The EITC provides critical financial support to working immigrant families and their neighborhoods.

Over half of all foreign-born individuals in the United States lived in just 5 percent of the nation’s ZIP codes in 2000. Most of these high-immigrant communities were located in major gateway states like California, New York, and Texas. Overall, 20 percent of their foreign-born residents lived below the poverty line, versus 16 percent nationally.

Twenty-one percent of families in high-immigrant communities received the EITC in tax year 1999, compared to 15 percent of families nationwide. Tax filers in these communities claimed $6.7 billion from the credit, more than one-fifth of total EITC dollars claimed that year. By tax year 2002, EITC dollars claimed in these same communities had risen to $7.8 billion.

Low-income working families in high-immigrant communities were more likely to use a paid preparer to file than those in other communities. However, EITC recipients in high-immigrant ZIPs were less likely than their counterparts elsewhere to claim their credit dollars via a refund anticipation loan (RAL).

Communities with moderate numbers of immigrants (between 2 and 13 percent of the population) may have lower EITC participation rates than communities with either high or low numbers of immigrants. In these areas, immigrants’ awareness of the EITC and other tax benefits may be lower due to a lack of targeted outreach, or to less active social networks among immigrants than may exist in high-immigrant communities.

To further harness the benefits of the EITC for immigrant families and communities, local leaders in the public and non-profit sectors should boost volunteer tax preparation capacity in high-immigrant neighborhoods, fund research on the economic impacts of the credit and related tax programs in these communities, and target EITC outreach to eligible immigrant families living in suburbs and other locales where the immigrant population is less concentrated.
Introduction

The Earned Income Tax Credit (EITC) is the largest federal aid program targeted to low-income working individuals and families. In 2003, over 20 million tax filers claimed credits totaling $36 billion. Income from the credit alone lifted about 5 million people, half of them children, above the federal poverty line.

The EITC is also noted for the high rate at which eligible families claim the credit. The EITC participation rate outstrips rates for other antipoverty programs like food stamps and Temporary Assistance for Needy Families (TANF). Recent estimates for families with children put the EITC participation rate at 80 to 86 percent, compared to 53 percent for Food Stamps and just over 50 percent for TANF. Researchers and policymakers credit the high participation rate in the EITC to the integration of the program into the federal income tax system, and to the lower stigma and administrative burdens associated with claiming the credit versus other benefits.

Previous Brookings research has examined the impact of the credit in local areas, with an eye towards the percentage of families in cities and metropolitan areas benefitting from the credit, as well as the large economic stimulus that EITC dollars provide to local jurisdictions. Yet because IRS data provide limited information about the characteristics of filers themselves, little is known at the local level about the profile of individuals and communities helped by the credit.

This type of information would not only illuminate who benefits from the EITC, but it also potentially points to people or places who might be “missing out” on the credit and other tax benefits in disproportionate numbers. The prospect of federal dollars “left on the table” has prompted cities and counties across the nation to promote the credit and provide free tax prepara-

and national leaders can harness the full benefits of the EITC for the nation’s diverse immigrant population.

Methodology

This analysis draws on two data sources: sample “long form” data from Census 2000, and individual income tax information from the IRS. The latter are provided at the ZIP code level. IRS ZIP code data are merged with Census 2000 information compiled for ZIP Code Tabulation Areas (ZCTAs), which are generalized representations of the ZIP code service areas defined by the U.S. Postal Service. ZIP codes vary in size and population. On average, they contain 9,000 people, but rural ZIPs may refer to just a handful of households, while some inner-city ZIPs include 50,000 or more people. In densely populated areas, ZIP codes may span 15 to 20 city blocks; in remote areas they may spread hundreds of square miles, over a significant portion of a county. This report intermittently refers to ZIP codes as “communities.”

Tax data analyzed here are for tax year (TY) 1999, because Census 2000 asked respondents for income information for that calendar year (in one part of the analysis, however, the impact of the credit in those same communities is examined three years later (TY 2002)). Overall, the dataset matching census and tax data captures 97.5 percent of all federal individual income tax returns, and 97.9 percent of all returns receiving the Earned Income Tax Credit (EITC), filed for tax year 1999.

Because one cannot view the demographic attributes of filers directly in the IRS data, census data are used to identify ZIP codes characterized by high proportions of foreign-born individuals. (The term “immigrant” is used interchangeably with “foreign-born” to describe persons living in the U.S.)
who were born in another country.) The ZIP codes in this study capture nearly 100 percent of all foreign-born individuals identified in Census 2000 (see below for information on undocumented immigrants in the census).

These IRS data reveal several characteristics associated with individual income tax returns based on the ZIP code in which filers reside. The analysis makes use of several of the variables contained in these data, including: the total number of returns filed; the number of returns claiming the EITC; total EITC dollars claimed; the number of returns prepared by a paid tax preparer; and the number of returns for which the Debt Indicator was requested (a proxy for filers using a refund anticipation loan (RAL)). Census 2000 data are used to examine the differences in these tax return characteristics among ZIP codes based on the proportions of their populations that are foreign-born. The report draws on additional ZIP code-level data from Census 2000 to analyze specific characteristics of the foreign-born, including their region of birth, their poverty status, their arrival period, and their citizenship status.

The bulk of this analysis relates to how immigrant communities benefit from and access the EITC. It pays special attention to the presence of EITC filers in high-immigrant communities, ZIP codes whose large immigrant populations place them in the top 5 percent of all ZIP codes by the share of individuals who are foreign-born. It also examines how the percentage of tax returns claiming the EITC in a ZIP code relates to the proportion of households who appear to be eligible for the EITC based on Census 2000 data, and the percentage of residents who are foreign-born. In doing so, it offers a first-order look at how participation in the credit among eligible filers may differ among communities with different levels of immigrants.

Most EITC dollars are directed to families with qualifying children. In TY 1999, families with qualifying children filed about five in six returns claiming the EITC. These families had incomes under roughly $30,000. A smaller number of filers claimed the credit for childless workers. These workers had incomes generally under $10,000, and received credits that averaged only about one-sixth the size of those for families with children (Figure 1). For this filing season (TY 2004), the income eligibility range is larger than in TY 1999, and the credit amounts for which eligible families may qualify are higher.

In order to claim the EITC, a tax filer must possess a Social Security Number for himself/herself and for any children whom the filer wishes to claim for purposes of the credit. Among immigrants, this effectively limits EITC eligibility to those who are naturalized citizens or legal residents. Although most undocumented adult immigrants have earned income, and typically earn amounts within the EITC-eligible income range, they cannot claim the credit.

### Findings

**A. Over half of all foreign-born individuals in the United States lived in just 5 percent of the nation’s ZIP codes in 2000.**

To examine the impact of the EITC in immigrant communities, this survey first identifies a set of geographies characterized by a strong immigrant presence, that in turn account for a significant share of the nation’s foreign-born population. Of the roughly 31,000 ZIP codes for which both tax and census data existed, 5 percent (or 1,537 ZIP codes) with the highest proportions of foreign-born individuals were identified as high-immigrant communities.

These ZIP codes capture a significant share of the nation’s foreign-born population. On average, 36 percent of individuals in these areas in 2000 were foreign-born, compared to 11 percent of all individuals nationally. Together, these communities contained more than half (16.4 million, or 53 percent) of the nation’s foreign-born popula-
tion, versus 16 percent (45.9 million) of its total population.

High-immigrant ZIP codes were distributed unevenly across the United States (Table 1). California dominated, containing more than one-third of all high-immigrant communities, followed by the other five contemporary “gateway” states for immigrants. Overall, though, 36 states and the District of Columbia were home to at least one high-immigrant ZIP in 2000. Likewise, most of these high-immigrant communities were located in metropolitan areas. The New York and Los Angeles metro areas each contained a significant number, followed by Miami, San Francisco, and Washington, D.C. The top ten metro areas together contained nearly two-thirds of high-immigrant ZIPs, while only 6 percent were located in non-metropolitan areas.

As these figures suggest, high-immigrant ZIP codes tend to lie in densely populated locales. The typical high-immigrant ZIP code contained roughly 5,000 people per square mile. Thirty-eight (38) percent were located in major cities, versus just 7 percent of other ZIP codes.

The clustering of people and immigrants in these communities not only distinguishes them from other communities, but also signals differences between their foreign-born populations and those in other communities (Table 2). High-immigrant communities had a larger share of their total population living below the poverty line (18 percent versus 11 percent), and their foreign-born individuals had a higher poverty rate than foreign-born individuals elsewhere (20 percent versus 15 percent).

The somewhat greater economic disadvantage exhibited by the foreign-born in these high-immigrant communities coincided with their demographic attributes. Compared to immigrants elsewhere, they were more likely to have arrived in the United States as recently as the 1980s. Corresponding with their more recent arrival, fewer foreign-born individuals in high-immigrant communities were naturalized citizens (38 percent versus 43 percent). They were more likely than the immigrant population as a whole to hail from Mexico or other Latin American countries, which reflects in part the common immigration sources in the states where these communities are disproportionately located (CA and TX). Immigrants from Latin America typically arrive with lower education and earnings capacity than immigrants from most other regions of the world.

Table 1. Location of High-Immigrant ZIP Codes by State and Metropolitan Area, 2000

<table>
<thead>
<tr>
<th>State</th>
<th>High-Immigrant ZIP codes*</th>
<th>Percentage of All High-Immigrant ZIP Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>578</td>
<td>37.6%</td>
</tr>
<tr>
<td>Texas</td>
<td>179</td>
<td>11.6%</td>
</tr>
<tr>
<td>New York</td>
<td>178</td>
<td>11.6%</td>
</tr>
<tr>
<td>Florida</td>
<td>123</td>
<td>8.0%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>103</td>
<td>6.7%</td>
</tr>
<tr>
<td>Illinois</td>
<td>57</td>
<td>3.7%</td>
</tr>
<tr>
<td>Washington</td>
<td>39</td>
<td>2.5%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>34</td>
<td>2.2%</td>
</tr>
<tr>
<td>Arizona</td>
<td>33</td>
<td>2.1%</td>
</tr>
<tr>
<td>Virginia</td>
<td>30</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Total in top 10 states</strong></td>
<td><strong>1,354</strong></td>
<td><strong>88.1%</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>High-Immigrant ZIP codes*</th>
<th>Percentage of All High-Immigrant ZIP Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York-Northern NJ-Long Island, NY-NJ-PA</td>
<td>276</td>
<td>18.0%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach-Santa Ana, CA</td>
<td>241</td>
<td>15.7%</td>
</tr>
<tr>
<td>Miami-Fort Lauderdale-Miami Beach, FL</td>
<td>108</td>
<td>7.0%</td>
</tr>
<tr>
<td>San Francisco-Oakland-Fremont</td>
<td>73</td>
<td>4.7%</td>
</tr>
<tr>
<td>Washington-Arlington-Alexandria, DC-MD-VA-WV</td>
<td>61</td>
<td>4.0%</td>
</tr>
<tr>
<td>Chicago-Naperville-Joliet, IL-IN-WI</td>
<td>57</td>
<td>3.7%</td>
</tr>
<tr>
<td>Houston-Baytown-Sugar Land, TX</td>
<td>56</td>
<td>3.6%</td>
</tr>
<tr>
<td>San Jose-Sunnyvale-Santa Clara, CA</td>
<td>42</td>
<td>2.7%</td>
</tr>
<tr>
<td>Dallas-Fort Worth-Arlington, TX</td>
<td>37</td>
<td>2.4%</td>
</tr>
<tr>
<td>Riverside-San Bernadino-Ontario, CA</td>
<td>34</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Total in top 10 metro areas</strong></td>
<td><strong>985</strong></td>
<td><strong>64.1%</strong></td>
</tr>
<tr>
<td><strong>Total in other metro areas</strong></td>
<td><strong>455</strong></td>
<td><strong>29.6%</strong></td>
</tr>
<tr>
<td><strong>Total outside metro areas</strong></td>
<td><strong>97</strong></td>
<td><strong>6.3%</strong></td>
</tr>
<tr>
<td><strong>Total Nationwide</strong></td>
<td><strong>1,537</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*High-Immigrant ZIP codes: Census ZIP code tabulation areas (ZCTAs) in the top 5% nationwide of ZCTAs measured by percent of population foreign-born.
Source: Brookings Institution analysis of IRS and Census 2000 data.
Examining these communities for information on how immigrants access and benefit from the EITC likely gives a less precise picture than if one knew how many EITC recipients at the local level were themselves immigrants. The foreign-born in these high-immigrant ZIPs are more geographically clustered, somewhat poorer, and more concentrated among the Mexican/Latin American migrant population than the foreign-born elsewhere. Yet the fact that more than half of foreign-born individuals nationwide live in these communities suggests that they offer a helpful view as to how the EITC impacts families and neighborhoods where the majority of immigrants in the United States live.

B. Twenty-one percent of families in high-immigrant communities received the EITC in tax year 1999, compared to 15 percent of families nationwide.

The lower levels of income reflected in high-immigrant communities in Census 2000 suggest that larger proportions of families living there qualify for the EITC. Indeed, the IRS data indicate that an above-average percentage of returns from those ZIP codes claimed the EITC in TY 1999. While a little more than one in seven tax filers nationwide benefited from the credit that year, more than one in five filers in high-immigrant ZIP codes did (Figure 2). Together, these communities received $6.7 billion from the EITC, nearly 30 percent of the total credit amount claimed that year.

The flow of EITC dollars to high-immigrant communities is so significant in part because low-income taxpayers in these areas tend to claim larger credits on average than their counterparts elsewhere. In fact, in TY 1999 the average EITC claimed in high-immigrant communities was fully $100 larger than the average EITC claimed in other communities. This may reflect the slightly higher proportion of EITC filers in high-immigrant

### Table 2. Demographic/Economic Profile of High-Immigrant ZIP Codes, 2000

<table>
<thead>
<tr>
<th></th>
<th>High-immigrant ZIP Codes</th>
<th>Other ZIP Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>% total population in poverty</td>
<td>17.8%</td>
<td>11.3%</td>
</tr>
<tr>
<td>% foreign-born (FB) in poverty</td>
<td>20.1%</td>
<td>15.3%</td>
</tr>
<tr>
<td>% native-born in poverty</td>
<td>16.5%</td>
<td>11.0%</td>
</tr>
</tbody>
</table>

Percent FB arriving before 1970 | 11.4% | 19.8% |
Percent FB arriving 1970–1979    | 15.6% | 14.5% |
Percent FB arriving 1980–1989    | 30.4% | 23.7% |
Percent FB arriving 1990–2000    | 42.7% | 42.0% |
Percent FB naturalized citizens  | 37.6% | 43.3% |

Percent FB from:
- Africa: 2.2% 3.6%
- Asia: 24.8% 28.2%
- Caribbean: 13.0% 5.6%
- Europe: 9.4% 22.9%
- Latin America: 15.7% 9.3%
- Mexico: 33.7% 24.8%
- Other: 1.2% 5.5%

Number of ZIP codes: 1,537 29,205

Source: Brookings Institution analysis of IRS and Census 2000 data.

### Figure 2. Percentage of Tax Returns Claiming EITC by Location, TY 1999

![Bar chart showing percentage of tax returns claiming EITC for different ZIP codes](source)

Source: Brookings Institution analysis of IRS and Census 2000 data.
areas who claimed the credit for workers with qualifying children, which is much larger than that available to childless workers. It may also reflect that EITC claimants in high-immigrant communities earn lower incomes than claimants elsewhere and thus qualify for somewhat larger benefits.13

The overall rate at which residents of high-immigrant ZIPs claimed the EITC disguised a great deal of variation in the usage of the credit among these communities. Not all high-immigrant ZIP codes are poor, inner-city places. In almost one-fourth of these areas, fewer than 10 percent of tax filers claimed the credit. In Des Plaines, IL (ZIP code 60018), a suburb of Chicago, 28 percent of the population in 2000 was foreign-born, but only one in ten tax filers claimed the EITC. The area has a large Mexican-born contingent, but a significant presence of Asian and European-born residents as well, many of whom have been in the country for several decades and likely earn higher incomes.

At the other extreme, about one in seven high-immigrant communities saw over 40 percent of their filers claim the EITC. In Downtown Los Angeles (ZIP code 90006), where two-thirds of the population is foreign-born, nearly half of all tax filers claimed the credit. There, the immigrant population is comprised mainly of Mexicans and other Latin Americans who migrated to the United States in the 1980s and 1990s. In the aggregate, compared to communities with a smaller presence of the foreign-born, high-immigrant ZIP codes showed very high rates (30 percent and above) of EITC receipt much more often (Figure 3).

As these examples suggest, the characteristics of the foreign-born within these high-immigrant communities coincide with the local impact of the EITC. For instance, the major source country from which foreign-born residents hail may relate to their earnings capacity and their likelihood of having children in the household, both of which shape eligibility for the credit. In this regard, Figure 3 focuses on high-immigrant communities alone, showing the percentage of tax filers who claimed the EITC by the major source region of foreign-born residents (defined as the source country for a majority of foreign-born individuals). Communities with a large presence of immigrants from Caribbean countries (mostly Cuba and the Dominican Republic) or Mexico exhibited highest usage of the credit in TY 1999, followed by communities with other Latin American and European immigrants. On average, only one in ten tax filers claimed the EITC in high-immigrant communities where a majority of the foreign-born came from Asian countries.

More recent tax data reveal that these communities remain a focal point for EITC claims. In TY 2002, 4.2 million filers living in these same ZIP codes earned the credit, claiming over $7.7 billion in the process—a share of total EITC claims similar to TY 1999. While the population of these places may have changed slightly over the three years since Census 2000 (TY 2002 returns were filed in the first months of 2003), in all likelihood they still are home to the largest numbers of foreign-born individuals.

C. Low-income working families in high-immigrant communities were more likely to use a paid preparer to file than those in other communities. A majority of Americans pay someone to prepare and file their taxes. In TY 1999, paid preparers completed about 54 percent of individual income tax returns. For the most part, the use of paid preparers increases as taxpayer income increases. Higher-income individuals often have more complex returns and thus seek guidance from tax professionals; these individuals also have sufficient resources to pay for those services. Yet among the subset of the lower-income population that claims the EITC, paid preparer usage is actually higher. Sixty-six percent of EITC recipients in TY 1999 used a commercial preparer to complete and file their tax returns.14

Figure 3. Distribution of ZIP Codes by Percentage of Taxpayers Claiming EITC, TY 1999

Source: Brookings Institution analysis of IRS and Census 2000 data.
This section analyzes whether the usage of paid tax preparation services and products among EITC recipients in high-immigrant communities differs from that of EITC recipients in other communities. By focusing on the EITC population alone, it effectively controls for differences in overall income between these community types, as income eligibility requirements for the credit do not vary across places.

EITC recipients may seek the services of paid preparers for a number of reasons. Low-income taxpayers, particularly those with low levels of education, may have difficulty understanding the tax filing process. Others want access to their refund dollars quickly, and most commercial preparers are able to e-file returns, thus speeding up IRS processing. And low-income returns do come with their own set of complexities. For families with complicated living situations, in which multiple members may provide support for children, the varying rules for claiming dependents, head-of-household status, the Child Tax Credit, and the EITC can be very confusing. Nevertheless, evidence suggests that a significant share of EITC returns are straightforward; some low-income taxpayers may simply lack the confidence to prepare returns themselves, and thus end up relinquishing more than $100 on average to hire a paid preparer.16

In high-immigrant communities, limited English proficiency and greater unease about the U.S. tax system seem to contribute to even more frequent use of preparers among the EITC filing population. In TY 1999, paid preparers completed 69 percent of EITC returns in high-immigrant ZIPS, versus 65 percent in other ZIPS. Moreover, regional variation in the overall use of preparers does not appear to drive these differences. In each of four metro areas with a significant presence of high-immigrant communities—Los Angeles, New York, Chicago, and Houston—EITC recipients in high-immigrant ZIPS were more likely to file their returns through paid preparers than their counterparts residing in other communities (Table 3). Differences were more pronounced in Houston and Los Angeles than in Chicago and New York.

Given the large concentrations of EITC filers who live in these communities, the incidence of refund anticipation loans (RALs) there is also of interest. RALs are loans originated by tax preparers and funded by their bank partners, based on the taxpayer’s anticipated income tax refund. Typically, RALs advance to the taxpayer the proceeds of the tax refund, minus fees for the tax preparation and the loan, within one to two days. Recent evidence suggests that for the average EITC-related refund claimed by a family with children, the price of a RAL hovers around $130.17 In light of the short time in which the IRS processes refunds for e-filed returns (typically 7–10 days), the annualized interest rates on these loans generally exceed 200 percent, and can be much higher in some cases. The RAL market is fairly dominated by taxpayers who claim the EITC; IRS data indicate that EITC recipients purchased over 60 percent of RALs originated nationwide in TY 1999.

Somewhat surprisingly, even though low-income taxpayers in high-immigrant communities appear to use paid preparers more often than their counterparts elsewhere, they seem to use RALs less often.

<table>
<thead>
<tr>
<th>Metropolitan Area</th>
<th>% EITC recipients using paid preparer</th>
<th>% EITC recipients using RAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High-immigrant</td>
<td>Other</td>
</tr>
<tr>
<td>Chicago-Naperville-Joliet, IL-IN-WI</td>
<td>68.0%</td>
<td>67.5%</td>
</tr>
<tr>
<td>Houston-Baytown-Sugar Land, TX</td>
<td>70.6%</td>
<td>64.0%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach-Santa Ana, CA</td>
<td>74.9%</td>
<td>69.6%</td>
</tr>
<tr>
<td>New York-Northern New Jersey-Long Island, NY-NJ-PA</td>
<td>66.6%</td>
<td>66.2%</td>
</tr>
<tr>
<td>Nation</td>
<td>68.6%</td>
<td>64.9%</td>
</tr>
</tbody>
</table>

Source: Brookings Institution analysis of IRS and Census 2000 data.
The rules that dictate whether a family is eligible for the EITC are numerous, and include the total amount earned, the number of qualifying children living in the household, and the presence of investment income (which at significant levels disqualifies a family or worker from claiming the credit), among other factors. The number of families in a given area who receive the EITC may depend not only on these eligibility considerations, however. Community-level factors may also influence the likelihood that families, once eligible, file taxes and claim the credit.

To test this hypothesis, this analysis identifies for each ZIP code in Census 2000 the household population that most closely resembles the population eligible for the EITC in tax year 1999, referred to here as the eligibility proxy (details on how this proxy was derived are in the Methodological Appendix). The households identified in the eligibility proxy do not represent an estimate of the true eligible population; a number of other characteristics not visible in the census data help determine eligibility for the credit. The analysis only considers differences across places in the ratio of EITC claimants to this eligibility proxy, referred to here as the participation proxy. Dividing EITC claims by the eligibility proxy attempts to control for the economic differences among communities that could contribute to differing levels of credit claims.

Holding the eligibility proxy constant, then, this section explores whether the participation proxy varies across communities with differing levels of immigrant population. If the unobserved characteristics influencing eligibility do not vary systematically by the proportion of foreign-born individuals in a community, then differences in the participation proxy may in fact relate to differences in foreign-born population share (see Methodological Appendix), and thus the propensity of eligible immigrants to claim the credit.

### Graph: Percentage of Taxpayers Claiming EITC by Major Source Region of Foreign-Born, High-Immigrant ZIP Codes, TY 1999

<table>
<thead>
<tr>
<th>Major Source Region*</th>
<th>Percentage Taxpayers Claiming EITC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia (n=302)</td>
<td>10.2%</td>
</tr>
<tr>
<td>Caribbean (n=103)</td>
<td>31.5%</td>
</tr>
<tr>
<td>Europe (n=34)</td>
<td>13.8%</td>
</tr>
<tr>
<td>Mexico (n=620)</td>
<td>30.3%</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>22.1%</td>
</tr>
<tr>
<td>No Major Source</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

*At least half of all foreign-born from that region. Africa excluded (only 1 high-immigrant ZIP code).

Source: Brookings Institution analysis of IRS and Census 2000 data.

The participation proxy is not the only key to understanding the range of EITC participation rates across high-immigrant ZIP codes. Participation rates appear to vary with the type of community. Although the presence of foreign-born individuals is a key driver in this context, there are other factors at play as well. The first-order estimates of credit participation in the EITC are significantly associated with the number of foreign-born individuals living in the area. Other factors, such as household income and the presence of children in the household, may also play a role in determining whether families claim the credit.

### Diagram: Percentage of Taxpayers Claiming EITC by Major Source Region of Foreign-Born, High-Immigrant ZIP Codes, TY 1999

- Asia: 10.2%
- Caribbean: 31.5%
- Europe: 13.8%
- Mexico: 30.3%
- Other Latin America: 22.1%
- No Major Source: 16.4%

*At least half of all foreign-born from that region. Africa excluded (only 1 high-immigrant ZIP code).

Source: Brookings Institution analysis of IRS and Census 2000 data.

### Graph: Percentage of Taxpayers Claiming EITC by Major Source Region of Foreign-Born, High-Immigrant ZIP Codes, TY 1999

This graph shows the percentage of taxpayers claiming the EITC by major source region of foreign-born, high-immigrant ZIP codes for the tax year 1999. The data is presented as a bar chart with the following regions:

- Asia (n=302): 10.2%
- Caribbean (n=103): 31.5%
- Europe (n=34): 13.8%
- Mexico (n=620): 30.3%
- Other Latin America (n=144): 22.1%
- No Major Source (n=334): 16.4%

*At least half of all foreign-born from that region. Africa excluded (only 1 high-immigrant ZIP code).

Source: Brookings Institution analysis of IRS and Census 2000 data.
Across all communities, the eligibility proxy was 87.1 percent for TY 1999. This means that the number of EITC claims that year equaled 87.1 percent of the total number of households identified in Census 2000 as having incomes and family structures that indicate they are eligible for the credit. Again, this is not an estimate of the true EITC participation rate for TY 1999, but simply a baseline participation proxy against which to assess possible differences in participation among communities based on their foreign-born population shares.

For this analysis, all 30,742 ZIP codes are arranged into 19 groups of equal size, based on the shares of their populations that were foreign-born in 2000. Figure 5 charts two indicators along this distribution: the percentage of population in each ZIP code group that is foreign-born, and the EITC participation proxy corresponding to those groups of communities. The proxy ranges between 80 percent and 98 percent across the distribution—a non-trivial, but not alarming, amount of variation. In general, the credit seems to reach significant numbers of eligible taxpayers in all communities, regardless of the presence or absence of immigrant families.

Still, there are important patterns revealed by the participation proxy that deserve further scrutiny. Across the full range of ZIP codes, the participation proxy is lowest in areas with no foreign-born individuals at all—the point all the way to the left of the chart. These communities are largely located in rural places, where information about the EITC and assistance in claiming it may be less available. While their low participation proxy highlights a possible area for concern, population in these ZIP codes is generally quite low, so the total number of eligible individuals failing to claim the EITC would not be very significant.

In the next group of communities, where the foreign-born represent just 0.1 percent of the population, the participation proxy jumps up to 87 percent, the national average. It remains near that level through the middle of the ZIP code distribution, where immigrants make up 2 percent of the population. After that point, however, the participation proxy declines as foreign-born population share increases, reaching its nadir between the 85th and 90th percentile of ZIP codes, where about 11 percent of the population was foreign-born in 2000. There, the number of EITC claims equaled only 81.7 percent of the eligibility proxy, indicating lower-than-average participation in the EITC.

In the communities with the highest shares of foreign-born population, on the other hand, the participation proxy was generally above the national average. In particular, the proxy in high-immigrant ZIP codes (in the top 5 percent) was 98 percent, far higher than at any other point along the distribution. A few factors could explain the higher figure observed here. As noted above, many of these ZIP codes are dense urban communities where information about the credit may be more accessible. Governments and community groups may target outreach to immigrant-rich neighborhoods to inform eligible families about the credit. Immigrant families themselves may, through social networks, inform local family, friends, and neighbors about the availability of tax refunds for low-income workers. Many of these ZIP codes contain clusters of tax preparation firms that market the availability of the credit heavily. Finally, the eligibility proxy does not account for lower-income households that contain related children living without their parents. Many of these families are eligible to claim the EITC, and are more prevalent in high-immigrant communities than other areas (see Methodological Appendix).

Thus, it seems that communities where the foreign-born represent a more moderate fraction of the population may exhibit lower participation in the EITC than those communities.
with either a high or low foreign-born population share. Areas with modest numbers of immigrant families may be less obvious focal points for outreach than communities with dense immigrant populations. In addition, social networks among their immigrants may be somewhat less active, their immigrant populations are smaller, more dispersed, and somewhat less homogeneous than those in high-immigrant communities.24

What do these moderate-immigrant communities—between the 50th and 90th percentiles of the ZIP code distribution—look like? In 2000, they were home to about 27 percent of all immigrants in the U.S. in 2000, a total of 8.5 million foreign-born individuals. A majority of these ZIP codes (54 percent) were located in suburban areas. Their immigrants were quite diverse, with about one-fourth born in each of three regions—Asia, Europe, and Mexico. Their U.S. locations were diverse as well; only three in ten were located in the six major “gateway” states, compared to eight in ten high-immigrant ZIP codes. Yet immigrants in these communities were only slightly less likely to be poor than their counterparts elsewhere; about 15 percent of their foreign-born individuals lived below the poverty line in 2000, compared to 18 percent nationwide.

Had the EITC participation proxy in these communities matched the overall proxy for 1999 (87.1 percent), an additional 300,000 filers in those ZIP codes might have claimed the credit that year. Of course, this does not mean that only 300,000 eligible filers failed to claim the EITC in 1999, nor that all of those potentially eligible filers were immigrants. Other factors likely affect the participation rate across all communities regardless of the presence of foreign-born individuals, and millions of eligible workers and families may have missed out on the EITC as a result. Notably, the downward trend in the participation proxy for moderate-immigrant communities follows the trend in their eligibility proxy quite closely.25 Perhaps lower eligibility for the credit among all households in these areas reduced the local supply of information about the credit, and contributed to lower participation rates. Yet the fact that foreign-born poverty rates in these communities are similar to those elsewhere indicates that their lower-income immigrants may be disproportionately affected by reduced local awareness of the EITC.

To be sure, this analysis does not attempt to control simultaneously for all of the factors that could explain the lower EITC participation proxies observed in moderate-immigrant communities, so we cannot know precisely the degree to which foreign-born presence and EITC participation are related. The analysis does, however, suggest that in assessing what affects EITC participation, more than individual characteristics may matter. Community composition, and the information and resources available to lower-income immigrant households in those communities, may also help dictate the degree to which eligible filers claim valuable tax refund dollars. In targeting scarce resources to inform those filers about the EITC, governments and non-profit organizations might look more closely at whether those messages are reaching immigrant taxpayers outside the local areas and neighborhoods where immigrants are most concentrated.

Conclusion

This examination of the EITC in immigrant communities stresses the importance of the credit to these places and their residents. Five percent of ZIP codes contain 16 percent of the nation’s population, but more than half its immigrant population. These areas benefit from several billion dollars in investment from the EITC each year, and much of that sum is directed to lower-income immigrant workers and families. Communities with large numbers of Caribbean, Mexican, and other Latin American immigrants derive particular benefit from the credit.

Some of the evidence highlighted in this study suggests strategic directions for individuals and organizations working to promote economic security for immigrant families and communities:

- Enhance volunteer tax preparation capacity in high-immigrant communities. In high-immigrant communities, low-income taxpayers who claim the EITC appear more likely to use paid preparers than their counterparts elsewhere. These commercial enterprises may play an important role in informing local workers about the credit, and assisting them to claim it. At the same time, the fact that close to 70 percent of EITC recipients in these communities use a paid preparer, versus just 1 percent using a volunteer preparer, signals that added volunteer tax preparation capacity in these neighborhoods could benefit low-income filers.26 Many of these volunteer services also connect tax clients and their children to additional benefits for which they may be eligible, such as nutritional supports, health insurance, and energy assistance. Immigrant community leaders should be gratified by the below-average rate at which EITC recipients in high-immigrant communities use refund anticipation loans, but mindful that over 1.2 million EITC earners in these areas still purchased high-cost refund products in TY 2002. By connecting low-income immigrant taxpayers to affordable bank accounts as part of the tax filing process, volunteer programs could help further stem the demand for “quick cash” loans at tax time.
• **Conduct outreach to immigrant taxpayers irrespective of neighborhood location.** In high-immigrant communities, EITC claims appear healthy relative to the size of the likely eligible population. This is less the case, however, in communities with a more moderate presence of immigrant families; together, these neighborhoods contain more than one-quarter of all foreign-born individuals. The evidence that a disproportionate number of eligible filers in these communities may miss out on the credit reinforces the need to couple targeted EITC outreach to immigrant neighborhoods with EITC-related information, including how to access it for free or at low cost, that is tailored for immigrant families throughout the local area. Advertising the credit’s availability through foreign-language media (television, radio, newspapers) and government/non-profit organizations that come into contact with immigrants who live throughout the region can help ensure that foreign-born taxpayers are aware of the EITC, whether or not they live in a high-immigrant neighborhood.

• **Research the importance of the EITC to local businesses in immigrant communities.** This survey tracks the EITC dollar flow to workers and families in areas with large immigrant populations. Just as importantly, those credit dollars turn over within the same communities; EITC recipients buy goods and services from local retailers, who in turn use those revenues to pay local workers, and make purchases from local suppliers. In the end, each dollar provided to a family through the tax code generates well over one dollar of activity in the local economy. The potential “multiplier” effect is of particular interest in high-immigrant neighborhoods, where spending can support immigrant entrepreneurial activity and businesses that provide goods and services tailored for the local population. Local researchers should investigate the role of tax credit dollars as economic stimulus in immigrant communities, perhaps by tracking local expenditure patterns during tax season, or interviewing families as to how these used their tax refund dollars. In particular, any “leakage” of tax refund spending outside these neighborhoods may signal an opportunity to attract additional retailers to these areas.

Leaders in the immigrant community, as well as corporate, civic, and political leaders at the local level, increasingly recognize that the EITC provides critical financial support to working immigrant families and their neighborhoods. As current and future federal budget deficits place new pressures on spending and tax programs that benefit low-income families, these groups possess an important voice for protecting the value of the EITC, and ensuring that eligible immigrant taxpayers access its benefits.

**Methodological Appendix**

This appendix note describes who was eligible for the EITC in tax year 1999, and how those eligibility rules relate to the eligibility proxy examined in Finding D. As described in the text, our census-based proxy for EITC-eligible claimants includes all families (married and unmarried) with own children and incomes under $30,000, all families with no own children and incomes under $10,000, and all non-family households with incomes under $10,000. The ratio of EITC claims to the eligibility proxy is referred to as the participation proxy. The eligibility proxy is not intended to represent a true estimate of the number of tax filers eligible for the EITC, just as the participation proxy is not intended to represent the true participation rate in the credit. These figures are used simply to compare across communities with different shares of foreign-born individuals, to derive a first-order view as to whether and how immigrant presence may relate to the share of eligible filers claiming the credit.

**Who was eligible**

Families with one qualifying child who were eligible for the EITC in 1999 had modified adjusted gross incomes (AGI) under $27,413, which must have included earned income. For families with two qualifying children, the comparable threshold was $31,152. Eligible workers with no qualifying children had modified AGI (including earned income) under $10,380, and were between the ages of 25 and 64 (refer to Figure 1). Modified AGI included total income less several allowable deductions: IRA contributions, moving expenses, alimony, certain self-employment expenses, and a few others.

Qualifying children for purposes of the EITC included those under the age of 18, or full-time students under age 24, being raised by their parents, stepparents, adoptive parents, grandparents, foster parents, siblings, or aunts and uncles. They also included permanently disabled children of any age. In order to claim a child for the EITC, he/she must have lived in the taxpayer’s household for at least six months during the course of the year.

**Eligibility proxy—income**

The income cutoff in the eligibility proxy for families with children ($30,000) does not match exactly the AGI cutoffs for eligible families. Using long-form census data, our proxy does not differentiate household incomes by the number of children in the household, and includes some households with income higher than the eligibility cutoff for families with one child, while it excludes some households with income lower than the eligibility cutoff for families with two
children. In 2000, though, the average number of own children under 18 in families with such children was 1.83. Thus, $30,000 seems to represent a fair middle ground between the two EITC income thresholds. Moreover, while we are unable to adjust the census-reported incomes for allowable deductions (to arrive at an estimate of modified AGI), we have no reason to suspect that the incidence of those deductions for families with incomes under $30,000 varies systematically by the proportion of a ZIP code’s population that is foreign-born. Finally, we tested the hypothesis that observed variations in the ratio of EITC claimants to our eligibility proxy at the ZIP code level related to differences in the presence of wage income among all households. We actually found that the presence of households with wage income rose with foreign-born population share, so that if anything, our eligibility proxies in communities with low numbers of immigrants may be too high (and their participation proxies understated).

**Eligibility proxy—qualifying children**

Our eligibility proxy for families with children, by considering only those with own children under the age of 18, excludes households who meet the income criteria and have no own children under the age of 18, but who have children between the ages of 18 and 23 who are full-time students, or who have related children in the household who are not their own. The census data reveal no information regarding the presence of college-age children in households without children under 18, but we have no reason to suspect that this varies with immigrant concentration. We did analyze the proportion of households containing related children who were not own children (regardless of income), and found only very slight variation in this proportion across communities based on their foreign-born population shares. In particular, high-immigrant ZIP codes had higher shares of households containing related children (3.9 percent, versus 2.4 percent in other ZIP codes), which may help to explain the higher participation proxy observed in those places. Our proxy may also include households where the identified children did not live for at least six months in 1999, while it excludes those households that had such children for at least six months in 1999, but not at the time of Census 2000. Again, though, we have no reason to presume that the presence of these households varies systematically based on a community’s foreign-born population share.

**Eligibility proxy—families without qualifying children**

One final eligibility rule which the census data do not permit us to model concerns the age restrictions on low earners without qualifying children. We do not know how many of the nonfamily households and family households without own children identified as having income under $10,000 had tax filers under the age of 25, or over the age of 64, thus rendering them ineligible for the EITC for childless workers. We investigated the proportion of all nonfamily households headed by an individual age 65 or over at the ZIP code level, and found that proportion decreased with increasing foreign-born presence, suggesting that our eligibility proxies in low-immigrant communities may be slightly overstated (and participation proxies thus slightly understated). Furthermore, the census data reflect total nonfamily household income, and not the incomes of unrelated individuals who may live together and file separate tax returns. To the extent that households with multiple numbers of unrelated low earners are more prevalent in high-immigrant ZIP codes, this may also account for some portion of the higher participation proxy we observe in those communities.

**Eligibility proxy—legal status**

In order to claim the EITC, a tax filer must possess a valid Social Security Number for himself/herself and for any children whom the filer wishes to claim for purposes of the credit. Among immigrants, this limits EITC eligibility to those who are naturalized citizens or legal residents. Although most undocumented adult immigrants have earned income, and typically earn amounts within the EITC-eligible income range, they cannot claim the credit.28

The decennial census does not collect information on the legal status of foreign-born individuals, except whether those individuals have become U.S. citizens. Thus, foreign-born counts from Census 2000 include those with various statuses that cannot be identified, including legal permanent residents, temporary residents, refugees and asylees, and undocumented immigrants. Census Bureau estimates suggest that perhaps 23 percent of foreign-born individuals identified in the census are undocumented.29 The presence of undocumented immigrants in the census raises the possibility that observed differences in EITC claims across communities with different immigrant populations reflect differences in their residents’ eligibility for the credit, and not differences in their participation rates. Given that our estimated EITC participation proxy is highest in communities with high concentrations of foreign-born individuals, however, we have no reason to believe that undocumented immigrants would suppress observed participation in the credit primarily in those areas with moderate immigrant populations, as demonstrated in the analysis. However, future EITC participation studies may seek to address more carefully the question of how legal status among the foreign-born may affect eligibility estimates.
Participation ratio—claims made in error

As is the case with all tax provisions, not all taxpayers who claim the EITC are technically eligible to receive the credit. The proportion of taxpayers who claim the credit but do not meet all of the eligibility requirements represents the program’s “error rate.” The IRS studied this error-rate issue in 2002, concluding that in tax year 1999, between 27 and 32 percent of EITC claims nationwide were paid in error. Serious shortcomings in its methodology mean that the error rate in tax year 1999 was likely lower than that estimated by the IRS, but its true magnitude is not known. In any event, these compliance studies did not reveal whether the share of EITC claims made in error may differ between foreign-born and native-born taxpayers. While we have no reason to suspect that variation in the error rate would cause credit participation to vary by foreign-born population share as demonstrated in this paper, this represents a possible area for further inquiry.

Endnotes


5. Elaine Maag, “Paying the Price? Low-Income Parents and the Use of Paid Tax Preparers” (Washington: Urban Institute, 2005). Many people who claim the EITC, however, may not have heard of the credit, particularly if they pay tax preparers to complete and file their returns.

6. The Census Bureau builds ZCTAs from census blocks whose addresses use a given ZIP code, into a ZCTA assigned the same code as that ZIP code. See www.census.gov/geo/ZCTA/zcta.html for further information. In this survey, we refer to the geographies generically as ZIP codes, including where the data derive from census ZCTAs.

7. The variable in the IRS data referring to RALs technically captures the number of requests that electronic return originators (EROs) made for the Debt Indicator. That indicator is a flag that IRS provides to EROs to alert them to any outstanding debt a taxpayer may owe that would cause their tax refund to be offset, before the ERO sells a RAL to the taxpayer. See Alan Berube and Tracy Kornblatt, “Step in the Right Direction: Recent Declines in Refund Loans Among Low-Income Taxpayers” (Washington: Brookings Institution, 2005) for further information on how this variable is used.


9. In these ZIP codes, at least 21.6 percent of total population was foreign-born in 2000, compared to 11.1 percent of the U.S. population generally. We eliminated ZIPs with fewer than 100 residents, many of which were commercial and P.O. Box-only ZIP codes.


11. “Major cities” were defined as those in metropolitan areas of 500,000 or more people in 2000 named first in the metro area name, or named and with population over 100,000 in 2000.


13. A slightly higher proportion of EITC recipients in high-immigrant communities have adjusted gross incomes under $20,000 (78 percent) than in other communities (76 percent), suggesting that they may qualify for somewhat larger credits on average.

14. This percentage has held fairly steady since then; about the same proportion of EITC filers used paid preparers in TY 2002. These statistics do not, however, capture returns that third parties prepared for a fee but did not sign.
15. For a discussion of these issues, see Janet Holtzblatt and Janet McCubbin, “Issues Affecting Low-Income Filers.” In Henry Aaron and Joel Slemrod, eds., The Crisis in Tax Administration (Washington: Brookings Institution, 2004).


17. This price includes both the “loan fee” and other administrative fees charged by preparers for processing RALs. Chi Chi Wu and Jean Ann Fox, “All Drain, No Gain: Refund Anticipation Loans Continue to Sap the Hard-Earned Dollars of Low-Income Americans” (Washington: National Consumer Law Center and Consumer Federation of America, 2004). H&R Block eliminated administrative fees for its RALs in 2005.


20. This estimate assumes that tax preparation services for EITC clients, and fees for the average RAL amount, each cost $100 in the 2000 filing season. See Berube and others, “The Price of Paying Taxes.”

21. Across all ZIP codes, we find a very high correlation (0.77) between the proportion of tax filers receiving the EITC and the proportion of households identified as potentially eligible in the Census 2000 data, suggesting that the eligibility proxy is largely consistent overall with claim levels.

22. The first group is larger than the other 18, as it represents ZIP codes with no immigrants, of which there were 3,981 with a population of at least 100 in 2000. Most of the ZIP code groups contain roughly 1,540 ZIPS.

23. Seventy-five percent of ZIP codes with no immigrants in 2000 were located in non-metropolitan places, versus 43 percent of ZIP codes with at least one immigrant.


25. In high-immigrant ZIP codes, the average maximum percentage of foreign-born population from the same world region (Africa, Asia, Caribbean, Europe, Latin America, other) was 70 percent in 2000, versus 60 percent in communities from the 50th to the 90th percentiles in foreign-born population share.

26. In ZIP codes between the 50th and 90th percentiles of the foreign-born distribution, the correlation between the eligibility proxy and the participation proxy is 0.85.

27. These figures are for the same ZIP codes in TY 2002; the share completed by volunteer preparers in TY 1999 was much lower.


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For More Information:
Alan Berube
Fellow
Brookings Metropolitan Policy Program
Email: aberube@brookings.edu

For General Information:
The Brookings Institution Metropolitan Policy Program
(202) 797-6139
www.brookings.edu/metro