"Low-income working families live in large cities and rural areas in nearly equal numbers."

Center on Urban and Metropolitan Policy

The "State" of Low-Wage Workers:

How the EITC Benefits Urban and Rural Communities in the 50 States

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Findings

A study of IRS data on receipt of the Earned Income Tax Credit (EITC) in tax year 2001 reveals that:

- **Nationally, families in large cities are the most likely to earn the EITC, followed closely by families in rural areas.** Overall, though, suburbs of large metropolitan areas are home to the largest number of low-income working families (6.7 million).
- **Families in the rural South are more likely to earn low incomes than those in any other part of the nation.** In the Midwest and Northeast, EITC earners are generally concentrated in large cities. In the West, they are dispersed relatively evenly among large cities and suburbs, smaller metros, and rural areas.
- **States vary significantly in the concentration of low-income working families in different types of areas.** Fourteen states have either high (above 20 percent) or low (below 10 percent) proportions of families earning the EITC statewide. Among the 36 states in which 10 to 20 percent of filers claim the EITC, ten exhibit higher EITC receipt in their large cities, seven have higher EITC receipt in their rural counties, and 19 have very similar proportions of low-income working families in urban and rural areas.
- **Between tax years 2000 and 2002, the economic downturn and longer-term employment trends likely contributed to the 8 percent increase in the number of families nationwide claiming the EITC.** In addition to fast-growing states like Nevada and Utah, states with the largest increases in EITC earners were concentrated in the Midwest. Some states with significant campaigns to inform eligible filers about the credit experienced above-average growth in EITC claims over this period.

The spatial distribution of EITC earners shows that in a large number of states, supporters of large cities and small rural towns share a common interest in advancing a policy agenda that benefits the working poor. State governments should consider building on the federal EITC through state tax codes; ensuring that more eligible families get the credit for free or pay a reasonable amount to do so; and revisiting policies that may discourage low-income families from saving refund dollars.

I. Introduction

Where do low-income working families live? We often describe them as though they look the same in every part of the nation. They are referred to as "waitress moms," "blue-collar" or "pink-collar" workers, or the "entry-level workforce." Some analysts focus on certain other characteristics these families share—they may be "uninsured," "housing-cost-burdened," "food insecure," or "asset-poor." Only occasionally do policymakers stop to consider how these families are distributed across different parts of the nation, or different parts of a state.

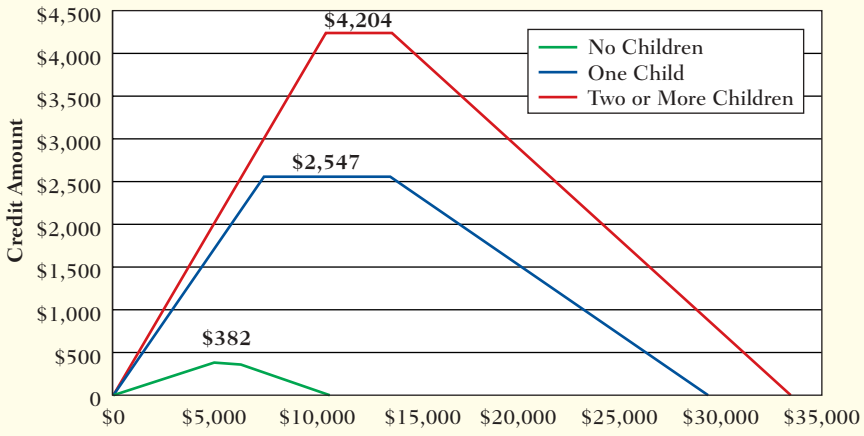
Yet for policy and politics, the location of working families should matter greatly. Where low-income families live defines their physical access to job markets, housing markets, child care, public transportation, and supportive neighborhoods. Their location also defines who represents them in the statehouse and on Capitol Hill, and how the interests of politicians and their constituents align on programs that benefit working families.

Using the federal Earned Income Tax Credit (EITC) as a lens through which to view where the working poor live, this paper provides a new state-by-state analysis of the spatial distribution of these families. The EITC is a refundable federal income tax credit available to families who work but generally earn less than 200 percent of the federal poverty level. The bulk of its benefits go to families with below-poverty incomes. Using data from the Internal Revenue Service (IRS), we calculate the number and percentage of filers claiming the EITC in four different types of geographies—large cities, large suburbs, smaller metro areas, and rural areas—in each of the 50 states and nationally.

Our findings uncover intuitive yet often-overlooked realities about the location of the working poor—most notably, that large cities and rural areas both contain large numbers of families who are working but earning low wages. Even this general pattern, however, varies greatly among different regions of the country, and among states within regions.

This paper proceeds in six parts. The first section provides background on the EITC and explains the different types of geographies into which we divide the nation. Second, we examine the spatial distribution of EITC earners nationwide in tax year 2001 across the four major area types. Third, we explore how this distribution varies in different regions of the country. Fourth, we characterize the different locational patterns of the working poor within states, and introduce a typology to describe these state-level patterns. Fifth, we use data from tax years 2000 to 2002 to determine which areas of the country saw the largest rise in EITC claims during the economic downturn. We conclude with a discussion of the implications of our findings for state policy.

Figure 1. Structure of the Earned Income Tax Credit in TY 2003, Head of Household Filers*



Source: Internal Revenue Service

** Married couples filing jointly are eligible for slightly higher credit amounts in the "phase-out" range of the EITC.*

II. Background and Methodology

This study examines the spatial distribution of the working poor in the 50 states and the District of Columbia, using data on receipt of the federal Earned Income Tax Credit. The bulk of the data used in our analysis reflect EITC claims by individual income taxpayers for tax year 2001 (the most recent year for which data are available). A portion of the paper includes analysis of trends in receipt of the EITC between tax years 2000 and 2002. The terms *low-income working families, low-wage workers, the working poor,* and *EITC earners* are used interchangeably in this paper to describe those tax filers who claim the EITC.[2]

The EITC, like most credits in the federal income tax code, is not "place-based." That is, the eligibility rules for claiming the credit, and the amount of credit filers can claim, do not vary based on one's location. Because eligibility for the credit and credit size do

not take into account the different costs of living that prevail in different parts of the country, the EITC claimant population may not always reflect the entire population that struggles to get by on a low income. Decent housing, food, transportation, and child care are generally more expensive in the nation's large metropolitan areas, particularly those in the Northeast and West. However, this survey uses the uniformity of the credit's guidelines to reveal significant differences across places in the incidence of what most would consider to be "low earnings." In order to qualify for the EITC, a full-time, year-round worker supporting two children could make no more than roughly $15 per hour. In reality, most workers claiming the EITC earn far lower incomes. Figure 1 shows the structure of the EITC in tax year 2003.[3]

We use the percentage of tax filers claiming the EITC to proxy the level of working poverty in various geographic areas. We note, however, that research has shown that perhaps 15 to 20 percent of tax filers who are eligible for the credit fail to claim it, and that the rate at which eligible filers claim the credit varies across the U.S. Additionally, by virtue of their immigration status or family arrangements, some low-income workers are not eligible for the EITC. Although our data do not reflect these individuals and families, their location appears to correlate with the location of EITC claimants.[4] Thus, we may understate the level of working poverty in certain states and types of areas where credit receipt is already significant.

The analysis draws on IRS data that detail, for each ZIP code in the U.S., the total number of individual income tax filers, the total number of filers claiming the EITC, and the total EITC dollar amount claimed. We use these data primarily to examine the proportion of individual taxpayers in a given community who claim the credit. In some parts of the analysis, we also use these data to determine the total amount of EITC claimed, or the average credit received by EITC claimants, in particular geographies.[5]

Our analysis aggregates ZIP code-level data on EITC earners into four primary geographical categories: large city, large suburb, small metro and rural.[6] We refer to these categories throughout the paper as "area types." *Large cities* include the central cities of the largest 100 metropolitan areas, according to their Census 2000 population counts.[7] Jurisdictions within these 100 metropolitan areas, but outside of their central cities, we define as *large suburbs*. We classify the 218 metropolitan areas that are not included among the 100 largest as *small metros*. ZIP codes in counties located outside metropolitan areas are considered to be *rural areas*.

One drawback to our approach is that we treat smaller metropolitan areas as undifferentiated wholes. Indeed, there may be little difference in population, or the spatial organization of the working poor, between the 100th-largest metropolitan area and the 101st-largest.

Practically, however, the geographic building blocks of our analysis (ZIP codes) often do not conform to the boundaries of smaller municipalities. We use Geographic Information System (GIS) software to assign ZIP codes to cities and counties. In large metropolitan areas, we "split" ZIP codes along central city boundaries, and allocate filers based on the land area contained inside and outside those boundaries. For large cities, which typically contain a dozen or more ZIP codes, two or three ZIP codes that cross city borders can be "split" without introducing a high degree of error into the analysis. In small metro areas, however, central cities contain perhaps three to five ZIP codes each, and nearly all of those ZIP codes typically spread beyond city borders. Because our methodology for allocating EITC filers across those borders would introduce significant error into our city-versus-suburb estimates, we consider city and suburbs together in these smaller metropolitan areas.

From a conceptual standpoint, as well, central cities in many small metropolitan areas are not the statewide employment and cultural focal points that large-metro central cities are. Thus, our analytical approach separates the working poor in large places like Chicago, Albuquerque, Birmingham, and Buffalo from those in much smaller places like Peoria (IL), Las Cruces (NM), Decatur (AL), and Elmira (NY).

In order to gauge how the working poor are distributed differently in different parts of the country, we assign each ZIP code to one of the four Census-defined regions (Northeast, South, Midwest, and West) based on the state in which it is located. Within both regions and states, we calculate the share of total tax filers claiming the EITC by "area type," comparing large cities, large suburbs, small metros, and rural areas. Note, however, that not every state contains every area type. The state of New Jersey, for example, has no ZIP codes in rural areas, while Iowa has none in large cities.[8]

III. Findings

A. Nationally, families in large cities are the most likely to earn the EITC, followed closely by families in rural areas.

Nationally in tax year 2001, 15.1 percent of all tax filers—more than one in seven—claimed the EITC, a total of 19 million nationwide. Figure 2a answers the question, "In which types of places are families most likely to earn low incomes?" It shows that, overall, families in large cities and rural areas are more likely to receive the EITC than families in large metropolitan suburbs or smaller metro areas. In large cities, more than one-fifth of all filers (20.4 percent) claim

the credit, as do 18.2 percent of filers in rural areas. The incidence of working poverty in smaller metro areas (15.7 percent) is similar to the national average, while about one in nine families in large suburbs benefits from the credit.

The comparison across these four area types disguises the heterogeneous nature of working poverty in rural areas. Figure 2b shows that the percentage of filers earning the EITC in rural areas varies according to the degree of "urban influence" present in those areas.[9] Areas on the left-hand side reflect rural counties that are adjacent to metropolitan areas; areas on the right-hand side reflect more isolated rural counties containing small towns. The figure demonstrates that the most remote rural areas closely resemble large cities in their incidence of working poverty, while rural counties adjacent to metropolitan areas look more like small metro areas.

While the proportions of filers earning the credit are higher in large cities and rural areas, a plurality of EITC earners lives in large suburbs. Figure 3 answers the parallel question, "Where do most low-income working families live?" Because 46 percent of all tax filers nationwide live in large suburbs, even with a lower incidence of working poverty, these places contain over one-third of all families claiming the credit. The 6.7 million EITC earners who live in the suburbs—and who received over $11 billion in EITC for tax year 2001—amount to a larger number than live in the other three area types. Combined, the number of EITC claimants living outside large cities (14.3 million) is more than three times the number living within large cities (4.6 million).

At the same time, large cities and rural areas do contain nearly half (47 percent) of the nation's low-income working families. Notably, the number living in rural areas (4.2 million) is quite similar to the number living in large cities (4.6 million) nationwide. In this sense, the EITC is as much of a program for rural areas as it is for cities.

To be sure, EITC recipients are most *concentrated* from a physical standpoint in large cities. This derives not only from the denser population of cities, but also from the high number of city communities with pronounced degrees of working poverty. About one in five large-city EITC claimants lives in an *extreme* working poverty community—a ZIP code where more than 40 percent of all filers receive the credit (Table 1). Comparatively small proportions of suburban, small metro, and

Figure 2a. Percentage of Filers Receiving EITC by Area Type, TY 2001

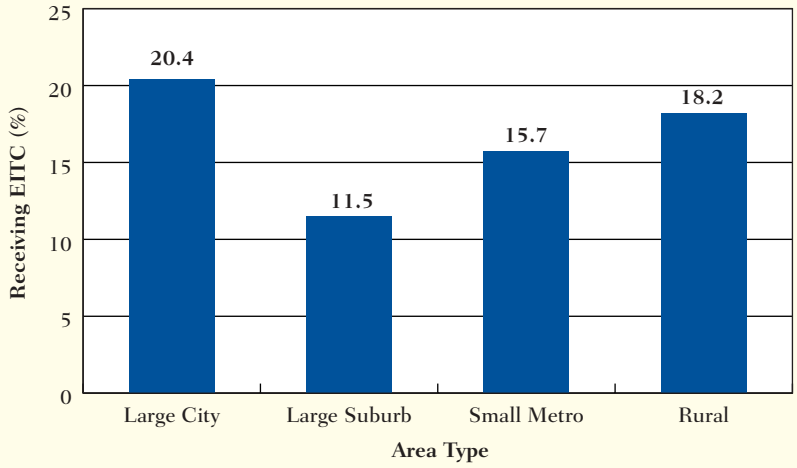
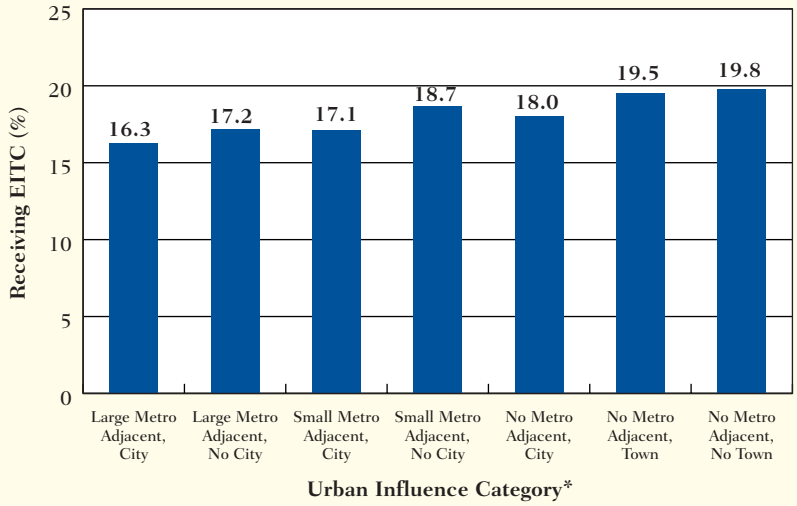
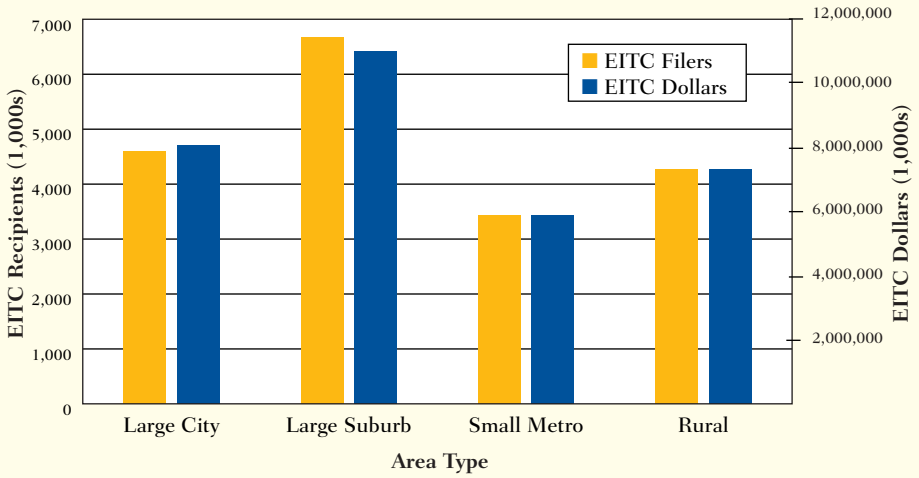


Figure 2b. Percentage of Filers Receiving EITC by Urban Influence, Rural Counties, TY 2001



** Large metros have at least 1 million residents. Cities have at least 10,000 people; small towns at least 2,500.*

Figure 3. EITC Recipients and EITC Dollars by Area Type, TY 2001



rural EITC recipients live in these types of communities. In fact, about half of all rural low-income working families live in areas where EITC receipt is below 20 percent. Thus, working poverty itself may be a more visible phenomenon in cities, even though it is nearly as prevalent in rural America.

B. Families in the rural South are more likely to earn low incomes than those in any other part of the nation.

Significant regional differences contextualize the distribution of low-income working families among cities, suburbs, smaller metros and rural areas. With its lower prevailing wages and high number of economically isolated communities, the South remains home to many more working poor families than other regions of the country. And working poverty in the South and West is more rural in character than working poverty elsewhere.

More Americans live in the South, as defined by the Census Bureau, than in any other region of the country. In 2000, roughly 100 million of the nation's 281 million residents lived in the 16 southern states and the District of Columbia; the Midwest was the next-largest region with 64 million residents. Thus it is not surprising that the South has more EITC recipients (8.2 million) than the other three regions.

Yet not only do more EITC recipients live in the South, but the incidence of working poverty is also higher there. About 19 percent of all tax filers in the South receive the credit, a much larger percentage than in the next-highest region, the West (14 percent). In fact, as Figure 4 shows, families living in all types of places in the South—cities, suburbs, smaller metros, and rural areas—are at least as likely to earn the EITC as similarly-situated families in other regions.

One of the most striking findings from Figure 4 is that among all regions and all geography types, rural areas in the South have the highest share of low-income working families. In these places, nearly 25 percent of tax filers claim the EITC. Figure 5 shows this finding visually: In rural communities stretching from Maryland to Texas, 30 percent or more of all families get the credit. Large cities and smaller metros in the South also exhibit a high incidence of low-income work. The only "blue" places evident in the Deep South and Southwest are suburban communities around large cities like Atlanta, Birmingham, Jackson, and San Antonio.

Table 1. Distribution of EITC Filers by Area Type and Zip Code EITC Receipt, TY 2001

	Metropolitan			
	Large (top 100)			
Zip Code EITC Receipt	City (%)	Suburb (%)	Small (%)	Rural (%)
Less than 10%	7.7	27.8	14.0	6.1
Between 10 and 20%	20.6	**36.9**	**41.4**	**42.3**
Between 20 and 30%	24.8	20.5	23.9	30.4
Between 30 and 40%	**25.7**	9.3	11.9	13.9
Above 40%	21.2	5.5	8.8	7.3
All Zip Codes	**100.0**	**100.0**	**100.0**	**100.0**

The South is not the only region in which rural families are most likely to benefit from the EITC. In the West, low-income working families represent one in six rural tax filers, a higher share than in that region's large cities, large suburbs, or small metros. The places with the highest rates of EITC receipt in the West—where at least 40 percent of families are working poor—are rural areas in and around American Indian reservations, places along the Mexican border in Arizona and California, and California's Central Valley, home to a large Hispanic immigrant population. Still, compared to other regions of the U.S., the West as a whole exhibits less variation in working poverty among the different geography types. Only four percentage points separate areas with the highest

Figure 4. Percentage of Filers Receiving EITC by Area Type and Region, TY 2001

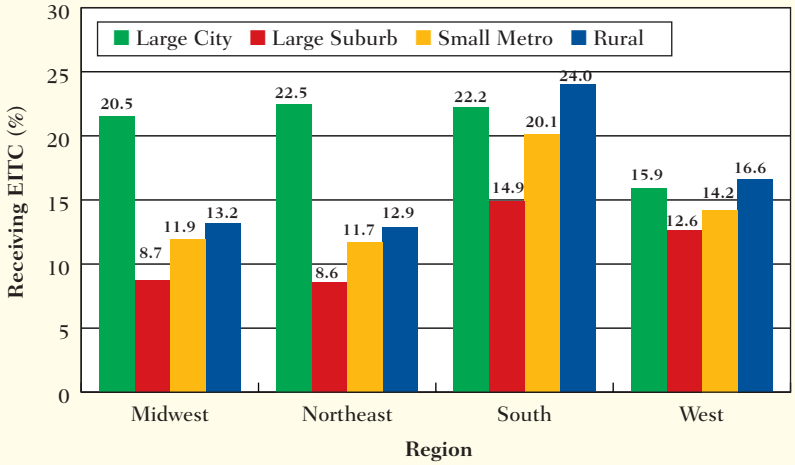
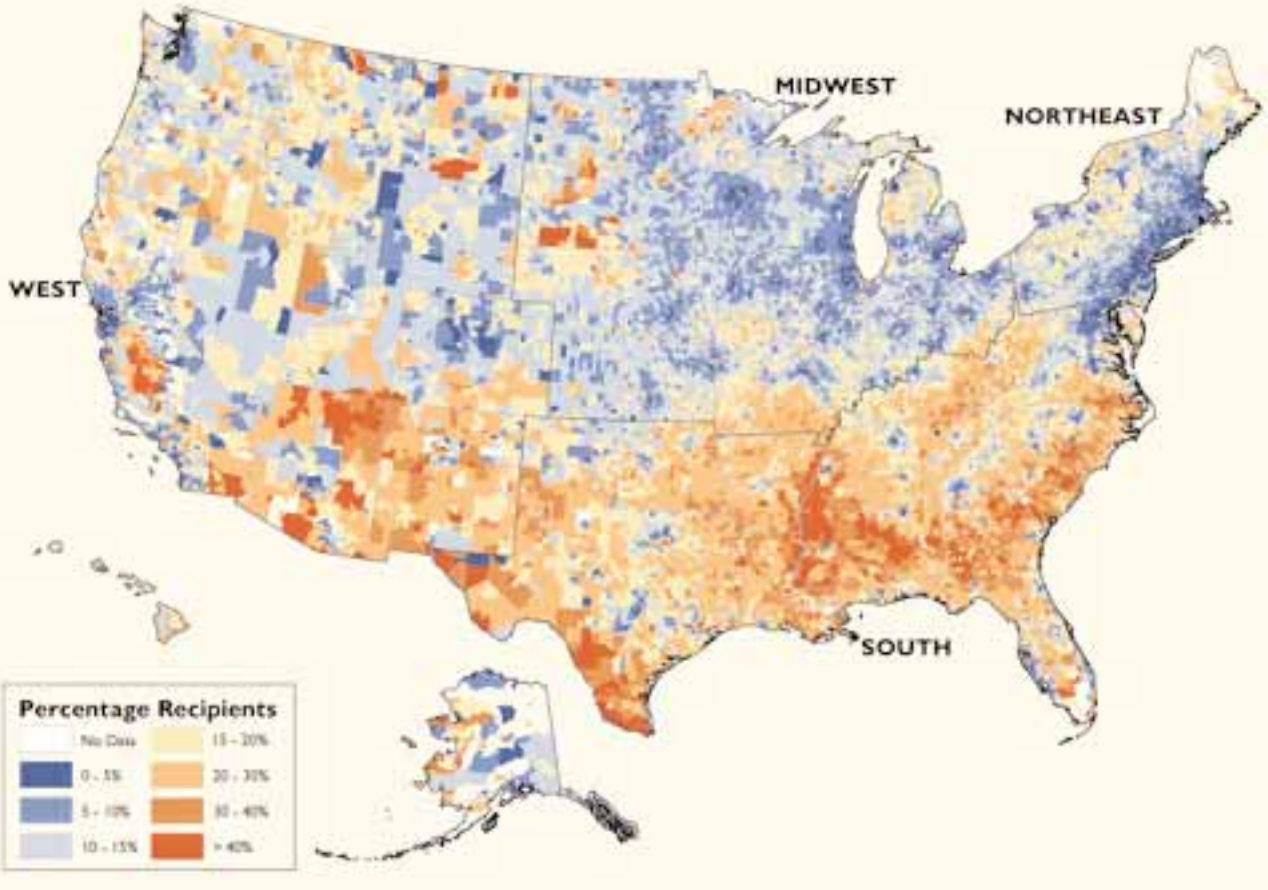


Figure 5. EITC Recipients as a Percentage of Total Returns by Zip Code, TY 2001



incidence of working poverty (rural areas) from those with the lowest incidence of working poverty (large suburbs).

The Midwest and the Northeast, by contrast, are characterized by high levels of working poverty in large central cities, and lower levels in their suburbs, small metros, and rural areas. In large northeastern and midwestern cities, more than 20 percent of filers claim the credit. The Northeastern corollary to the "red belt" stretching through rural areas in the Deep South is a "blue belt" connecting the suburbs of Boston, Hartford, New York, and Philadelphia. In these places, generally less than 10 percent of families earn the EITC. And while fewer rural families in these regions overall are working poor than in the South or West, more isolated rural communities—far upstate New York and New England, Appalachian Ohio, the Ozarks in Missouri, and smaller places throughout the Plains States—often have rates of EITC receipt exceeding 20 percent.

Another regional difference of note: Working poverty is "deeper" in the rural South than in other parts of the U.S. That is, among families who claim the EITC, families in the rural South appear to have lower earnings than their counterparts elsewhere. Because most families who receive the EITC have incomes in the phase-out range (where the credit amount decreases as earnings increase), the higher average credit in rural southern areas ($1,782) indicates that EITC recipients there earn lower incomes.[10] In effect, the EITC compensates for lower wages and lower availability of full-time work in these communities by providing eligible families with a bigger income boost.

Our findings indicate, however, that additional fees for "fast cash" loans often consume this additional income boost. Regardless of urban, suburban, or rural location, working poor families in the South are significantly more likely than those in other regions to receive their tax refund dollars through a *refund anticipation loan* (RAL). Commercial tax preparers work with bank partners to sell these loans, advancing filers their anticipated refund dollars, minus fees ($100 to $150 for the loan, additional amounts for preparation and filing of forms), about 7 to 10 days before the IRS delivers the taxpayer's refund to the bank partner. EITC earners represent the majority of RAL customers.[11] In large cities, suburbs, small metros, and rural areas in the South, roughly half of all EITC filers purchase one of these loans. The southern states of South Carolina, Mississippi, Georgia, and Louisiana rank above all others in the rate of refund loan usage among the working poor (Appendix B). The only other parts of the nation in which low-income filers are similarly likely to get RALs are large cities in the Midwest.

C. States vary significantly in the concentration of low-income working families in different types of areas.

Thus far we have generalized our findings on the location of working families by the type of place, and the region of the country, in which they live. While these regional and area-type differences explain some variation in EITC receipt at the community level—about 23 percent by our calculations[12]—the most revealing differences in the location of working poor families are evident on a state-by-state basis. States within the same region, such as New York and New Hampshire, Virginia and North Carolina, or North Dakota and Missouri often show markedly different patterns across their cities, suburbs, and rural areas in the prevalence of working poverty.

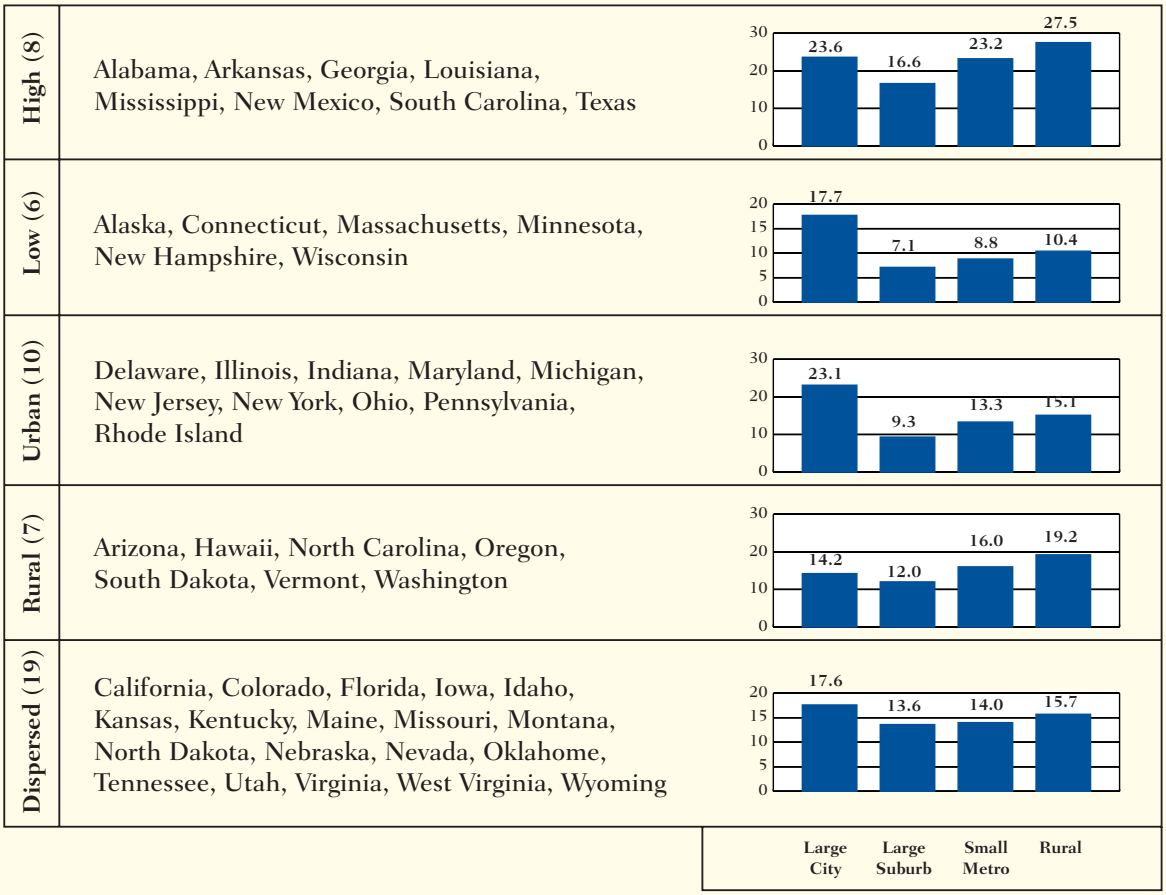
In this section, we introduce a simple typology to describe the distribution of the EITC—and thus low-income working families—at the state level. We group states into five categories based on the percentage of tax filers statewide that claim the EITC, and the area type that exhibits the highest degree of working poverty. We focus on the percentage of filers claiming the credit, rather than the absolute number receiving it, because we are interested in which types of areas derive the largest proportional benefit from the EITC. This relative measure is not affected by the very large differences among states in the distribution of total population between metropolitan and rural areas.

Our typology first distinguishes states based on the overall percentage of filers statewide who claim the EITC. Across all 50 states in tax year 2001, 15.1 percent of filers benefited from the EITC. Using that nationwide figure as an anchor point, we classify states in which the proportion of filers claiming the EITC statewide is above 20 percent as *high working poverty states,* and states in which fewer than 10 percent of filers claim the credit as *low working poverty states.* As described below, these states tend to exhibit less variation in EITC receipt among their different geographies than other states.

In the remaining states, where the working poor make up 10 to 20 percent of all filers, we compare the percentage of filers claiming the EITC in large cities to the proportion claiming the credit in rural areas.[13] In *urban* working poverty states, the rate of EITC receipt in large cities (or if no large cities exist, in small metros) exceeds that in *rural* areas by at least one-fourth. Conversely, in rural working poverty states, the percentage claiming the credit in rural areas exceeds that in large cities by at least one-fourth. Finally, in dispersed working poverty states, urban and rural EITC rates are within 25 percent of one another.[14]

Table 2 shows how this typology of working poverty divides the 50 states; below we discuss each of these cate-

Table 2. EITC Recipients as a Percentage of Total Filers by State Type and Area Type, Tax Year 2001



gories and present maps of representative states.

High Working Poverty States (8)

Significant concentrations of working poor families across all types of areas distinguish the eight high-working-poverty states. With the exception of New Mexico, all are located in the South, and they form a contiguous area stretching from South Carolina across the Southeast and Southwest. Lower wage levels prevail throughout these states, so that their large cities, small metros, and rural areas generally exhibit very little difference in their overall incidence of working poverty. In Alabama, for instance, 33 percent of large-city filers earned the credit in tax year 2001, as did 29 percent of rural-area filers. In Georgia (Appendix Figure A), as in most other states in this high-working-poverty category, the only places that show below-average concentrations of working poor families are the suburbs of large cities like Atlanta. Even so, across all large suburbs in these eight states, the share of filers claiming the EITC exceeds the national average, at nearly 17 percent.

Low Working Poverty States (6)

The six states in which fewer than 10 percent of all filers claim the EITC are the geographic converse of the high-working-poverty states. All are located in the northernmost part of the country (including Alaska), where wage levels and costs of living are considerably higher than in the South. In further contrast to the high-working-poverty states, areas of high EITC receipt in these states are geographically limited. In three of these six states (MA, CT, WI), large cities contain the only neighborhoods with considerable shares of low-income working families; low levels of working poverty prevail throughout most other areas. Rural areas in the low-working-poverty states rank second to large cities in their proportion of working poor filers, but the difference between the two area types is large—18 percent of large-city filers earn the credit, compared to a little over 10 percent of rural filers (Table 2). As a map of Wis-

consin shows, areas with high proportions of working poor families are largely limited to Milwaukee and portions of some rural counties in the northern half of the state (Appendix Figure B).

Urban Working Poverty States (10)
Like the low-working-poverty states, the ten urban states are typically home to one or more large cities with significant concentrations of working poor families, such as Baltimore, Wilmington, Detroit, and St. Louis. For the most part, these states are also located in the Northeast and Midwest regions. What distinguishes them from their low-working-poverty neighbors are the much higher levels of EITC receipt in their large cities, small metros, and rural areas. In each of these three area types, families in urban-working-poverty states earn the credit significantly more often than do families in low-working-poverty states (Table 2).

Pennsylvania (Appendix Figure C) provides an example. The cities and older suburbs of most of the state's large metropolitan areas—Philadelphia, Pittsburgh, Harrisburg, and Allentown (and even smaller cities like Reading and Erie)—contain the highest shares of EITC earners statewide. At the same time, in central and northern Pennsylvania's rural mining and agricultural areas, working poor families often represent at least 15 percent, and in some cases more than 20 percent, of all tax filers. A very similar pattern prevails in nearly all of the states in this category.

Rural Working Poverty States (7)
The seven rural states are unique for their high levels of working poverty in rural areas and small metros, but also for the relatively low levels of EITC receipt that characterize their cities. In these states, large cities such as Honolulu, Portland (OR), and Seattle often represent the areas with greatest wealth and highest employment. Numerous ZIP codes in Oregon (Appendix Figure D), for instance, have 20 to 30 percent of their tax filers earning the EITC, and nearly all are located in rural areas or small metros. Other states in this category contain geographically large cities, like Charlotte and Phoenix-Mesa. Those cities are indeed home to neighborhoods of high working poverty, but at the same time incorporate a more "suburban-like," higher-income population within their expansive borders, resulting in a lower overall rate of EITC receipt. One additional characteristic of note: Disparities in EITC receipt among large cities, suburbs, small metros, and rural areas in the seven rural working poverty states are not nearly as stark as in the urban states (Table 2).

Dispersed Working Poverty States (19)
Given the similarity between large cities and rural areas nationwide in their levels of working poverty, it may come as no surprise that in fully 19 states, families in urban and rural areas are roughly equally likely to benefit from the EITC. These states are located in every region of the nation, though their spatial patterns of working poverty are marked by subtle differences. In states like California, Florida, and Kentucky, cities and isolated rural areas share similarly high proportions of low-wage workers. States like Colorado, Kansas, Nebraska, and Missouri, on the other hand, resemble the high-working-poverty states, in that their large suburbs are the only places with truly low levels of EITC receipt. And in a few states without large cities, such as Iowa, Idaho, Maine, and Montana, the incidence of working poverty in smaller cities and their metro areas is almost indistinguishable from that in rural areas.

In Virginia (Appendix Figure E), the cities of Richmond, Newport News, and Norfolk all contain neighborhoods with considerable numbers of low-income working families. As one moves outward from their suburbs, the degree of working poverty reaches similar levels in rural areas, especially in the southeastern and southwestern portions of the state. In the aggregate, the proportion of filers earning the EITC in Virginia's large cities roughly equals that in its rural areas.

This typology demonstrates that behind the national figures on EITC receipt lie important differences among states in where low-wage work predominates, and where families earning those wages live. In some states, especially those with dispersed or high working poverty, there is little difference from urban to rural areas in the incidence of working poverty. In others, large cities or rural areas, to varying degrees, contain disproportionate shares of the low-wage workforce. Below, we discuss the policy implications of these differing distributions of the working poor at the state level.

D. Between tax years 2000 and 2002, the economic downturn and longer-term employment trends likely contributed to the 8 percent increase in the number of families nationwide claiming the EITC.
In 2000, the nation's unemployment rate stood at 4 percent, the lowest rate in over 30 years. But only two years later, an economic recession and its aftereffects had raised the unemployment rate to 5.8 percent. During that time, the economy shed nearly 3 million jobs.

The EITC consequently became an even more important benefit for families and communities hit hard by the economic downturn. While the credit supports workers who are employed in the low-wage economy for extended periods of time, in a poor economic climate its benefits may extend to a much larger number of families, including those who previously may not have qualified for the credit.

Nationwide, the number of EITC claimants rose by 1.5 million between

tax years 2000 and 2002, an 8.2 percent increase (Figure 6). A number of economic factors may have contributed to this increase in the number of families with low earnings. First, the layoffs and hiring slowdowns that have occurred over the past two years left more people out of work. Some may have worked for only part of the year, while other unemployed workers may have been part of a two-worker family that previously earned too much to qualify for the credit. Second, the bleak employment picture has raised the number of "involuntary" part-time workers—individuals who want to work full-time, but are forced to accept part-time employment. Third, as a reflection of the weak employer demand for labor, real wages have actually fallen for some groups of workers.[16] And fourth, with manufacturing jobs declining and service industry employment continuing to rise during the past few years, a larger share of jobs may be in low-wage sectors today than before the recession.

The effects of the recession, and growth in the number of low-income workers, have not spread evenly across the U.S. Some areas have been affected more adversely than others. For tax year 2002, the IRS has not yet made available information on the total number of filers per ZIP code, which we use to calculate the proportion of filers receiving the credit. Instead, we base our analysis here on increases in the absolute number of EITC filers. Figure 6 shows that, among the four area types, large suburbs actually experienced the fastest increase (10.5 percent) in EITC claimants between tax years 2000 and 2002. This reflects not only the fact that suburbs are growing faster overall than other parts of the nation, but also that suburban families were not immune to the effects of the downturn and the growth in low-wage work in recent years.

Turning to the state level, Figure 7 shows the change in EITC filers between tax years 2000 and 2002. What explains the wide variation across states in the growth of low-income working families? First and foremost, states themselves are growing at very different rates. In general, the fastest-growing states in the nation are located in the Southeast, the Southwest, and the Pacific Northwest. A considerable portion of the growth in EITC filers in states such as Georgia, Texas, and Arizona can probably be attributed to their overall population increases.

Second, states in which the economic downturn has lowered employment the most tend to have higher growth in EITC receipt. At the state level, the increase in the number of EITC claimants between tax years 2000 and 2002 correlates positively with the change in the number of unemployed persons between January 2000 and December 2002.[17] The pronounced effects of the recession in Midwest states like Wisconsin and Michigan, and Northeast states like Connecticut and New Hampshire, may account for the relatively rapid growth in their low-income worker populations. By contrast, smaller employment declines in the Rocky Mountain states of Wyoming and Montana, and in most states in the central South (Alabama, Arkansas, Louisiana, Mississippi, Tennessee), correspond with the smaller increases in their working poor populations.

Third, some states are seeing new influxes of less-skilled immigrant workers who are filling jobs in the farming and food processing industries.[18] The growth in these low-wage positions in an otherwise slow-growing state like Nebraska may help explain its 14 percent increase in low-income filers over the last two years, as unemployment there has been relatively stable. Similar labor market changes may also have contributed to the rise in EITC claimants in Kansas and Iowa.

Even after these factors are considered, however, some states continue to stand out for their above-average growth in EITC recipients. Delaware, for instance, experienced modest increases in population and unemployment between 2000 and 2002, but the number of filers in the state receiving the EITC grew by 11 percent. While Indiana and Minnesota's unemploy-

Figure 6. Filers Receiving EITC by Area Type, TYs 2000 and 2002

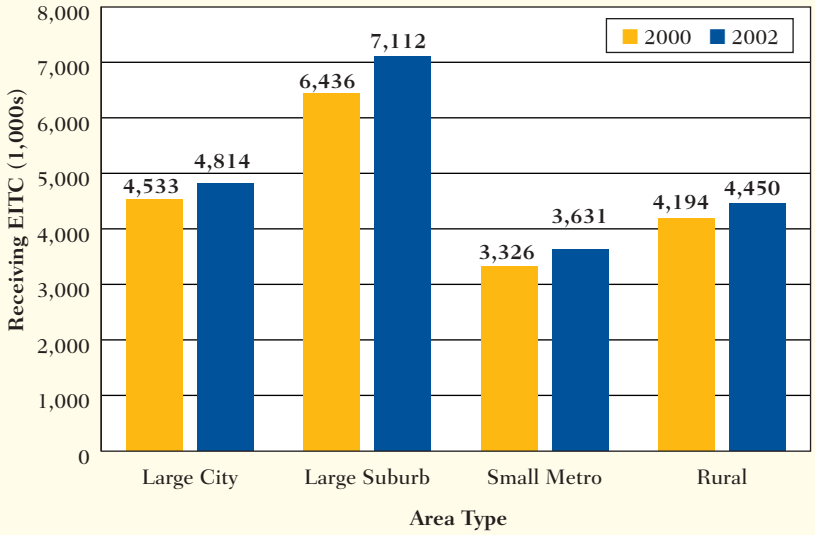
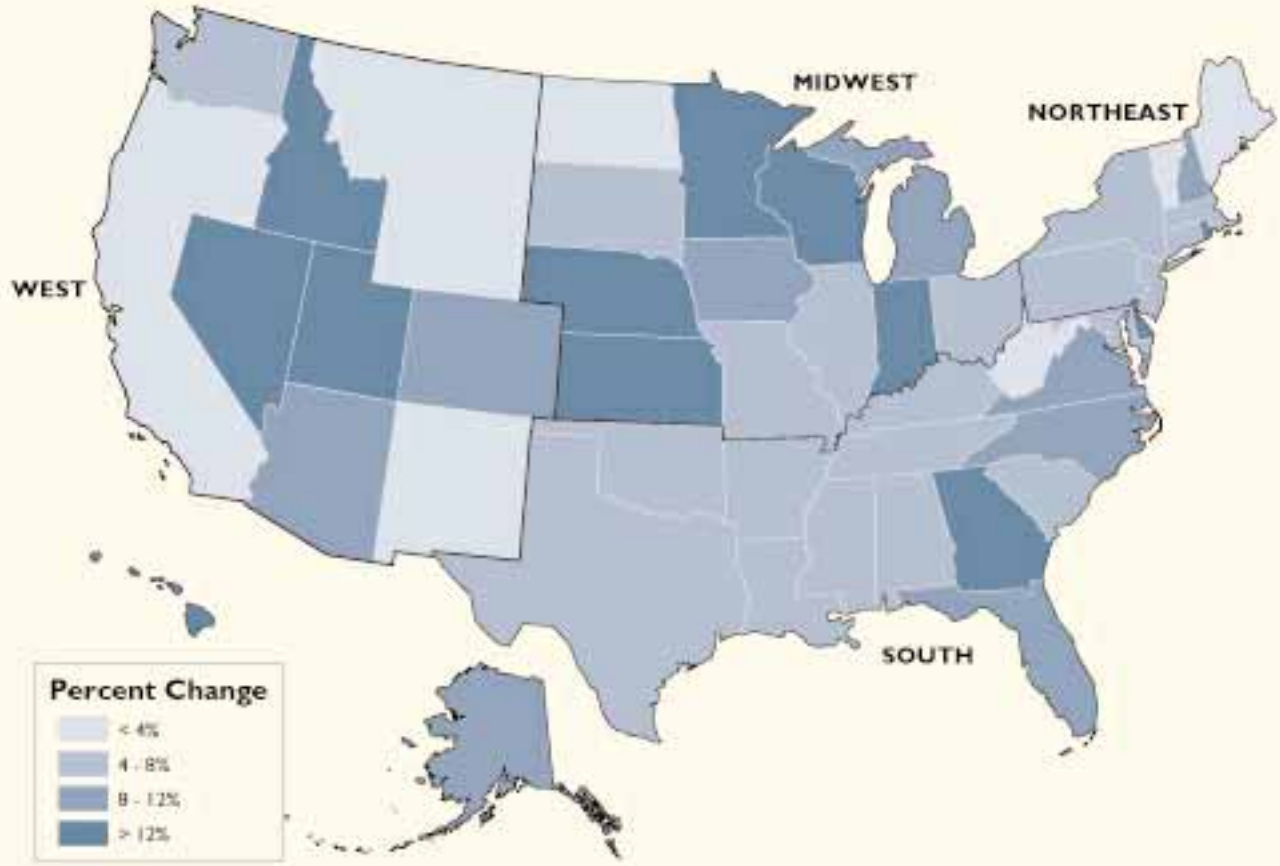


Figure 7. Percent Change in EITC Recipients by State, TY 2000–2002



ment increases mirrored the national average, and they are growing rather slowly overall, the number of EITC earners rose 13 percent in both states over the same time period. One characteristic these states do share is that each has active campaigns statewide, or in their large urban centers, to inform eligible families about the EITC. The campaigns also link low-income filers to free tax preparation sites run by community organizations. Although other cities and states operate similar campaigns, and their effects are impossible to quantify with these data alone, it seems likely that the significant increases in tax filers claiming the EITC in these states resulted—at least in part—from successful efforts to raise participation among eligible families.

IV. Policy Implications

By mapping the spatial distribution of the EITC, our analysis identifies an often-overlooked geographic aspect of efforts to support low-income working families. The EITC benefits families in large cities and rural areas to nearly equal degrees, although more than one-third of the nation's working poor live in large metropolitan suburbs. Notably, working poverty is deeper and more widespread in the South, particularly the Deep South, than in other regions of the country. Yet even within the same region, low-wage workers often locate in different types of areas from state to state. In some states, most working poor neighborhoods are found in urban areas. In a far larger number of states, cities, smaller metros and rural areas closely resemble one another in their incidence of working poverty.

What do these findings mean for policy? First and foremost, they urge us to re-evaluate popular assumptions about the working poor. These families are not by any means confined to distressed inner-city neighborhoods. Although higher proportions of large-city residents claim the EITC, the working poor are present in nearly every community in the U.S. Indeed, in most states—even many Northeastern and Midwestern states where poverty is commonly viewed as an urban problem—working poverty is nearly as prevalent in rural communities as in large cities. The dispersed nature of working poverty reinforces

the importance of programs like the EITC that support families regardless of their residential location.

The high level of EITC receipt throughout the South also reminds us that increased work alone cannot eradicate working poverty. In many parts of the country, low-wage economies and limited job opportunities mean that working families struggle greatly to get by on earnings alone. Raising employment and reducing teen births are key strategies for combating poverty, but targeted wage supplements like the EITC remain critical tools for helping workers and their families subsist on low-paying jobs.

Because low-income workers are distributed widely throughout most states, state governments are in a unique position to adopt policies that help these workers regardless of urban, suburban, or rural location. This section briefly describes a few key opportunities and prospects for states to support low-income working families, in view of the areas in which they are most likely to live. While a broad array of state policies and programs, including subsidized health insurance, child care, transportation assistance, and workforce development, provide critical support to this population, we focus specifically on policies that leverage the benefits of the tax code for a state's working poor families and communities. We also focus solely on the state role here, but acknowledge that the federal government has much to contribute to this agenda as well.[19]

1. Build on the federal EITC by enacting a state-level refundable earned income credit.

Eliminating federal taxes on the poor was one of the principal reasons that the federal government significantly expanded the EITC in 1986.[20] With similar motivations, states began to enact their own versions of the federal EITC soon thereafter. In tax year 2003, 12 states and the District of Columbia will offer a refundable earned income credit through their own income tax codes. These credits range in size from 1 percent to 30 percent of the federal credit, but all help to reduce poverty, supplement wages, and lift income tax burdens for low-income working families.[21] A further three states offer non-refundable versions of the federal EITC, which can serve to reduce income taxes on working families.

Despite these developments, income taxes remain a significant burden on poor and near-poor families in many states. Surprisingly, this is the case in many of the states where urban and rural areas alike contain large shares of working poor families, and where their respective interests should be aligned to alleviate those burdens. For instance, the high-working-poverty states of Alabama, Arkansas, Georgia, and Louisiana all levy state income taxes on families of three below the poverty line ($14,351 in 2002). In the state of Kentucky last year, where EITC receipt is equally high in large cities and rural areas, a family of three earning just $18,000 a year owed more than $600 in state income tax.[22] Of the 15 states identified in this report as having dispersed working poverty that also have a state income tax, only two will offer a refundable EITC this year. And none of the seven high-working-poverty states with income taxes has a state EITC of any kind.

The fiscal crisis in the states has forced most to take serious steps to balance their budgets. The spending cuts and tax increases that states have adopted—from trimming Medicaid rolls, to reducing child care assistance, to raising regressive sales taxes—have often hurt low-income families disproportionately. Recent reports suggest that large state budget deficits continue to loom for FY 2005.[23] Rather than balance these budgets on the backs of the working poor, states can use refundable EITCs to offset the effects of tax and expenditure actions. In many of the states where low-income families bear a severe burden, a state EITC would provide geographically widespread benefits.

2. Support free tax preparation and filing assistance with state dollars.

The forms that a taxpayer claiming the EITC must file are largely straightforward. However, the rules that govern taxpayer eligibility for the credit can be quite complicated, and working parents often lack the time or experience with tax forms one needs to interpret those rules. For this reason and others, the vast majority of filers who claim the EITC—68 percent in tax year 2001—pay someone to prepare and file their taxes. Many commercial tax preparers provide quality service and connect filers to the EITC who otherwise would miss out on the credit. But others charge exorbitant fees, and generally engage in unscrupulous practices that put low-income taxpayers and their refund dollars at risk.[24]

A growing number of cities and states engage in outreach campaigns to inform low-income working families about the EITC, the refundable Child Tax Credit, and other credits from which they can benefit.[25] Importantly, these campaigns offer low-income filers information on places they can go to have their federal and state taxes prepared for free, by organizations staffed with volunteer tax preparers. While many of these programs are affiliated with the IRS Volunteer Income Tax Assistance (VITA) program, most receive no funding from the federal government, and generally derive their support from philanthropic grants and other in-kind support.

By supporting these programs with modest funding, state governments can help spread volunteer tax preparation efforts to areas where working families may have limited filing options. For many years, the Center for Economic Progress' Tax Counsel-

ing Project and the Tax Assistance Program have provided free tax assistance to Chicago residents, over the last few years in connection with the city's extensive municipal outreach campaign around the EITC. Since 1996, the Illinois Department of Human Services (IDHS) has funded these efforts with AFDC/TANF and TANF maintenance-of-effort dollars, this year at $380,000. State funding has enabled the Tax Counseling Project to expand from two tax assistance sites outside Chicago in 1996 to 14 sites in 2003, and to boost the number of tax returns prepared at those sites faster than at its Chicago locations. Statewide, the project completed more than 19,000 federal tax returns at 28 sites for low-income clients last year, facilitating the return of over $25 million in federal refunds to their communities.[26] IDHS also sends out announcements about the EITC and the availability of free tax preparation to all state residents using one or more of the agency's programs, including subsidized health insurance (Medicaid/SCHIP), food stamps, and TANF.

States that have volunteer tax capacity in urban areas, but that lack capacity in other areas of the state, should consider following Illinois' example by using modest state funding to expand the provision of those services to places with similarly large proportions of working poor families.

3. Improve commercial options for low-income filers.

Even with improved access to free tax assistance, the vast majority of low-income filers will continue to seek help from commercial preparers to file their taxes. For instance, a very successful free tax preparation effort in New York City this year completed nearly 10,000 federal returns for EITC claimants. The year prior, however, paid preparers filed close to 450,000 EITC returns for New York City residents. For the foreseeable future, commercial preparers will likely remain the primary vehicle by which tax refund dollars are delivered to the working poor in cities, suburbs, and rural areas.

Low-income filers' heavy reliance on paid preparers, and the fact that these preparers are responsible for connecting families to important benefits, implies that government should take an active role in monitoring the marketplace. Some unscrupulous preparers mislead low-income clients by encouraging them to claim tax credits for which they don't qualify; when the IRS later detects the error, these taxpayers often have no means to pay the IRS.[27] The popularity of refund loans among low-income filers reflects a genuine need among some filers to have their dollars immediately, but many, if not most, EITC recipients are not able to measure the high costs of these loans relative to their benefits.

To date, a few states have adopted laws or regulations that ensure minimum levels of competency among paid preparers, or that seek to better inform consumers about the true price of tax products and services. The state of California, for example, registers tax preparers, requires them to complete minimum hours of basic and continuing tax education, and provides penalties and a right of civil action against preparers who violate governing statutes.[28] Oregon has even stricter licensing requirements, especially for self-employed or independent tax practitioners.[29] This year, Minnesota adopted new disclosure requirements for tax preparers who sell RALs, obligating them to provide clients with a large-type statement detailing the price of the loan and the taxpayer's other options for claiming the refund, as well as a bill that separately itemizes the costs of all products and services provided to the taxpayer.[30] And North Carolina specifically regulates facilitators of RALs, requiring them annually to register with the state banking commission, to file a schedule of their RAL fees, and to provide taxpayers with clear disclosures on RAL prices.[31]

As these examples demonstrate, states that have regulated tax preparers have not adopted heavy-handed rules, but instead have taken simple steps to improve the professionalism of the industry, and to provide the state and its citizens with better information on the marketplace. As statistics on the usage of refund loans demonstrate, low-income taxpayers in urban, suburban, and rural areas alike—especially in the South—could benefit from an improved commercial tax preparation marketplace.

4. Review rules that might discourage families from saving tax refund dollars.

Most low-income families have little in the way of savings. According to the Federal Reserve, only 30 percent of the lowest-income fifth of families in 2001 saved at all. Of families in this income bracket who had financial assets, the typical value of those assets was only $2,000.[32] This may not come as a surprise, considering that low-income families are often forced to live from paycheck to paycheck and have little room in their budget for accumulating savings. Yet a lack of even modest savings may leave a family exposed to financial contingencies—such as illness or the need for car repairs—that obligate them to assume high-priced credit, further eroding their ability to survive on low earnings. Tax refunds, especially those that include the EITC, represent the largest one-time cash infusion that most low-income families receive all year. Recognizing this, a growing number of cities and community-based organizations are working with EITC-earning families to help them use their tax refunds as vehicles for longer-term asset-building strategies.

Low-income families face barriers to savings, however. Whereas public policy generally rewards middle-income and higher-income families for

"In many states, supporters of large cities and small rural towns share a common interest in advancing a policy agenda that benefits the working poor."

saving, through benefits like tax deductions for home mortgage interest and 401(k) contributions, it discourages savings among lower-income families through asset tests. These tests, for programs such as food stamps, Medicaid, and Supplemental Security Income, restrict eligibility to families with very low levels of savings, and disqualify participating families if their assets exceed the test limits. In particular, recent research finds that the parameters of asset tests under Medicaid, which states now have the flexibility to remove or loosen, play a major role in the savings behavior of low-income households.[33]

Since the passage of welfare reform in 1996, states have had the flexibility to increase or eliminate asset limits in the Medicaid program for low-income families. Twenty states and the District of Columbia have used this flexibility to remove these limits.[34] However, 16 states still limit eligibility for families of three to those with $2,000 or less in financial assets—roughly the average EITC amount that families with children receive (and lower than their average refund, which may include over-withholding and the child tax credit).[35] While few EITC-earning families intend to set aside all of their tax refund for future use, asset limits under Medicaid can send a signal to low earners that they must spend down their refunds if they hope to access or retain health insurance. By repealing or significantly raising these limits, and spreading the word through community-based service providers, states could encourage working families to use tax refund dollars to secure their future financial well-being.

V. Conclusion

By mapping the distribution of EITC recipients in all 50 states, this report demonstrates that low-income working families are not geographically isolated. They represent a significant portion of the workforce in both urban and rural areas. This evidence suggests that in many states, supporters of large cities and small rural towns share a common interest in advancing a policy agenda that benefits the working poor—particularly in states where working poverty is high overall, or equally common in urban and rural areas. State governments should consider building on the federal EITC through state tax codes; ensuring that more eligible families get the credit for free or pay a reasonable amount to do so; and revisiting asset limits that can discourage low-income families from saving refund dollars. Suburban areas can share in the benefits of these policies, too, as these jurisdictions are home to a large and fast-growing population of EITC earners. With hundreds of cities now promoting use of the EITC locally, states should engage as critical partners in the effort to support urban, suburban, and rural working families alike through the tax code.

Appendix A. Number of EITC Filers and Percentage of Filers Receiving EITC by State and Area Type, TY 2001

				Metropolitan							
				Large (top 100)							
		Total		City		Suburb		Small		Rural	
STATE	Category	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
MIDWEST		**3,624,411**	**12.3**	**869,462**	**21.5**	**1,066,089**	**8.7**	**689,529**	**11.9**	**999,331**	**13.2**
Illinois	Urban	742,303	13.3	270,079	23.5	254,181	9.0	101,004	13.0	117,039	14.0
Indiana	Urban	365,001	13.2	72,818	18.7	82,492	10.4	109,068	13.0	100,624	13.4
Iowa	Dispersed	143,757	11.0	-	-	5,189	12.9	59,376	10.4	79,192	11.3
Kansas	Dispersed	142,650	11.9	18,712	15.0	40,187	9.0	14,447	11.8	69,304	13.9
Michigan	Urban	547,899	12.3	120,611	29.3	195,625	8.4	125,831	13.5	105,832	13.6
Minnesota	Low	210,295	9.0	39,266	13.7	65,906	6.0	30,063	10.5	75,060	11.3
Missouri	Dispersed	373,108	14.9	76,983	22.0	110,619	10.0	49,747	15.5	135,759	18.5
Nebraska	Dispersed	90,875	11.5	22,630	13.3	9,016	7.0	12,922	10.1	46,307	12.8
North Dakota	Dispersed	33,741	11.7	-	-	-	-	6,944	10.2	26,797	12.1
Ohio	Urban	682,030	12.5	197,208	21.3	274,604	9.4	81,204	12.9	129,015	13.0
South Dakota	Rural	46,868	13.4	-	-	-	-	15,412	11.6	31,456	14.6
Wisconsin	Low	245,882	9.6	51,155	21.8	28,271	5.3	83,511	8.6	82,946	10.2
NORTHEAST		**3,016,448**	**12.3**	**1,151,953**	**22.5**	**1,228,460**	**8.6**	**325,389**	**11.7**	**310,647**	**12.9**
Connecticut	Low	141,892	8.8	25,379	26.7	94,060	7.5	10,856	8.5	11,598	8.1
Maine	Dispersed	74,560	12.4	-	-	-	-	26,684	10.8	47,875	13.5
Massachusetts	Low	257,084	8.6	53,426	15.7	187,401	7.7	15,217	8.4	1,040	7.2
New Hampshire	Low	50,743	8.2	-	-	27,960	7.2	-	-	22,783	9.9
New Jersey	Urban	430,933	11.0	58,151	28.6	316,650	9.5	56,131	14.3	-	-
New York	Urban	1,300,188	15.6	809,897	22.6	311,614	9.0	85,704	12.6	92,973	14.7
Pennsylvania	Urban	672,025	11.8	188,563	22.8	250,558	8.5	122,597	11.5	110,308	13.1
Rhode Island	Urban	56,755	11.7	16,537	24.3	40,218	9.6	-	-	-	-
Vermont	Rural	32,269	10.9	-	-	-	-	8,199	8.5	24,070	12.0
SOUTH		**8,364,663**	**19.2**	**1,564,112**	**22.2**	**2,688,813**	**14.9**	**1,763,988**	**20.1**	**2,347,750**	**24.0**
Alabama	High	437,562	23.7	56,640	33.0	77,923	17.1	152,168	21.8	150,831	28.7
Arkansas	High	245,629	22.7	15,031	20.3	39,259	20.2	58,615	20.4	132,724	25.2
Delaware	Urban	48,262	13.0	5,960	23.7	20,195	9.6	8,851	15.5	13,255	16.8
District of Columbia		48,674	18.1	48,673	18.1	-	-	-	-	-	-
Florida	Dispersed	1,315,161	17.9	219,883	21.6	724,573	17.4	283,462	16.0	87,242	22.1
Georgia	High	701,339	20.1	40,663	24.1	249,570	14.7	154,543	23.3	256,562	26.5
Kentucky	Dispersed	297,141	17.2	24,205	22.8	52,305	11.6	56,122	15.5	164,509	20.4
Louisiana	High	476,771	26.1	89,433	34.0	112,971	20.4	151,761	25.4	122,606	29.7
Maryland	Urban	301,778	12.0	68,546	27.5	193,888	9.8	11,979	13.2	27,366	15.2
Mississippi	High	340,750	30.1	-	-	7,920	15.8	94,931	24.9	237,899	33.9
North Carolina	Rural	638,481	18.1	70,465	14.9	184,523	14.8	138,901	19.2	244,592	22.7
Oklahoma	Dispersed	266,322	18.7	71,011	17.9	64,668	15.3	17,316	20.5	113,327	21.6

STATE	Category	Total		Metropolitan						Rural	
				Large (top 100)				Small			
				City		Suburb					
		Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
South Carolina	High	375,975	21.5	20,542	18.2	158,957	18.0	58,875	23.4	137,601	27.4
Tennessee	Dispersed	477,809	19.2	137,406	24.2	103,763	13.8	67,224	18.3	169,416	21.0
Texas	High	1,838,623	20.8	616,209	22.7	514,763	16.3	410,414	23.2	297,236	24.4
Virginia	Dispersed	422,619	12.9	79,442	17.7	175,587	9.7	54,192	14.8	113,397	17.5
West Virginia	Dispersed	131,768	17.7	-	-	7,945	13.8	44,634	15.8	79,188	19.7
WEST		**3,883,630**	**14.1**	**1,012,961**	**15.9**	**1,671,232**	**12.6**	**617,333**	**14.2**	**582,104**	**16.6**
Alaska	Low	30,042	9.3	-	-	-	-	11,350	8.1	18,692	10.2
Arizona	Rural	330,311	15.5	134,381	16.7	117,046	11.9	28,100	24.4	50,784	22.8
California	Dispersed	2,169,299	15.0	687,901	17.2	1,168,418	13.7	231,531	15.9	81,449	18.1
Colorado	Dispersed	215,591	10.7	34,527	13.8	61,770	8.4	78,399	10.9	40,894	13.4
Hawaii	Rural	69,039	12.2	18,734	10.8	27,530	11.5	-	-	22,775	14.8
Idaho	Dispersed	82,072	14.9	-	-	-	-	30,439	13.3	51,633	16.1
Montana	Dispersed	63,090	15.2	-	-	-	-	19,832	13.8	43,259	15.9
Nevada	Dispersed	128,588	13.9	29,672	14.8	64,748	14.5	20,112	11.9	14,055	12.6
New Mexico	High	168,899	22.3	26,375	16.4	29,683	18.0	27,994	22.4	84,847	27.8
Oregon	Rural	192,600	12.6	29,020	11.8	45,876	9.5	55,629	13.9	62,075	15.8
Utah	Dispersed	107,854	11.6	9,821	13.5	52,938	10.5	16,453	11.5	28,642	13.7
Washington	Rural	296,705	11.0	42,530	8.9	103,223	8.9	88,031	13.7	62,922	15.1
Wyoming	Dispersed	29,540	12.6	-	-	-	-	9,463	13.2	20,077	12.3
TOTAL		**18,889,152**	**15.1**	**4,598,488**	**20.4**	**6,654,594**	**11.5**	**3,396,239**	**15.7**	**4,239,832**	**18.2**

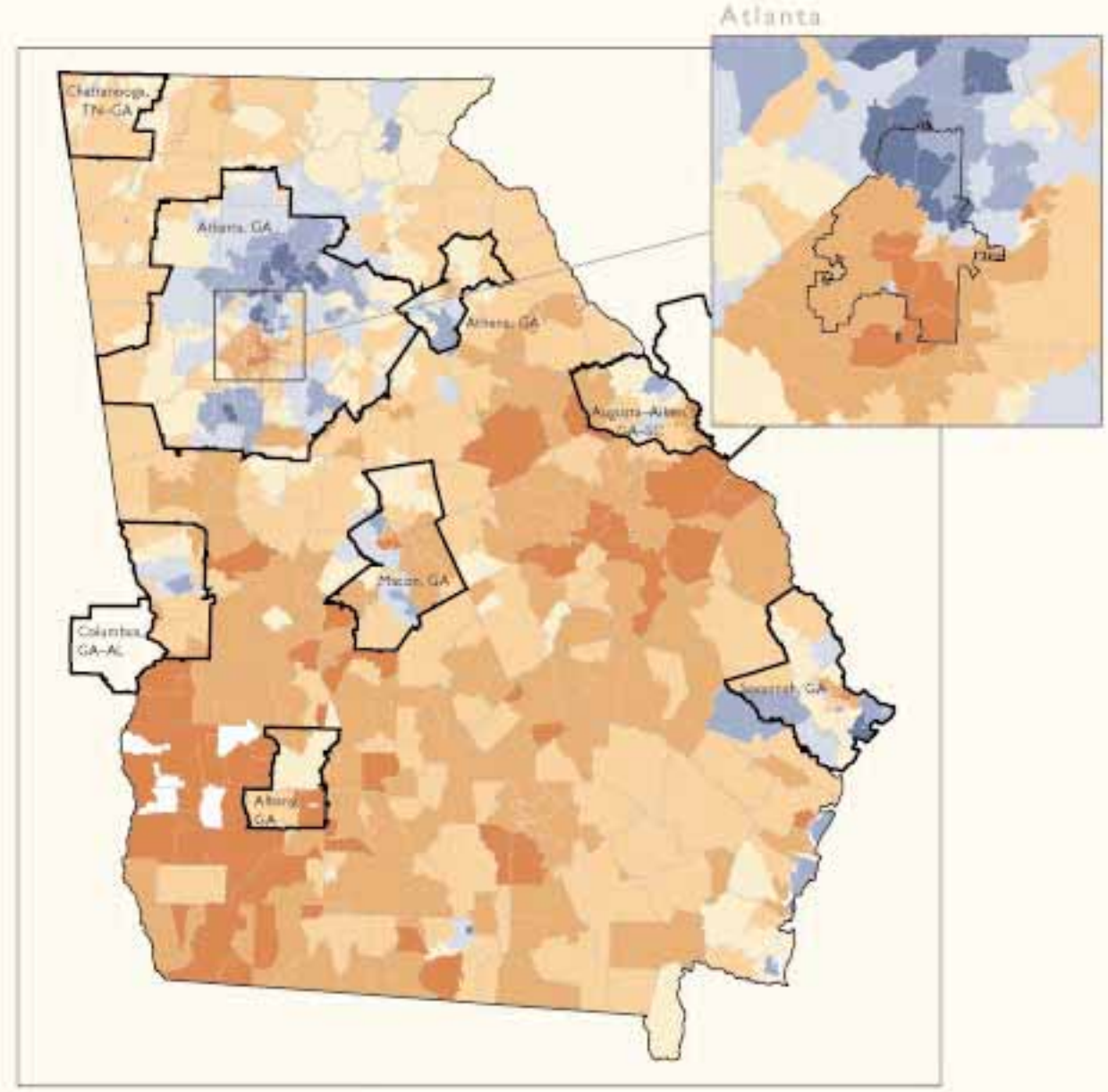
Appendix B. Additional EITC Data by State, TY 2000–2002

	Percent Change in EITC Filers 2000–2002					Percent EITC Filers with RAL, TY01				
		Metropolitan					Metropolitan			
		Large (top 100)					Large (top 100)			
STATE	Total	City	Suburb	Small	Rural	Total	City	Suburb	Small	Rural
MIDWEST	**10.1**	**4.5**	**14.2**	**11.8**	**9.8**	**39.1**	**52.5**	**36.9**	**39.0**	**29.9**
Illinois	6.9	0.9	12.4	10.0	6.6	43.5	50.4	37.9	44.9	38.6
Indiana	12.8	9.7	16.6	12.8	11.9	46.7	59.0	44.1	45.9	40.7
Iowa	11.4	-	8.9	12.4	10.7	25.4	-	38.1	32.3	19.5
Kansas	13.3	14.4	15.2	15.4	11.5	33.6	42.3	39.4	34.9	27.6
Michigan	11.8	5.5	16.8	10.9	11.2	39.8	57.8	33.7	41.8	28.0
Minnesota	12.9	7.4	18.1	10.8	12.3	21.6	35.9	20.8	20.8	15.1
Missouri	7.7	1.6	11.2	11.5	7.2	40.1	53.7	39.5	38.4	33.6
Nebraska	13.6	13.4	26.2	16.5	10.4	29.8	44.6	30.8	31.8	21.9
North Dakota	3.0	-	-	9.3	1.4	23.5	-	-	24.9	23.1
Ohio	9.6	5.5	12.6	8.8	10.4	44.5	54.8	39.9	43.8	39.0
South Dakota	8.4	-	-	14.4	5.5	34.0	-	-	39.1	31.5
Wisconsin	12.9	5.1	19.3	15.5	13.0	29.5	51.9	24.2	28.6	18.4
NORTHEAST	**7.9**	**7.8**	**8.7**	**8.7**	**4.8**	**30.6**	**31.4**	**29.3**	**35.7**	**27.5**
Connecticut	8.6	6.3	8.7	11.5	9.5	33.4	44.8	31.4	34.6	23.8
Maine	3.8	-	-	7.7	1.6	26.0	-	-	27.3	25.3
Massachusetts	7.7	7.6	8.6	(1.8)	(8.0)	22.3	30.1	20.3	19.0	13.9
New Hampshire	9.8	-	12.8	-	6.2	28.7	-	28.4	-	29.0
New Jersey	6.7	5.2	7.1	6.3	-	36.7	44.8	33.0	49.3	-
New York	9.0	8.5	11.2	9.4	5.9	27.5	26.1	27.5	35.9	31.2
Pennsylvania	7.1	5.3	7.6	10.7	5.3	36.2	47.5	32.5	34.5	27.6
Rhode Island	8.1	11.1	6.9	-	-	35.7	42.5	32.9	-	-
Vermont	3.1	-	-	7.1	1.7	17.7	-	-	17.1	17.9
SOUTH	**8.3**	**6.9**	**11.7**	**9.1**	**5.0**	**50.8**	**54.1**	**45.3**	**53.2**	**53.1**
Alabama	5.8	1.8	8.2	8.0	3.8	56.4	63.6	52.3	56.9	55.3
Arkansas	6.6	10.0	7.3	10.0	4.4	52.9	61.2	57.1	50.7	51.6
Delaware	11.2	3.2	13.8	17.0	7.2	47.6	60.1	45.5	48.3	44.8
District of Columbia	2.5	2.5	-	-	-	50.5	50.5	-	-	-
Florida	10.8	9.4	12.3	9.6	6.5	40.6	47.9	36.1	44.7	47.1
Georgia	9.5	(0.4)	16.5	10.3	4.3	57.7	67.1	51.8	61.0	59.9
Kentucky	7.9	4.5	12.7	11.3	5.8	44.8	59.2	46.5	47.8	41.1
Louisiana	7.0	3.8	8.9	8.1	6.5	56.8	59.6	51.3	57.1	59.3
Maryland	6.6	0.8	9.4	6.1	2.8	40.3	54.9	35.3	35.5	40.9
Mississippi	5.5	-	22.8	8.5	3.9	61.5	-	56.7	60.9	62.0
North Carolina	10.2	12.3	11.9	13.6	6.5	57.4	58.3	55.6	58.0	58.2
Oklahoma	6.6	8.0	7.9	11.8	4.2	44.5	45.4	42.1	47.7	45.0
South Carolina	8.9	8.3	10.6	10.7	6.3	58.9	59.2	56.1	57.6	62.6
Tennessee	7.2	6.6	10.1	6.3	6.3	53.2	63.1	48.5	53.5	48.0
Texas	8.2	7.1	11.9	8.2	4.3	51.1	51.4	49.4	52.9	51.0
Virginia	9.0	12.3	11.2	6.6	4.5	47.2	57.8	42.0	48.6	47.1
West Virginia	4.3	-	9.6	5.3	3.2	39.9	-	46.0	42.2	37.9

	Percent Change in EITC Filers 2000–2002					Percent EITC Filers with RAL, TY01				
		Metropolitan					Metropolitan			
		Large (top 100)					Large (top 100)			
STATE	Total	City	Suburb	Small	Rural	Total	City	Suburb	Small	Rural
WEST	**6.3**	**4.8**	**7.6**	**6.7**	**5.0**	**28.3**	**30.0**	**27.9**	**28.7**	**25.9**
Alaska	10.7	-	-	17.3	6.7	22.5	-	-	32.6	16.3
Arizona	10.8	9.4	14.4	10.4	6.9	37.8	41.5	37.8	29.1	33.1
California	3.5	3.2	4.5	0.4	1.1	25.8	27.1	25.3	25.3	22.3
Colorado	8.2	(1.0)	13.3	12.3	1.3	30.5	38.5	32.0	31.6	19.5
Hawaii	16.2	14.5	24.9	-	7.1	25.4	21.6	31.2	-	21.5
Idaho	14.5	-	-	19.3	11.7	26.1	-	-	30.0	23.8
Montana	5.1	-	-	10.7	2.7	28.5	-	-	29.1	28.2
Nevada	14.8	14.2	18.3	11.1	5.9	43.8	44.9	43.8	45.7	38.6
New Mexico	5.6	12.1	12.4	(6.1)	5.5	32.0	33.1	36.6	35.0	29.1
Oregon	7.0	7.3	12.3	7.3	2.8	22.7	22.2	19.8	23.1	24.6
Utah	19.2	12.7	19.5	32.0	13.9	26.0	29.9	29.0	18.5	23.3
Washington	8.6	4.5	11.6	9.4	5.3	31.7	30.6	33.6	33.1	27.6
Wyoming	2.7	-	-	8.4	(0.1)	30.3	-	-	32.4	29.4
TOTAL	**8.2**	**6.2**	**10.5**	**9.2**	**6.1**	**40.7**	**42.8**	**36.7**	**44.2**	**42.0**

Appendix Figure A - Georgia

EITC Recipients as a Percentage of Total Returns by Zip Code, TY 2001



Percentage Recipients			
Large City	Large Suburb	Small Metro	Rural
24.1%	14.7%	33.3%	26.5%

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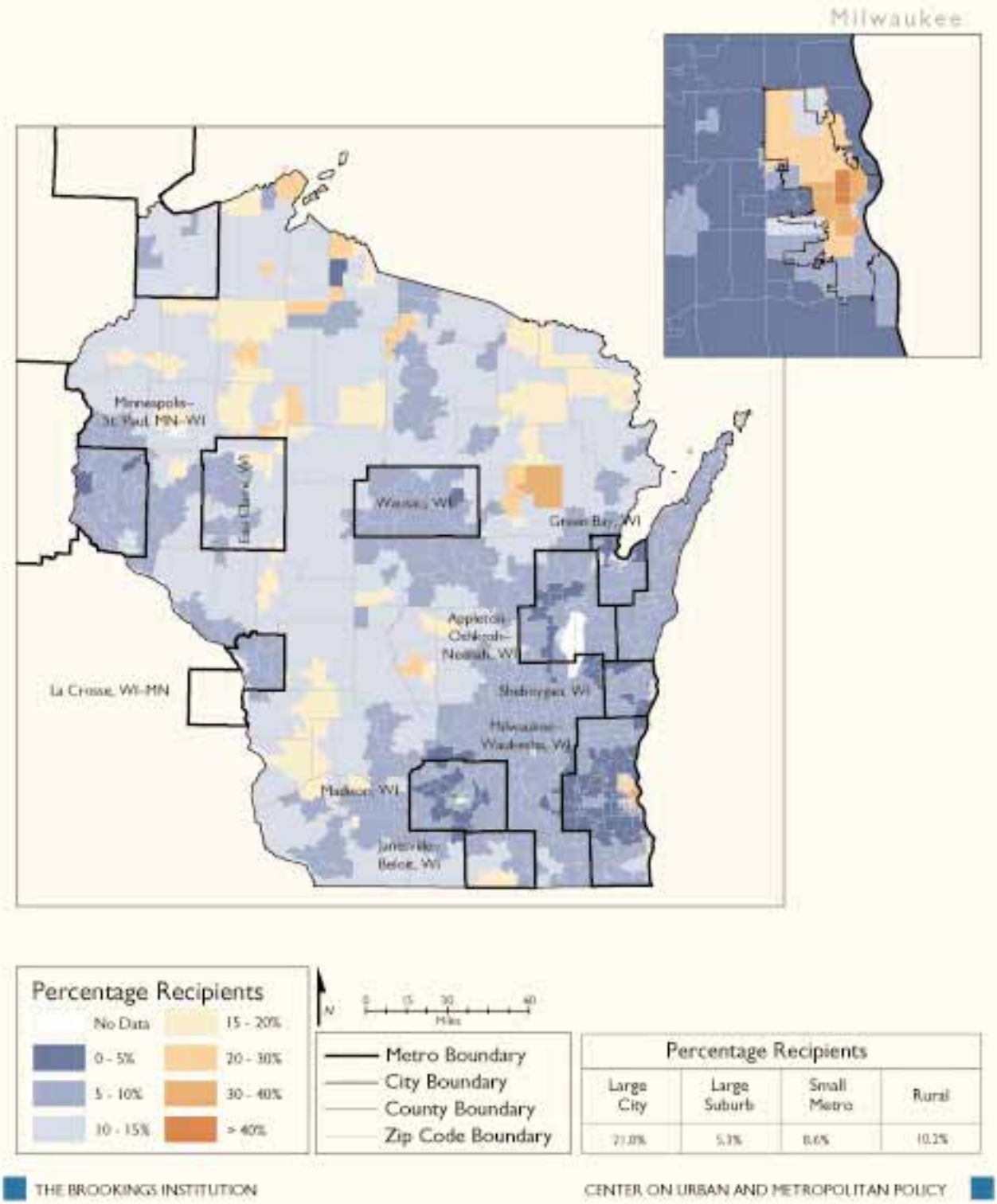
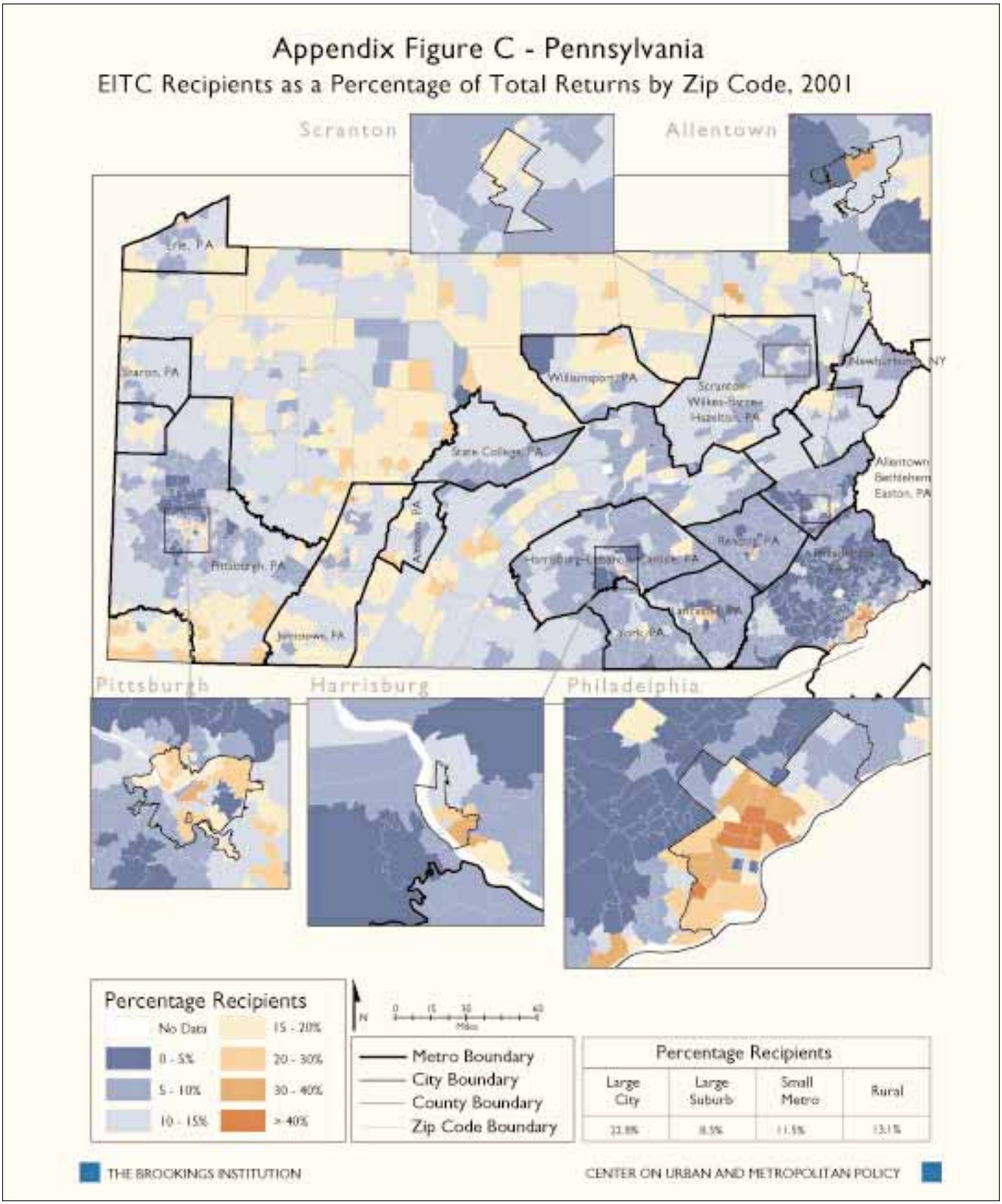
Appendix Figure B - Wisconsin

EITC Recipients as a Percentage of Total Returns by Zip Code, TY 2001




Appendix Figure C - Pennsylvania
EITC Recipients as a Percentage of Total Returns by Zip Code, 2001
Scranton
Allentown
Erie, PA
Sharon, PA
Williamsport, PA
Scranton-Wilkes-Barre-Hazleton, PA
Newburgh-Middletown, NY
State College, PA
Allentown-Bethlehem-Easton, PA
Pittsburgh, PA
Johnstown, PA
York, PA
Pittsburgh
Harrisburg
Philadelphia
Percentage Recipients
No Data
0 - 5%
5 - 10%
10 - 15%
15 - 20%
20 - 30%
30 - 40%
> 40%
N
0 15 30 60
Miles
Metro Boundary
City Boundary
County Boundary
Zip Code Boundary
Percentage Recipients
Large City
Large Suburb
Small Metro
Rural
22.8%
8.5%
11.5%
13.1%
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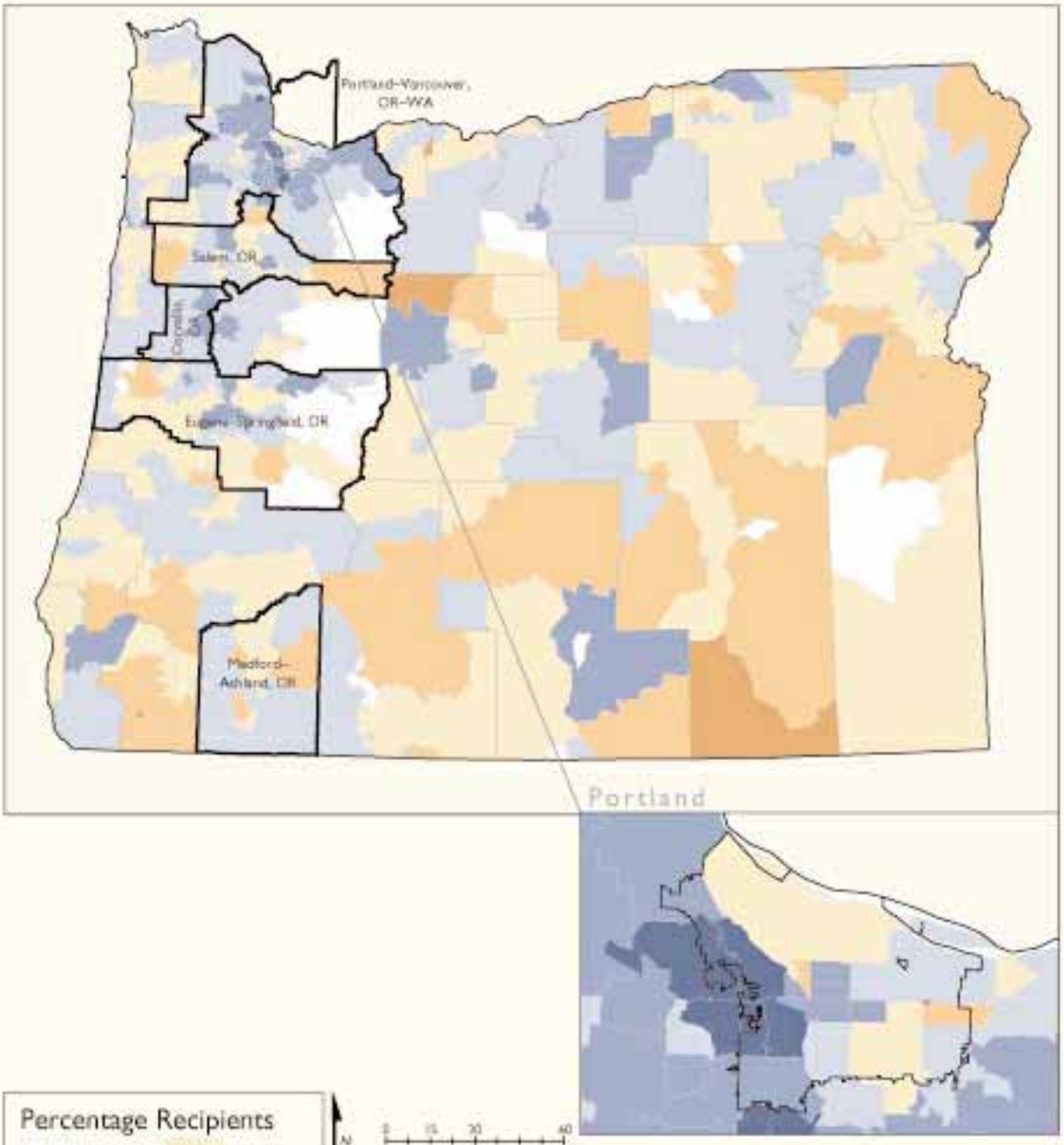
Appendix Figure D - Oregon

EITC Recipients as a Percentage of Total Returns by Zip Code, TY 2001



Percentage Recipients			
Large City	Large Suburb	Small Metro	Rural
11.0%	9.5%	13.9%	15.0%

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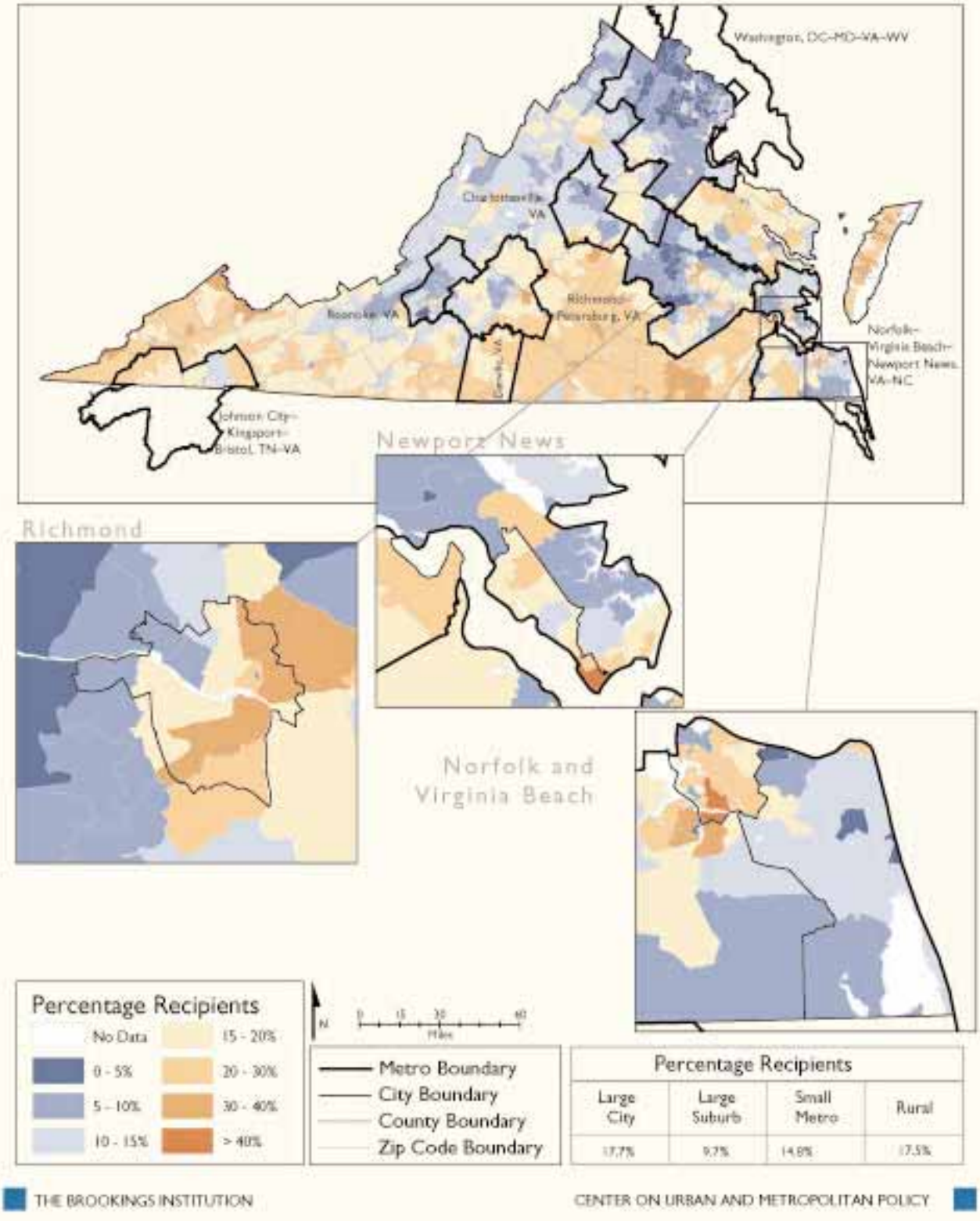
Appendix Figure E - Virginia

EITC Recipients as a Percentage of Total Returns by Zip Code, TY 2001



Endnotes

1. Alan Berube and Thacher Tiffany are, respectively, senior research analyst and research assistant at the Brookings Institution Center on Urban and Metropolitan Policy.

2. Not all filers who claim the EITC are poor by federal government definitions. Families with two or more qualifying children and income of up to $32,121 in tax year 2001 could claim the credit, while the federal poverty guideline for a family of three in that year was just $14,630. However, a majority of EITC claimants in tax year 2000 had incomes below that level, and an even larger share of EITC benefits were directed to poor families. Additionally, although we use the term "families" to refer generically to claimants, about one in six EITC filers in tax year 2000 claimed the credit for childless workers; many of these claimants are likely single persons.

3. For more information on how the EITC works, see Alan Berube, "Rewarding Work Through the Tax Code: The Power and Potential of the Earned Income Tax Credit in 27 Cities and Rural Areas" (Washington: Brookings Institution, 2003).

4. A study of tax year 1996 data found that California, Texas, New York, New Jersey, Oklahoma, Washington, and Michigan all had EITC nonfiler rates exceeding 20 percent. SB/SE Research, "Participation in the Earned Income Tax Credit Program for Tax Year 1996" (Internal Revenue Service, 2002). Many of these same states are estimated to have the largest number of undocumented immigrants. Jeffery Passel, "New Estimates of the Undocumented Population in the United State" (Washington: Migration Policy Institute, 2002). These immigrants are not eligible to claim the EITC, and to the extent they share the characteristics of other recent immigrants, are more likely to be poor than the population at-large. In Census 2000, 23 percent of foreign-born non-citizens were poor, compared to 12.4 percent of the U.S. population as a whole. Elizabeth Grieco, "Characteristics of the Foreign-Born in the United States: Results from Census 2000" (Washington: Migration Policy Institute, 2002).

5. Because the IRS suppressed some data for confidentiality purposes, we make certain assumptions where data are missing. If the number of filers claiming EITC in a ZIP code is less than ten, the IRS reports zero EITC claimants, but does provide the total credit dollars claimed. We use the average EITC earned in the state in which that ZIP code is located to estimate its number of EITC claimants, rounding to arrive at a whole number. We consider ZIP codes with fewer than ten individual income taxpayers overall to have "no data." These assumptions do not affect our findings significantly.

6. In order to associate ZIP codes with metropolitan and non-metropolitan (rural) areas, we use a county name identifier included in the IRS files.

7. Metropolitan areas include those Metropolitan Statistical Areas (MSAs) and Primary Metropolitan Statistical Areas (PMSAs) as defined by the Office of Management and Budget that were effective for Census 2000. New metropolitan area definitions were announced by OMB in June 2003 (Jason P. Schachter, Rachel S. Franklin, and Marc J. Perry, "Migration and Geographic Mobility in Metropolitan and Nonmetropolitan America: 1995 to 2000" (Census 2000 Special Reports CENSR-9, 2003)). We refer to MSAs and PMSAs generically throughout the paper as "metro areas." We use New England County Metropolitan Areas (NECMAs) for metro areas in New England, because they are defined by counties, our building blocks for other metro areas. In 2000, the 100 largest metro areas had populations ranging from about 500,000 (Vallejo-Fairfield-Napa, CA PMSA) to 9.2 million (Los Angeles-Long Beach, CA PMSA). We include in the central city totals only the first city listed in the MSA name, and additional cities in the MSA name whose populations are greater than 100,000. For example, in the Washington, DC-MD-VA-WV PMSA, we did not include central cities such as Arlington, VA, and Frederick, MD, because they are not included in the name of the metropolitan area. In the Raleigh-Durham-Chapel Hill, NC MSA, the central city figures reflect totals for Raleigh and Durham; Chapel Hill is excluded because the city has fewer than 100,000 residents. The one exception to the MSA name rule is Orange County, CA, in which no central city appears in the PMSA name. In that metro area, Anaheim, Santa Ana and Irvine are all treated as central cities (all have populations exceeding 100,000). Four of the largest 100 metro areas have no OMB-defined central cities: Nassau-Suffolk, NY; Bergen-Passaic, NJ; Middlesex-Somerset-Hunterdon, NJ; and Monmouth-Ocean, NJ.

8. Appendix A shows the area types contained within each state. Among the 50 states, 12 contain no large cities, 8 contain no large suburbs, 3 contain no small metros, and 2 contain no rural areas. A state may contain large suburbs but no large city if a large metropolitan area centered in an adjoining state incorporates counties from that state.

9. "Urban influence codes" were developed by the Department of Agriculture's Economic Research Service. See Linda M. Ghelfi and Timothy S. Parker, "A County-Level Measure of Urban Influence," *Rural Development Perspectives* 12 (2) (1995): 32–41.

10. The difference may also, in part, reflect a difference in the average number of children per working poor family across regions. In the South, childless workers make up a smaller share of EITC claimants (15 percent) than in other regions of the country (18 percent). Childless workers are eligible for a small EITC relative to families with children. At the same time, slightly fewer low-income working families in the South have two eligible children (42 percent) than in either the Midwest or West (43 percent), which would tend to bring down the average size of the credit among southern families. In the end, these family size differences may be less impor-

tant than earnings differences in determining average credit size.

11. For a fuller description of these products, see Alan Berube, Anne Kim, Benjamin Forman, and Megan Burns, "The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC" (Washington: Brookings Institution and Progressive Policy Institute, 2002); Chi Chi Wu and Jean Ann Fox, "The High Cost of Quick Tax Money: Tax Preparation, 'Instant Refund' Loans, and Check Cashing Fees Target the Working Poor" (Washington: National Consumer Law Center and Consumer Federation of America, 2003).

12. An ordinary least-squares regression of the percentage of families in a ZIP code receiving the EITC on dummies for the ZIP code's region and geography type, and a similar regression on interactions of those terms, both yield adjusted R-squared values of 0.23.

13. In the eight states without large cities, we compare the rate of EITC receipt in rural areas to that in small metros, which contain the largest cities in those states. In the two states without rural areas, we compare large cities to the state's least urbanized area type. Either large cities or rural areas exhibit the highest degree of working poverty in 47 out of 50 states.

14. For example, in the state of Indiana, 18.7 percent of filers in large cities (Indianapolis and Fort Wayne) claimed the EITC in tax year 2001, compared to 13.4 percent in rural areas. Because the large-city rate is 40 percent higher than the rural rate, we designate Indiana as an urban-working-poverty state. In the state of Missouri, 22.0 percent of large-city (Kansas City and St. Louis) filers earned the credit, as did 18.5 percent of rural filers. Because the large-city rate is only 19 percent higher than the rural rate, we describe Missouri as a dispersed-working-poverty state.

15. Maps of all 50 states and the District of Columbia can be found on our website, **www.brookings.edu/urban**. The website also includes an interactive utility from which users can download information on EITC receipt for states, metropolitan areas, counties, cities, towns, and ZIP codes.

16. Jared Bernstein and Lawrence Mishel, "Labor Market Left Behind: Evidence shows that post-recession economy has not turned into a recovery for workers" (Washington: Economic Policy Institute, 2003).

17. The correlation coefficient for these measures is 0.29.

18. Robert Pierre, "In Nebraska, 'Spanish Now Spoken Here;' West Point, Other Midwestern Communities Ramp Up Services to Meet Immigrants' Needs." *Washington Post,* September 2, 2003, p. A3; Stephanie Simon, "Latinos Take Root in Midwest." *Los Angeles Times,* October 23, 2002, p. 1.

19. For instance, the federal government could: expand and streamline access to the federal EITC, potentially by combining it with the Child Tax Credit (see Adam Carasso, Jeffery Rohaly, and C. Eugene Steuerle, "Tax Reform for Families: An Earned Income Child Credit" (Washington: Brookings Institution, 2003); Daniel Gitterman, Christopher Howard, and Kendra Davenport Cotton, "Tax Credits for Working Families: The New American Social Policy" (Washington: Brookings Institution, 2003)); fund community-based free tax preparation programs through IRS-administered grants; and adopt a registration, examination, certification, and enforcement program for federal tax return preparers such as that recommended by the National Taxpayer Advocate ("FY2002 National Taxpayer Advocate's Annual Report to Congress" (Washington: Internal Revenue Service, 2002)).

20. V. Joseph Hotz and John Karl Scholz, "The Earned Income Tax Credit." In Robert A. Moffitt, ed., *Means Tested Transfer Programs in the United States* (University of Chicago Press, 2003).

21. Rhode Island's EITC is partially refundable; eligible taxpayers can claim up to 5 percent of the "unused" portion of their non-refundable EITC as a refundable credit. Because Rhode Island's non-refundable EITC is equal to 25 percent of the federal credit, the maximum refundable state credit equals 1 percent of the federal EITC. In addition to Rhode Island, the states with refundable earned income credits in 2003 are: Illinois, Indiana, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Vermont, and Wisconsin. Colorado statutes provide for a 10 percent refundable EITC in years where state revenues exceed a certain limit. The credit is presently suspended due to insufficient revenues, and is not projected to be reinstated until 2007. Nicholas Johnson, Bob Zahradnik, and Joseph Llobrera, "State Income Tax Burdens on Low-Income Families in 2002" (Washington: Center on Budget and Policy Priorities, 2003).

22. Ibid.

23. Nicholas Johnson, "State Budget Deficits Continue to Threaten Public Services" (Washington: Center on Budget and Policy Priorities, 2003).

24. See, e.g., Internal Revenue Service, "National Taxpayer Advocate FY 2002 Annual Report to Congress" (2003), pp. 216–230.

25. Berube, "Rewarding Work Through the Tax Code."

26. By supporting nonprofit organizations like the Tax Counseling Project, states can help connect low-income filers to related services that can help improve their financial stability over time. The Center for Economic Progress has partnered with ShoreBank, a Chicago-based community development bank, to open more than 1,100 accounts over the past three years for clients who use free tax preparation sites at the bank's own branches.

27. IRS, "National Taxpayer Advocate FY 2002 Annual Report to Congress."

28. Tax Preparers Act, Chapter 14, California Business and Professions Code, § 22255.

29. Accountants; Tax Consultants and Preparers, Chapter 673, Oregon Revised Statutes.

30. Tax Preparation Services, Chapter 270.30, Minnesota Statutes.

31. Refund Anticipation Loan Act, Chapter 53-245, North Carolina General Statutes.

32. Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finances," *Federal Reserve Bulletin* (2003) (November): 1–32.

33. Jonathan Gruber and Aaron Yelowitz, "Public Health Insurance and Private Savings," Journal of Political Economy 107 (6) (1999): 1249–1274.

34. These 20 states are: Alabama, Arizona, Connecticut, Delaware, Illinois, Kansas, Louisiana, Massachusetts, Mississippi, Missouri, New Jersey, New Mexico, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Wisconsin, and Wyoming.

35. Survey data from the Center on Budget and Policy Priorities for the Kaiser Commission on Medicaid and the Uninsured, 2002–2003. States generally exclude the value of a residential home and car, up to a specified limit. The states with asset limits of $2,000 or less include Alaska, Arkansas, Colorado, Florida, Georgia, Idaho, Indiana, Iowa, Kentucky, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and West Virginia.

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