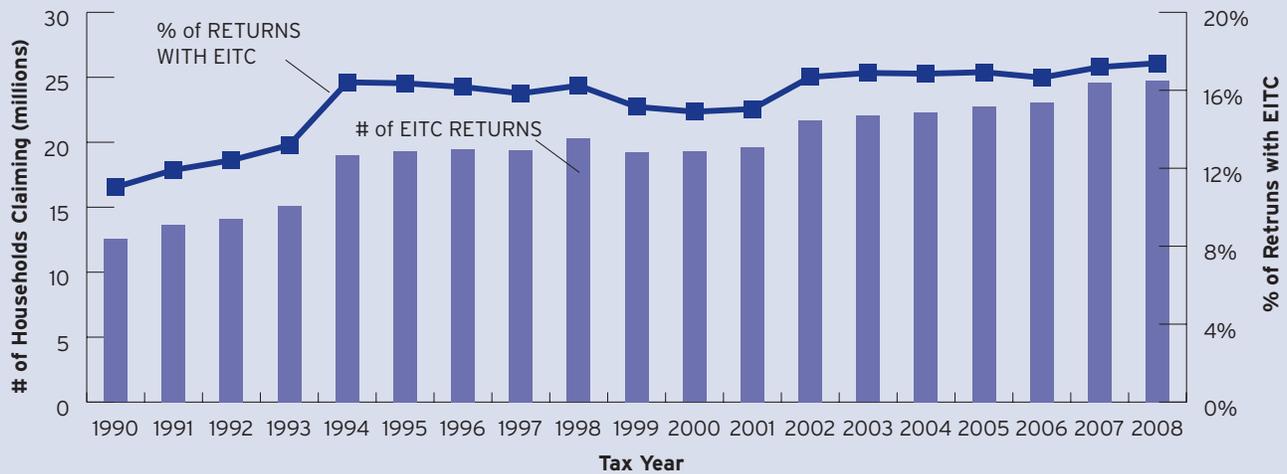
There was a significant increase early in the last decade in the number of households claiming the EITC, and there has been slow but steady growth since. Figure 1 looks at the total number of claiming households and the percentage of all individual federal income tax returns claiming the credit.

The spike in tax year 1994 (from 15.1 million EITC returns to 19.0 million) corresponds with an expansion in eligibility for the credit by raising the income eligibility ceiling and making a credit available to workers without qualifying children. The programmatic change associated with the increase in tax year 2002 (from 19.6 million returns to 21.7 million) was less significant.<sup>12</sup>

This second increase does correspond to the increased activity of the EITC Movement, but there was also an economic downturn at this time. A poorer economy probably results in a higher number of EITC claims (Berube 2006). Although high unemployment likely increases the number of persons not working at all, and those individuals would be ineligible for the credit, reduced earnings (from wage stagnation or a reduction in hours worked) would mean that a larger proportion of the population would have the lower incomes that could make them eligible for the credit.

The real measure to look to is change in the EITC participation rate. As noted earlier, this is difficult to determine. The available studies confirm that the overall participation rate fell after the expansion of the credit to workers without qualifying children because of the lower claiming rates among this population (Holt 2006), but there has been no systematic tracking of participation rates over time. The most recent estimates of EITC participation confirm earlier studies in finding that *at least* 75 percent of eligible households claim the credit (Pleuger 2009). There is some evidence of increasing take-up, with 76 percent participation in tax year 2005, 77 percent in 2006, and 79 percent in 2007. A different measure—looking at the percentage of EITC dollars claimed (thus accounting somewhat for the lower claiming among workers without qualifying children)—was 84 percent for tax year 2005, 86 percent for 2006, and 87 percent for 2007 (O’Hara 2010).<sup>13</sup> This change could reflect, at least in part, the cumulative effects of the EITC Movement, but it is hard to isolate.

Figure 1. EITC Claims, 1990 to 2008



Source: Internal Revenue Service Statistics of Income

Several communities undertook new or renewed promotional efforts related to the EITC since 2000, but this was not universal. This variation could provide a means of looking at the effect of outreach campaigns on EITC participation. Unfortunately, the data are not well-suited to definitive analysis:

- ▶ although it is possible to identify communities that have had focused outreach programs, this knowledge is imperfect and incomplete, and there is no reliable index for valuing the relative level of activity;
- ▶ the participation rate measure is largely unavailable at the local level, because the population surveys used to assess the number of eligible households are not sufficiently large to permit statistically reliable findings for smaller geographic areas (even for many states); and
- ▶ indicators such as changes in the number or percentage of lower-income filers or EITC filers are meaningless without controlling for local changes in population, demographics, and economic conditions that may be difficult to discern.

The last point is particularly important. Kneebone and Garr (2011) find that changes in EITC claims are strongly tied to changes in a community's overall low-income population. In fact, the EITC filing rate functions effectively as an economic indicator. This relationship appears sufficiently strong to mask any differential impact of outreach campaigns observable within the available data.

***Use of Community VITA free return preparation services has grown significantly, with significant market share in some communities, though most using the services do not claim the EITC.***

A centerpiece of the EITC Movement at the local level has been the preparation and filing of income tax returns at no cost to taxpayers through expansion of the Community VITA program.<sup>14</sup> The significance of a strong network of tax sites extends beyond return preparation. Outreach communications gain greater relevance with the ability to advertise sites and use them for press events, and the sites themselves generate word-of-mouth promotion. Robust free sites can influence the overall return preparation market. VITA sites also provide a venue for linking to benefits programs and financial services.

The Community VITA program has grown rapidly. Between 2001 and 2008, the number of returns prepared went from 674,000 to 1.37 million, an increase of 103 percent.<sup>15</sup> The program represents a

**Table 1. Change in Tax Returns Prepared Through VITA, 2001 to 2008**

City	Change in VITA returns (2001 to 2008)	City	Change in % of all returns prepared by VITA (2001 to 2008)
New York	71,804	Rochester	+ 7.6
San Antonio	29,507	Buffalo	+ 6.6
Philadelphia	16,475	Hartford	+ 5.3
Chicago	15,161	Tulsa	+ 4.8
Boston	11,157	San Antonio	+ 4.5
Tulsa	9,579	Provo	+ 4.4
Austin	8,758	New Haven	+ 3.8
Buffalo	8,418	Boston	+ 3.6
Baltimore	8,409	Syracuse	+ 3.4
Louisville*	7,871	Harrisburg	+ 3.3

Source: Author's analysis of Internal Revenue Service data

\*Figures for Louisville are for Jefferson County, KY.

small but increasing fraction of all return activity, preparing in 2008 0.9 percent of all federal returns and 1.6 percent of returns claiming the EITC (compared to 0.5 percent of each in 2001). Even at this size, Community VITA may be seen as one of the nation's largest return preparers; the largest commercial firm (H&R Block) cites preparing one in every seven tax returns (about 14 percent), and the next largest (Jackson Hewitt) files about 2 percent. The IRS website's directory lists for the 2011 tax season nearly VITA 4,500 sites in all 50 states and the District of Columbia (noting also that it does not include every site).<sup>16</sup>

Though the EITC largely fueled the development of the community tax field, only a minority of Community VITA filers claim the credit. In 2001, just over 15 percent were EITC claimants; in 2008, it was about 27 percent. Even programs that focus on the EITC seldom have a majority of filers claiming the credit. Among 37 community tax preparation campaigns reporting through AECF's NTA data collection process in 2010, 39 percent of the over 250,000 returns claimed the EITC (24 percent claimed the CTC).

Nonetheless, free tax programs meet the broader goal of helping low-income taxpayers obtain their refunds—frequently representing just excess amounts withheld from paychecks—at no cost. Among the NTA-reporting campaigns in 2010, the median adjusted gross income of filers was \$15,601. Most filers (86 percent) claimed a federal refund, and the median refund amount was just over \$1,000. Even 78 percent of taxpayers receiving neither the EITC nor the CTC claimed a refund, with a median value of \$690.

Some community campaigns have seen dramatic growth. Among the cities in the largest metropolitan areas, the number of Community VITA-prepared returns increased by 268 percent between 2001 and 2008.<sup>17</sup> Table 1 looks at this growth through 1) the cities with the largest numerical increases in the number of VITA returns prepared, and 2) the largest percentage point increases in the proportion of all local returns prepared by VITA.

The concerted efforts in some localities to develop a vigorous free return preparation program infrastructure may be seen in a sizeable Community VITA market share. Table 2 ranks the cities with the greatest VITA market presence, measured both as a percentage of the total market and as a percentage of the more targeted market of returns claiming the EITC.

As noted earlier, Community VITA nationwide functions as one of the largest-volume return preparers. The market share figures underscore VITA's significance in several communities. Community tax site managers have perceived their influence grow as they increase their market share. There is anecdotal evidence of commercial preparer reactions such as product and pricing adjustments and political activity directed at what is seen as unfair competition.

**Table 2. Cities with Highest Shares of Returns Prepared by VITA, 2008**

ALL RETURNS		EITC RETURNS	
City	% VITA-prepared (2008)	City	% VITA-prepared (2008)
Rochester	7.8	Tulsa	12.5
Buffalo	7.1	Cambridge	11.8
Tulsa	6.8	Rochester	11.4
Hartford	6.7	Boston	8.3
San Antonio	6.2	Buffalo	8.2
Provo	5.3	San Antonio	8.1
Bridgeport	4.6	Hartford	7.7
New Orleans	4.1	Austin	6.8
New Haven	4.0	Provo	6.7
Syracuse	3.9	Albuquerque	6.4

Source: Author's analysis of Internal Revenue Service data

**Use of paid preparers does not appear to have been greatly affected overall or even in most communities with strong free preparation programs.**

Community tax sites are part of the EITC Movement's goal to reduce or eliminate the transaction costs faced by low-income filers seeking to claim the tax-based earnings supplements and child benefits. A disproportionate number of tax filers least able to pay (for example, low-income Latino and Black parents and those with a high school education or less) have utilized commercial preparers (Maag 2005). The EITC is a key factor: although lower-income taxpayers in the EITC income range who did not receive the credit have been less likely than higher-income taxpayers to use a paid preparer, EITC recipients have been more likely to do so (Berube 2006).

The success since 2000 in expanding access to free return preparation through VITA does not appear to have significantly curtailed use of paid services. The percentage of EITC returns filed by paid preparers actually rose, from 65 percent in tax season 2001 to just over 70 percent in 2004 through 2007 before falling slightly to 68 percent in 2008. This paralleled the overall trend among higher-income taxpayers.

The relationship among cities in the largest metropolitan areas between Community VITA market share and the size of the paid preparer market is weak.<sup>18</sup> The free tax sector does not appear to explain the considerable variation in the size of the commercial presence in cities. Even focusing just on corresponding changes in the VITA and paid EITC market shares—to see if growth in the former is related to decline in the latter—shows the same variability.<sup>19</sup> Table 3 compares percentage-point changes between 2001 and 2008 in the cities with the largest VITA EITC share increases.

Although some communities have figures that could correspond to Community VITA replacing paid preparers (or the presence of a strong VITA program having influenced EITC claimants' choice of paid vs. self or other unpaid preparation), this does not appear to be the general pattern.

**RAL use has dropped significantly, looks likely to fall further, and may even end.**

Although the costs associated with using a commercial preparer can include return preparation, filing, and other processing fees, the expenses most targeted by the EITC Movement have been those associated with RALs. As noted above, the RAL is a product that has been closely linked to the EITC. Between 1999 through 2002, an average of 41 percent of returns claiming the EITC were associated with a RAL compared to 7 percent of refund-claiming returns not claiming the EITC (Berube and Kornblatt 2005). Almost half of the EITC claimed for 1999 was paid through a RAL (Berube et al. 2002). For tax year 2003, the percentage of EITC recipients obtaining a RAL was more than twice that of low-income filers generally (35 percent compared to 16 percent).

Commercial preparers typically offered a suite of refund-payment bank products. An "instant" RAL provided an immediate payment of part or all of an expected refund. A "traditional" or "classic" RAL,

**Table 3. Paid Share Change in Cities with Largest Increases in VITA EITC Market Share, 2001 to 2008**

EITC RETURNS		
City	%-point change in VITA share (2001 to 2008)	%-point change in paid share (2001 to 2008)
Cambridge	+ 11.3	- 5.3
Rochester	+ 11.2	- 8.8
Tulsa	+ 8.3	- 1.6
Boston	+ 8.2	+ 3.8
Buffalo	+ 7.7	+ 2.1
San Antonio	+ 6.8	- 3.7
New Haven	+ 6.2	+ 3.4
Hartford	+ 6.0	+ 19.2
Provo	+ 5.7	- 5.6
Austin	+ 5.7	- 3.1

Source: Author's analysis of Internal Revenue Service data

for those with less promising credit histories, usually provided a refund advance within two days.<sup>20</sup> A refund anticipation check, or RAC, is a lower-cost, non-loan product that is essentially a one-use bank account into which the IRS deposits the refund; the preparer can draw down preparation, filing, and RAC fees and then provide the balance to the taxpayer in a paper check, prepaid debit card, or direct deposit transfer (Wu and Fox 2008).<sup>21</sup>

Although community tax programs emphasize free service and delivering refunds through direct deposit, some programs acted to address consumer demand by offering an alternative RAL that provided more favorable terms to taxpayers. The concept was that a well-designed RAL could be a beneficial product serving as a catalyst for asset development (Audetat et al. 2004). The Express Refund Loan and Savings Program offered by community tax programs in Minnesota combined free return preparation and a low-cost loan disbursed through a credit union savings account (Gerber 2009). The City of San Antonio RefundExpress product was a no-fee, no-interest loan with a \$5 fee to open the associated credit union account. A private firm (Advent Financial) has facilitated a more traditional but lower-cost RAL for use by both VITA sites and commercial preparers.

More dominant, however, has been a public education message explaining no-cost alternatives to RALs and RACs. The extent to which these bank products accelerate receipt of a refund depends on which alternative the taxpayer would otherwise use. A person without a bank account (or not utilizing an account for direct deposit) mailing in a return could wait over six weeks to receive a check from the IRS. Filing electronically would reduce the wait by half. Filing electronically and choosing direct deposit would make funds available within one to two weeks, the same time frame as for a RAC.

The EITC Movement has also evaluated RALs and related products and pushed for their regulation or elimination. Annual and supplemental reports from NCLC and CFA have exhaustively documented the refund products market. A "mystery shopper" test of commercial preparers in Durham, NC and Philadelphia in 2008 found serious problems both with return preparation and marketing of RALs (NCLC, 2008). Preparers gave unclear pricing information, failed to disclose that RALs are loans or that filers had free-filing options, and made errors on returns that would have inflated refunds. Follow-up testing in 2010 in Arkansas, New York, and Durham found similar problems (NCLC, 2010).

The highest incidence of RALs among EITC filers occurred in 2002. There was great regional variation. Among cities in the largest metropolitan areas, the share of EITC filers requesting a RAL ranged from 13 percent in San Francisco to 69 percent in Jackson, MS and Memphis. Berube and Kornblatt (2005) found that more than half of all EITC recipients using a RAL lived in the South.

The EITC Movement's persistent fight against RALs had success. Costs fell: the price in 2010 for a "typical" RAL (\$3,300) was \$65, down from \$100 to \$110 in 2007 (Wu & Fox 2010).<sup>22</sup> More importantly, as seen in Figure 2, after rebounding in the years after institution of the Debt Indicator Program, RAL

Figure 2. Total RALs made, 2000 to 2009



Source: Wu and Fox (2011)

use stagnated and then fell,<sup>23</sup>

Wu and Fox (2007) note the substantial decline in 2005 and cite several possible factors: reporting changes, enhanced disclosure requirements, greater public awareness of the perils of RALs, and the work of community tax programs.

Although RALs have similarly declined among EITC filers, EITC recipients have remained disproportionately inclined to request the product.<sup>24</sup> Figure 3 looks at use of paid preparers and RAL requests in the 2008 tax season among all taxpayers, lower-income taxpayers generally (those with adjusted gross incomes under \$30,000), and EITC filers, demonstrating the continued association of the credit, the commercial industry, and RALs.

In 2009, 64 percent of RALs were for EITC recipients (Theodos et al. 2010).

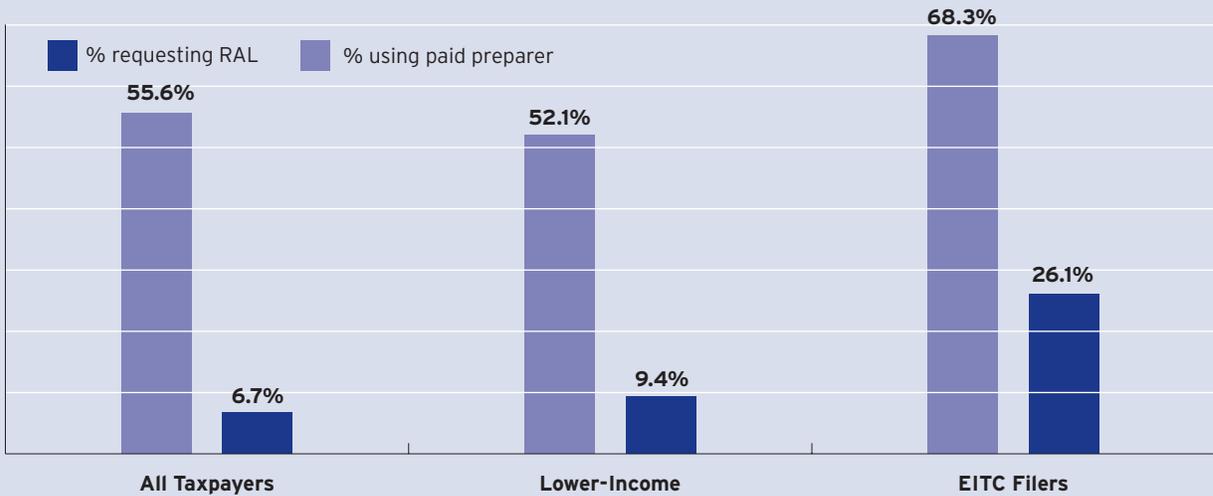
Table 4 looks at the highest and lowest rates of RAL use among EITC filers in cities in 2002 and 2008.

Although there were great declines in RAL use among EITC filers from 2002 in high-use areas (many of them in the South), widespread variation and regional disparities remained.

Public policy has been the most effective force against RALs. Twenty (20) states have regulated RALs in some fashion, mostly through consumer disclosure requirements rather than interest rate caps (Wu and Fox 2011).<sup>26</sup> A law enacted in 2006 capped the interest rates on consumer loans to members of the military community at 36 percent. This was well below the effective annual percentage rates on RALs. The result: the number of military households using a RAL fell from 168,200 in tax year 2005 to 15,700 in 2008 (Theodos et al. 2010).<sup>27</sup>

Federal agencies—responsive to the work of the EITC Movement—have delivered the greatest blows to the RAL industry. Before the 2010 tax season, the Office of the Comptroller of the Currency (OCC) forced Santa Barbara Bank & Trust (the main RAL provider for Jackson Hewitt) out of the RAL market. In April 2010, JP Morgan Chase voluntarily exited the RAL market. In August, the IRS announced it was eliminating the Debt Indicator Program, specifically to curtail use of RALs in light of the targeting of lower-income taxpayers and the availability of electronic filing and direct deposit for quickly accessing cash. Republic Bank & Trust (lender for Jackson Hewitt and Liberty) instituted a maximum loan amount of \$1,500 (and projected a major loss in business). In December, the OCC prohibited HSBC (H&R Block's partner bank) from making RALs, then in February 2011, the Federal Deposit Insurance Corporation notified Republic (subject to appeal) that its RALs are "unsafe and unsound" due to the

**Figure 3. Paid Preparer and RAL Use By Taxpayer Group, 2008**



Source: Author's analysis of Internal Revenue Service data

**Table 4. Cities with Highest and Lowest Rates of RAL Use Among EITC Filers, 2002 and 2008**

Percent of EITC Filers Requesting a Refund Anticipation Loan			
2002 (%)		2008 (%)	
Memphis	69.4	Jackson	47.4
Jackson	69.2	Birmingham	45.5
Atlanta	67.3	High Point	43.1
Birmingham	66.3	Memphis	42.8
Norfolk	64.5	Chattanooga	42.2
Sunnyvale	15.0	Sunnyvale	8.5
Cambridge	14.9	Thousand Oaks	8.2
Santa Clara	14.4	Cambridge	7.7
Bellevue	13.9	San Francisco	7.5
San Francisco	12.6	Bellevue	6.9

Source: Author's analysis of Internal Revenue Service data

loss of the Debt Indicator.

It is unclear what alternatives to RALs may emerge. Growth in RACs has already been evident. Many of the former military household RAL users may have switched to using a RAC (use of RACs rose from 221,900 to 335,400 between tax years 2005 and 2008). Overall in 2009, 42 percent of RACs were associated with the EITC (Theodos et al. 2010).

**Direct deposit of refunds among VITA users and EITC claimants is up sharply, but this reflects a larger market trend.**

An important aspect of the EITC Movement is using return preparation as an opportunity to promote or provide financial services and products aimed at improving family economic security. The initial theoretical framework of the NTA Campaign sponsored by AECF was that many free tax preparation clients would receive large refunds due to tax credits; receipt of a large tax refund would be a financial

windfall presenting an opportunity to save; and free tax preparation sites could help families convert tax credits into savings by offering bank accounts and other asset building opportunities. The experience of community programs was that this was harder to do in practice than in theory (Holt and Skricki 2005).

A common misconception was that those coming to free tax sites were largely unbanked. However, surveys of site users have consistently found that over two-thirds have a bank account, savings account, or both. Among the community programs reporting through AECF's NTA data collection process in 2010, 83 percent of filers reported having a bank account, and the figure was over 90 percent in some places.

Nonetheless, there remain a significant number of VITA clients not connected to a traditional financial institution, and a 2007 survey found that facilitating access to checking and savings accounts was offered at over half of community tax programs. Group financial education or training was offered by almost two-thirds; roughly a third were offering access to credit reports, and fewer than one in ten were offering financial or retirement planning (Collins and Baker 2007).

A specific behavior the EITC Movement has promoted is use of financial institution accounts for direct deposit of federal tax refunds. During the 2001 filing season, only 24 percent of the EITC filers who claimed a refund utilized direct deposit.<sup>28</sup> Among NTA-reporting Community VITA sites in 2003, 38 percent of those claiming a refund had it directly deposited. By 2008, this had risen to 56 percent. Among those refund claimants who said they had a bank account, 52 percent selected direct deposit in 2003 and 71 percent in 2008.<sup>29</sup>

To a large extent, however, the change in direct deposit behavior appears to reflect a larger trend not specific to the EITC Movement. There has been a general increase in awareness and acceptance of direct deposit. Among all taxpayers claiming a refund, there was a 37 percentage-point increase in direct deposit use between 2001 and 2008 (to 63.1 percent), and there was a 44 percentage-point increase among those claiming the EITC and a refund (to 67.7 percent). The Community VITA trends are similar. Among the 10 cities with the largest VITA EITC market shares, the percentage-point increase in direct deposit use among all filers was from 32 to 44, and among EITC filers it ranged from 26 to 46.

### **Political Impact**

In addition to marketing, education, and provision of direct service, some of those active in the EITC Movement have advocated for fundamental policy changes aimed at benefiting the EITC population as broadly defined (low-income workers and their families). These efforts have yielded notable results.

As noted earlier, the transformation of the CTC in 2001 to become in part a work-based refundable tax credit similar to the EITC was due to advocacy work among the EITC Movement's precursors. The broader work that followed increased the visibility of the credits, recipients, and the claiming process. There was also explicit advocacy for further improvements and expansions. These came to fruition when, as part of the two waves of economic stimulus legislation enacted in 2008 and 2009, the EITC was increased for households with three or more children and the qualifying earnings threshold for the refundable portion of the CTC was significantly lowered.<sup>30</sup>

The effect of the EITC Movement has been equally notable in state tax policy. Twenty-three (23) states, the District of Columbia, and three local governments have now enacted their own EITC, and most, like the federal, are refundable (CBPP 2011). Just as importantly, there have been broader changes in tax laws to ease the burdens on low-income households. Although budgetary problems associated with the economic downturn have caused many states to reconsider these policies, most have stayed in place (Johnson and Williams 2010).

The EITC Movement has also successfully advocated for public backing of community tax sites. Some states and local governments provide financing that supports VITA site operations (as well as some outreach and promotion activities). More significantly, the federal VITA grant program—initiated in 2008 at \$8 million annually—announced more than \$11 million in grants to 177 organizations in the fall of 2010. This program has been a signature legislative priority and success for the NCTC and its affiliates.<sup>31</sup>

As described above, advocacy work has contributed to the curtailment and possible elimination of RALs. RAL restrictions are now embedded in broader efforts—spearheaded by the IRS—to regulate paid

preparers. This is a small but significant signal implicitly recognizing that paid preparers function as *de facto* public agents in the collection of revenues and administration of government benefits. The paid preparer role in implementation of the EITC, and the attention drawn to it by advocates, has been key.

Although the EITC Movement has generally worked in concert with the IRS, a notable exception was the controversy regarding EITC “precertification” starting in 2003. An IRS study requiring a small sample of EITC claimants to provide more information to establish their eligibility was scaled back in response to widespread criticism, and a 2005 program to test certification approaches in a single community (Hartford) met with local resistance and lawsuits (Zelenak 2005). The IRS has not pursued advance certification of qualifying children in its efforts to reduce program error rates.

The EITC Movement also gave rise to the development of an infrastructure more conducive to the use of tax refunds for asset development. Since 2007, taxpayers have been able to split receipt of a tax refund into up to three financial accounts. Spearheaded by Doorways to Dreams (D2D), the split refund concept (embodied in IRS Form 8888) encourages allocating a portion of refunds into savings vehicles such as IDAs and retirement accounts. In 2010, purchase of U.S. Savings Bonds became another option. Taxpayers are now also able to use Form 8888 to purchase bonds for others (or for joint ownership). Another option for unbanked or underbanked taxpayers selected to participate in a 2011 Treasury Department pilot is refund receipt via a specially-developed prepaid debit card account.

## V. The Future of the EITC Movement

The past decade has seen remarkable activity associated with the EITC. The field now faces challenges, especially from uncertainty about continued funding for programming and threats to the credits themselves. Fortunately, this moment is also an opportunity for the EITC Movement to figure out how to build on its accomplishments and lessons. The template for future direction involves building in a systemic fashion on what best advances the EITC Movement’s goals and addressing forthrightly the policy challenges.

### The Systemic Approach

One could read the assessment of the EITC Movement’s work as a story of minimal impact: no conspicuous boost in EITC participation and an appreciably larger yet still small Community VITA program that has periodically tweaked the commercial tax preparation industry. This would fail to capture the truth. There has been significant success of the EITC Movement in the synergistic breadth and variability—the systemic presence—of the work. The sum of the whole has indeed been more than the sum of the particular aspects such as social marketing, service provision, program promotion, research, and advocacy. Through both accident and design, there have been numerous points of mutual leverage.

There is indeed an EITC Movement, and the concept generates value. Going forward, those in this Movement should be unified by specific objectives that build on yet refine the comprehensive investment approach developed by AECF as the “Earn It, Keep It, Save It” model:

- ▶ community awareness of eligibility for tax-based work supports
- ▶ easy access to tax-based supports
- ▶ facilitation of sound financial practices
- ▶ protection against predatory interference

Specific programming within any of these areas—whether by national organizations or broad-based coalitions or an individual community agency—should be referenced to its place in the larger EITC Movement locally, regionally, and nationally. To be most effective, the four elements need to be present in concert; there is important added value for each when there is activity in all. However, this does not necessarily require either formal programming (small gestures in a systemic context can sometimes yield big rewards) or close coordination (multiplicity and overlap are preferable to inadvertent gaps). It does require employing a systemic perspective in planning, implementation, and evaluation.

Within each area of focus, experience to date provides guideposts for focusing on the best opportunities for influence, even when that means abandoning some prior assumptions.

***Community Awareness: There should be sufficient knowledge in the community about eligibility for the EITC and other tax-based work supports to reach everyone who qualifies.***

Even with the historically strong take-up of the EITC, there is an ongoing role for community promotional efforts. Studies showing the variability in the EITC-claiming population from year to year underscore the need for generalized knowledge in communities regarding eligibility to maintain the high level of program participation.<sup>32</sup> Outreach concerning eligibility also highlights for non-recipients the link to work and the role the credit plays in the social safety net.

Because awareness and use of the credit appears to differ across population groups (Holt 2006), EITC participation rates likely vary among communities, and economic changes can create variable information needs. The IRS and national groups such as CBPP can assist in identifying and developing messages and strategies for particular local needs. They can also ensure that other tax-based supports (such as the CTC and higher education credits) are adequately addressed.

Communities should, however, avoid basing their campaigns on large sums of money “left on the table” from unclaimed EITC. This is likely inaccurate and certainly creates expectations that cannot be met. Although the EITC participation rate studies suggest that 25 percent of those eligible may not be claiming the credit, this is an upper-bound estimate. Moreover, most of those not claiming the credit are likely eligible for relatively small amounts.<sup>33</sup> Modest targets tied to increasing the number of EITC filers (based on analyses of IRS and Census data) can be reasonable, but even then communities should recognize the predominance of larger economic and demographic factors in year-to-year changes.

Adequate community awareness need not mean universal direct knowledge among those eligible. Intermediaries play an important role, and effective identification and use of networks is important. The systemic perspective is also relevant; for example, general use of well-qualified (thus knowledgeable) return preparers (with strong consumer protection) could be one way to achieve the awareness goal.

***Easy Access: Everyone eligible for tax-based work supports should be able to obtain them quickly, simply, and inexpensively.***

One of the hallmarks of the EITC has been its low administrative costs to the IRS. However, much of these savings simply represent a shift in who bears the burden. Credit claimants must figure out—on their own, or with the assistance of others (paid or unpaid)—how to assess their eligibility, fill out forms, and file their returns. This is true of taxpayers generally, but it can seem especially stark with low-income filers who are counting on the tax system to provide key earnings support (and whose only reason to file a return could be to claim that support).

Pursuing the goal of easy access requires a mix of strategies, beginning at the national level. The IRS should follow the lead of some states and invest in a direct filing infrastructure. Taxpayers could obtain answers to questions about tax law and complete and file tax forms online without charge. The current IRS website and the FreeFile Alliance fall short of this goal. There is no direct filing with the IRS; rather, there is an IRS portal to various commercial software products. Although this arrangement provides free access in 2011 to software and electronic return filing for taxpayers with adjusted gross incomes of up to \$58,000, it can be confusing, limited in scope, and result in taxpayers incurring other charges.<sup>34</sup>

Another technique that would reflect the governmental obligation to provide easy access to tax-based work supports could be vouchers. Those claiming the EITC and similar credits and filing electronically would be eligible to claim a payment for obtaining return preparation and filing services. The amount of the voucher would be less than market rates but sufficient to obtain services from commercial preparers.

Both the FreeFile Alliance and the idea of vouchers reflect the roles the commercial preparation industry could play in facilitating easy access. In the near term, IRS preparer regulation and possible new mechanisms for taxpayers to pay return preparation fees directly from refunds can provide opportunities for community-level alliances of the EITC Movement with paid preparers focused on quality and affordability.

The clearest success of the EITC Movement has been the growth of VITA, and community tax sites are a significant point of access to tax-based work supports. VITA is sometimes viewed as an

inexpensive way to get returns done using volunteers on donated equipment in community centers. While this represents some free tax sites, it fails to capture what it takes to offer a quality product, to serve groups with special needs, or to operate with a more systemic perspective.<sup>35</sup> Even a small-scale program can require substantial resources in dedicated trained volunteers, paid staff, or both (as well as operational support). Moreover, scale—the Community VITA share of the local return preparation market—matters, both logically and anecdotally: larger programs not only serve more taxpayers, but they can exercise leveraged influence on the broader market to further the easy access objective, and they are better equipped to advance systemic goals.<sup>36</sup> These programs require additional resources.

Community VITA requires public investment. IRS grants to VITA sites offer a means for the federal government to meet its obligation in the credit delivery process, but the current matching grant program serves only a fraction of the need. Vouchers redeemable at community tax sites would be another option for addressing the current shifting of costs onto EITC recipients.

To be sustainable, the Community VITA model must also be modified and augmented. Sites need to pursue alternative service delivery approaches, such as assisting taxpayers with preparing their own returns.<sup>37</sup> Supplementary revenue streams involving cost-sharing by taxpayers (reduced-fee or sliding-scale models) merit attention. At present, a majority of VITA users are not claiming the EITC or other tax-based work supports; although there is certainly merit in addressing the needs of all low-income filers beyond the EITC population, limited capacity may require differentiated strategies for service provision and revenue streams.

***Financial Empowerment: Recipients of tax-based work supports should have opportunities to engage in sound financial practices that build household economic security.***

The EITC has been associated with greater savings and a related sense of social inclusion (Office of Financial Empowerment 2008, Mendenhall et al. 2010). It makes sense for the EITC Movement to devote attention and resources to broader issues of household economic security. Both national and local organizations need to exploit the success to-date of the EITC Movement and the infrastructure it has created, including return-based direction of refund dollars into multiple accounts and purchase of U.S. Savings Bonds, high-quality prepaid debit cards for direct deposit of refunds claimed by those without traditional accounts, and use of data collected at tax sites to assess eligibility and ease application for other work supports.

The merits of the systemic approach are especially evident here. Programs centered on providing easy access to tax-based work supports have been vital laboratories for identifying financial needs and interests of filers and testing products and approaches. Employing these tools at tax sites gives families viable alternatives to predatory products while building economic security.

At the same time, return preparers need to recognize the limits of the tax time interaction. People come to community tax sites to get their taxes done. This sometimes involves lengthy waits. Although some users may welcome being introduced to other services and products and be willing to take more time at the site or in later follow-up, this should not be overestimated. The primary focus of tax sites must be on tax returns.

The role of the EITC Movement in this area may be more with organizations operating programs that have year-round (or at least more frequent than annual) interaction with work-support recipients who have indicated an interest in financial advice. Partnerships that facilitate quality tax return preparation for these clients can best build on the empowering role of the EITC and other credits.

In all cases, the focus must always be on facilitating sound financial practices rather than directing particular behaviors. The EITC is designed to fill a gap between what can be earned in the labor market and what is required to meet household needs. This complicates asset accumulation, but it does not preclude savings-oriented behavior. The relationship between EITC-influenced tax refunds and consumption and savings is complex and variable (Mendenhall et al. 2010). There is a role for the EITC Movement in harnessing insights from behavioral economics about mechanisms for helping households achieve the goals they themselves set. There is no worthy purpose served in independently deciding what is good for others.

***Consumer Protection: The delivery of tax-based work supports should be free of predatory interference.***

History demonstrates the creativity and persistence of those seeking to exploit the financially-vulnerable households eligible for the EITC. The next few years will likely see variations on the traditional RAL, return-linked prepaid cards with unfavorable terms, and other wealth-stripping products. An emerging concern is the high use of RACs among taxpayers preparing their own returns.<sup>38</sup> The EITC Movement—community outreach campaigns, tax sites, and asset-building programs, in cooperation with national organizations—should exploit its function as an early-warning network for identifying and then combating new predatory practices.

The IRS's regulation of paid preparers presents an opportunity to curtail abuses in the commercial industry and protect EITC recipients and other low-income taxpayers. The EITC Movement may be able to work with the commercial sector to develop a tough but fair regulatory approach that isolates bad actors. Local alliances can develop and implement community standards for responsible conduct.

The issue of predatory practices underscores the importance of the systemic perspective. Without attention to consumer protection, work to assure awareness of eligibility or to highlight the EITC's connection to economic opportunities can simply drive recipients toward those seeking to siphon off large portions of tax returns as the price of access to return preparation or financial services.

**EITC Structural Issues**

Of course, the EITC Movement must also address the policy that underlies all this work. The following issues appear to be the most critical.

***Defending Refundable Credits***

The expansions in the EITC and CTC enacted since 2000 are all scheduled to expire after 2012 in an environment focused on spending cuts and deficit relief. This encompasses most refundability of the CTC, EITC marriage penalty relief, and the higher EITC for families with three or more children. In state capitals, the ongoing need to balance budgets in the face of revenue shortfalls and growth in health and other expenditures is putting pressure on refundable state credits. Protecting tax-based assistance for lower-income workers will need to be a major task for the EITC Movement.

This will include defending the refundable credit concept itself. The tax system is an efficient mechanism for delivering assistance. Attacks on payments that exceed tax liability are attacks on the redistributive nature of the program that need to be addressed directly. The EITC is an expression of a fundamental social contract: all Americans who can work should be able to work to support themselves and their families and not be poor. This requires work supports such as earnings supplements. The fundamental policy shift in moving low-income parents from cash assistance to employment has been based on this concept. With likely increased attention to work requirements, the role of refundable credits should be vigorously defended.

***Supporting All Workers***

Current policies, weighting child-related assistance more than earnings supplementation, fall short for workers not raising children in their homes (many of whom have children living elsewhere they are expected to support). This was addressed in part by the now-expired Making Work Pay credit but not in a targeted way. The current EITC for this population is inadequate in scope: a full-time worker earning minimum wage is above the income limit, and workers under age twenty-five are disqualified (Edelman et al. 2009). An expansion of the EITC for workers without qualifying children would address this critical gap in the social contract.

***Reducing Error***

The EITC error rate is a long-standing issue of contention now receiving renewed attention.<sup>39</sup> The EITC Movement should be aggressive in addressing these concerns. Error rate reduction must always be a welcome goal for those supporting the EITC as a core anti-poverty tool.

As part of its EITC preparer compliance initiative, the IRS in October 2010 started sending letters and making personal visits to commercial preparers to address several potential sources of error such

as lack of knowledge of EITC criteria, honest mistakes, intentional or inadvertent client misrepresentations, disregard for due diligence requirements, and intentional fraud (IRS 2010). A similar range of causes can lead to error in self-prepared returns.

These are issues common to tax law compliance. The EITC is one of many sources of error in tax code administration. It should be subject to equal scrutiny. Complicated eligibility criteria are a source of confusion and error; there needs to be an assessment of the impact of efforts over the past decade to address some of the more complex rules as well as further efforts at simplification. Combating EITC error can be informed by the efforts of the National Taxpayer Advocate (2010) to examine taxpayer compliance in general while recognizing the unique enforcement challenges potentially posed by a refundable credit. The emphasis always should be on the status of EITC claimants as taxpayers in a regime of voluntary compliance (Holt 2007).

### ***Improving Delivery***

Finally, improvements in how recipients receive the EITC (and possibly other refundable credits) offer the greatest potential for maximizing the credits' role in promoting family economic success. Three priorities stand out.

Every taxpayer should have access to a suitable account to use for direct deposit of tax refunds. Those who do not wish to or cannot open a bank account should nonetheless have a direct deposit option that does not expose them to high fees or predatory practices. The Treasury Department's program testing provision of low-cost prepaid debit cards for this purpose during the 2011 tax season merits further support.

There should be basic income protection for low-income taxpayers who are subject to interception of tax refunds to satisfy government debts. The Consumer Credit Protection Act limits garnishment of wages to ensure that workers receive at least a portion of their weekly earnings. Even when there are tax and child support arrearages, a worker keeps 35 percent to 50 percent of net earnings. This protection does not apply to tax refund intercepts. This diminishes the work encouragement offered by the EITC and limits the incentive to file a return and claim supports that could benefit not only the worker but those to whom money is owed. One approach would be the recommendation of the National Taxpayer Advocate (2009) to limit the portion of a tax refund attributable to the EITC that may be offset to 15 percent.

Finally, households need a viable option for obtaining at least a portion of the EITC periodically during the year rather than having to wait until tax time the following year. One approach would permit a qualifying worker to receive one-half of her expected EITC in four equal quarterly payments by direct deposit from the IRS. Payments received based on valid declarations of expected eligibility would not be subject to a repayment obligation, reducing the perceived risk associated with the little-used and now-repealed Advance EITC payment option (Holt 2008).

## VI. Conclusion

The EITC is an extraordinary public program. It is a vehicle for simultaneously pursuing several policy objectives and has served as a blueprint for other program development. Its administrative costs to government are low, its participation rates high, and it has proven successful at encouraging work and reducing poverty.

The EITC has also spawned an array of activity. Early on, there was outreach to inform eligible households about the availability of the credit and the need to file a tax return. Commercial return preparers soon recognized the business opportunities associated with new filers and large refunds, and there was a reaction to what were seen as predatory practices. What eventually evolved nationally and in communities across the country since 2000 can be described as an EITC Movement.

The activity associated with the EITC Movement has been considerable, though it is hard to quantify its impact. A significant achievement has been the growth of the VITA program. Free tax sites now have a sizeable market share in several cities. The EITC Movement has also been successful in influencing the commercial tax industry and in spurring institutional changes to facilitate the use of the EITC and other tax credits as a foundation for family economic success.

Looking ahead, organizations and communities should build on insights from the past decade to continue to shape the landscape of policy and practice. This includes taking a systemic approach at both the national and local levels that encompasses four objectives—community awareness of eligibility for tax-based work supports, easy access to tax-based supports, facilitation of sound financial practices, and protection against predatory interference—and addresses key structural concerns with the credit itself.

## Endnotes

1. Steve Holt and his firm HoltSolutions provide evaluation, research, management, and public policy consulting services to government, foundations, and non-profit organizations, including the Annie E. Casey Foundation's National Tax Assistance for Working Families Campaign. A graduate of Harvard Law School, Holt has worked in the nonprofit and public sectors for 25 years and has been involved with EITC outreach, research, and advocacy since 1991.
2. Adjusting for inflation based on the Consumer Price Index, the maximum benefit in 1975 of \$400 is equivalent to \$1,621 in 2010, and the initial income ceiling for EITC eligibility (\$8,000) would be \$32,418 today. The current (Tax Year 2011) maximum EITC benefit is \$5,751. Married taxpayers with incomes of up to \$49,078 and unmarried taxpayers with incomes of up to 43,998 can qualify.
3. In addition to Washington, DC-based groups, attendees represented Arkansas Advocates for Children and Families, Center for Law and Human Services (Illinois), Children Now (California), Congress for a Working America (Wisconsin), Juvenile Welfare Board of Pinellas County (Florida), Partnership for Hope (Texas), Piton Foundation (Colorado), and State Communities Aid Association (New York).
4. In 1978, Congress created the separate Tax Counseling for the Elderly program for individuals aged 60 or older. The IRS has also operated free walk-in Taxpayer Assistance Centers staffed by its own employees. An additional VITA program provides free tax preparation on military installations.
5. A concurrent factor in the growth of Jackson Hewitt and other commercial preparers was the IRS's development and promotion of electronic return filing.
6. The availability of funds from the LITC program (also created as part of the IRS reorganization in 1998) for tax preparation - under the program's mission of serving taxpayers who speak English as a second language - was controversial (Spragens 2002); although later discontinued, it was a precursor to the current VITA grant program.
7. Rivlin (2010) describes the growth of the commercial tax industry in low-income communities and the role of RALs in a profile of Dayton, Ohio-based Instant Tax Service.
8. Each annual report from NCLC/CFA contained new examples of links between retailers and RALs. A GAO (2008) report provides examples (and photographs) of a range of businesses marketing tax preparation and variations on RALs.
9. For example, interviews with EITC claimants at tax sites in Chicago (Smeeding, Phillips & O'Connor 2001) led to explicit examination of the role of the credit in funding IDAs (Smeeding 2002).

10. The initial steering committee for the NCTC – operated as a program of CEP – included CBPP, the National League of Cities, CAPTC in Tulsa, the Accounting Aid Society in Detroit, Accountability Minnesota, and organizations with community tax programs in Boston, Delaware, Denver, Los Angeles, Milwaukee, New York City, Providence, Philadelphia.
11. The participation rate is the number of eligible households receiving the EITC divided by the number of eligible households. Just using the number of households receiving the credit as the numerator likely overestimates participation; some studies have found a significant error rate associated with EITC claims, meaning that some of those claiming are not counted in the eligible population. The denominator is even more problematic: IRS data encompass only those who file tax returns, and a sizeable portion of the EITC-eligible population may not file a return. Participation rate studies thus need to rely on population survey data from the Census Bureau, and these present difficulties including household definition, determination of credit receipt, and sampling error. Berube (2005) offers a thorough analysis of the challenges faced in developing participation rate estimates.
12. Beginning in tax year 2002, the income ceiling for EITC eligibility was \$1,000 higher for married filers, and there was a modest increase in the percentage of EITC claimants filing joint returns (Berube 2006).
13. Pleuger (2009) found the participation rate for workers without qualifying children to be three-quarters that of those with one qualifying child.
14. SPEC-sponsored free tax preparation also includes military VITA and Tax Counseling for the Elderly.
15. Unless otherwise specified, years refer to the year of return preparation; that is, 2001 reflects tax year 2000 returns and 2008 is tax year 2007 data. TIGTA (2010), citing the IRS management information system, found 1,339,023 electronically-filed VITA returns and 247,828 paper returns for the 2008 filing season, or a total of 1.59 million. This increased to 1.75 million returns in 2009.
16. <http://www.irs.gov/individuals/article/0,,id=219171,00.html> (last accessed on February 11, 2011).
17. The data universe here represents the 137 primary cities in the 100 largest metropolitan areas (as of 2007). Cities are used rather than counties because the former tend to reflect better the focus of EITC Movement activities. These data, derived from the IRS SPEC database, are accessible for various geographies at the Brookings Metropolitan Policy Program EITC Interactive website (<http://www.brookings.edu/projects.EITC.aspx>).
18. For the 2008 filing season for all returns,  $r = -0.201$ ; for EITC returns,  $r = -0.294$ .
19. Although the relationship between VITA and paid market shares is weak, it was stronger in the EITC return market in 2008 ( $r = -0.294$ ) compared to 2001 ( $r = -0.216$ ). This was not true between the two years in the total return market ( $r = -0.201$  vs.  $r = -0.213$ ).
20. A related product is the “pay stub” RAL issued prior to the borrower’s having received a Form W-2 by using the final pay stub of the year to estimate the expected tax refund. A further variant is the “holiday” RAL based on pay stubs available prior to year-end (Wu and Fox 2006).
21. In most cases, a taxpayer whose application for a RAL is rejected has automatically received a RAC.
22. The cost of a RAL was lower in its first iteration: the price in 1994 (adjusted for inflation) was \$42 to \$51 (Wu & Fox 2010).
23. Wu and Fox note industry assertions that the IRS SPEC data overstate the actual number of RALs made by including some recipients of non-loan products (such as a RAC). Through 2006, the authors discount the SPEC RAL data by 10 percent to accommodate these concerns (Wu and Fox 2006). To reflect industry underwriting trends, the discount for rejected applications was increased to 15 percent for 2007 and later (Wu and Fox 2010). There are also ways in which the IRS SPEC data can underestimate use of RALs (Berube and Kornblatt 2005).
24. Using figures from the SPEC database based on the number of RAL applications (that is, with no discounting for rejected applications), the share of EITC recipients using a RAL rose from 38.3 percent in 2000 to 41.2 percent in 2002 and then began declining, falling to 30.6 percent in 2005 and 26.1 percent by 2008.
25. The size of the VITA program in a community does not appear to affect RAL use. In 2008, there was no correlation between the VITA EITC market share and the percentage of EITC filers using a RAL ( $r = 0.001$ ).
26. As of the 2008 filing season, thirteen states regulated RALs (Wu & Fox 2008). Among the cities in those states, the average rate of RAL use among EITC filers was 22.8 percent, compared to 28.5 percent among cities located in no-regulation states.

27. Many of the former RAL users may have switched to using a RAC, because use of RACs rose from 221,900 to 335,400 between tax years 2005 and 2008.
28. For tax year 2000, 95 percent of EITC filers claimed a refund. Calculations of direct deposit use exclude from both the numerator and denominator returns associated with a RAL, because IRS data count those returns as receiving the refund via direct deposit.
29. This measure of direct deposit at NTA-reporting sites continues to increase and was 75 percent in 2010.
30. The Making Work Pay Credit may also be considered part of the legacy of the EITC; for tax years 2009 and 2010, it phased in as a percentage of each dollar earned up to a maximum credit amount (and included a phase-out for higher earners). It also functioned similarly to a long-advocated expansion of the small EITC for very low-income workers without qualifying children.
31. In 2001, Chicago's Center for Law and Human Services (now CEP, the organization that staffs the NCTC) proposed a federal grant program to support VITA sites, initially in the amount of \$6 million to finance the preparation of half a million returns but expanding to a \$50 million program serving 4 million low-income taxpayers.
32. Dowd and Horowitz (2008), looking at EITC claims over an eighteen-year period, found that almost half of taxpayers with a child claimed the EITC at least once, but 42 percent of EITC recipients claimed the credit only once. Ackerman, Holtzblatt and Masken (2009), looking at 2000 through 2006, found that 30 percent of EITC recipients claimed the credit in only one of the seven years and just 11 percent claimed in all years.
33. Plueger (2009) found that lower EITC participation rates associated with not being required to file an income tax return, not having a qualifying child, and being eligible for a credit of less than \$500.
34. FreeFile dates to a 2002 agreement between the IRS and a group of tax software companies. Each participating company has its own requirements and restrictions (such as forms it does not support through the platform). Companies are free to market to and charge FreeFile users for other products (in 2007, participants agreed not to market products such as RALs), but taxpayers do not have any obligation to purchase. Taxpayers wishing to file federal and state returns together will usually incur a fee for the state return, even in those states which offer direct electronic filing for free.
35. Community VITA has responded to concerns raised (TIGTA 2004) about the quality of returns prepared at volunteer sites. Brown (2008) highlighted site processes that improve return quality, SPEC instituted quality review processes, and training is available from new resources such as [www.EITCPlatform.org](http://www.EITCPlatform.org). TIGTA (2010) reported sharp improvements in tax return accuracy rates at VITA sites. The Self-Employment Tax Initiative (SETI) led by CFED is demonstrating the value of return preparation in assisting microenterprises and the ability of VITA sites to prepare the returns (which have generally been considered "out of scope" for the program). In 2008, about 24 percent each of all filers and of EITC filers filed a Schedule C, E, or F (reporting business, rental, or farm income), but this was true of only 6.45 percent of Community VITA filers. Approximately 75 percent of the information required for the FAFSA (Free Application for Federal Student Aid) is drawn from the federal income tax return, and educational institutions usually require submission of filed tax forms, so some VITA programs have been offering FAFSA preparation assistance.
36. Hard evidence is lacking on the influence pathways associated with higher VITA market share or identifying possible tipping points of scale; research in this area would be a valuable contribution to the EITC Movement literature. For the 2008 tax season, the median Community VITA share of the EITC market among the 137 primary cities in the largest metropolitan areas was 2.0 percent. Thirty-one cities had an EITC market share more than twice the median (4.0 percent or more), and 11 cities had shares above 6 percent.
37. Some VITA sites currently offer self-preparation assistance in partnership with online software providers.
38. Return preparation software often include access to RACs. In 2009, 45 percent of RACs were for self-prepared returns (Theodos et al. 2010).
39. The Improper Payments Information Act of 2002 and Executive Order 13520 ("Reducing Improper Payments and Eliminating Waste in Federal Programs") require federal agencies to address improper governmental payments, and the Government Accountability Office cited the EITC in 2009 as having the second-highest amount of improper payments of any federal program (reflecting, in part, how the concept is defined). TIGTA (2011) has found fault with how the IRS is addressing the EITC improper payments issue, and the Chairmen of the House Committee on Ways and Means and the Subcommittee on Oversight followed up with a letter to the IRS Commissioner in February 2011 urging additional action.

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