



# A Local Ladder for Low-Income Workers:

## Recent Trends in the Earned Income Tax Credit

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### Findings

An analysis of IRS data on low-income working families who received the federal Earned Income Tax Credit (EITC) in tax years 2000 and 2004 reveals that:

- **In tax year 2004, more than one in six taxpayers nationwide received the EITC.** Cities in the South, such as Jackson, MS (41 percent) and El Paso, TX (37 percent), had among the highest rates of EITC receipt in the country.
- **By 2004, large metropolitan suburbs were home to 2.4 million more EITC recipients than their cities.** While a higher share of central-city taxpayers (22 percent) than suburban taxpayers (13 percent) received the EITC in 2004, the number of suburban EITC recipients expanded by nearly 1.4 million from 2000 to 2004, versus less than half a million in cities.
- **More than 46 percent of EITC filers claimed the Additional Child Tax Credit (ACTC) in tax year 2004, and together the EITC and ACTC accounted for more than 70 percent of refunds paid to these low-income working families.** The average EITC credit was \$1,834 in 2004, while the average ACTC amount was \$895. In total, EITC filers claimed \$48.9 billion through the EITC and ACTC in 2004.
- **The proportion of EITC recipients who filed their returns through volunteer tax preparers increased steadily in recent years, but by 2004 remained far lower (under 2 percent) than the share using paid preparers (over 70 percent).** Free tax preparation services reach considerable proportions of EITC filers in cities such as Tulsa, OK; Rochester, NY; and Albuquerque, NM; volunteer rates remain much lower in suburban communities, however, despite the fact that they have more EITC recipients than central cities.

The EITC, and increasingly the ACTC, played an important role over the first half of this decade in supplementing the wages earned by low-income working families—particularly in regions hardest hit by the economic downturn and subsequent slow recovery. Researchers, policymakers, and practitioners should give further attention to the implications of the nation's growing suburban population of EITC earners, to the important overlaps that exist between filers who benefit from the EITC and the ACTC, and to bolstering the growing yet still-limited reach of volunteer tax preparation programs.

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## Introduction

The first half of this decade brought with it a range of economic challenges, including increased unemployment, stagnant family incomes, and rising poverty.

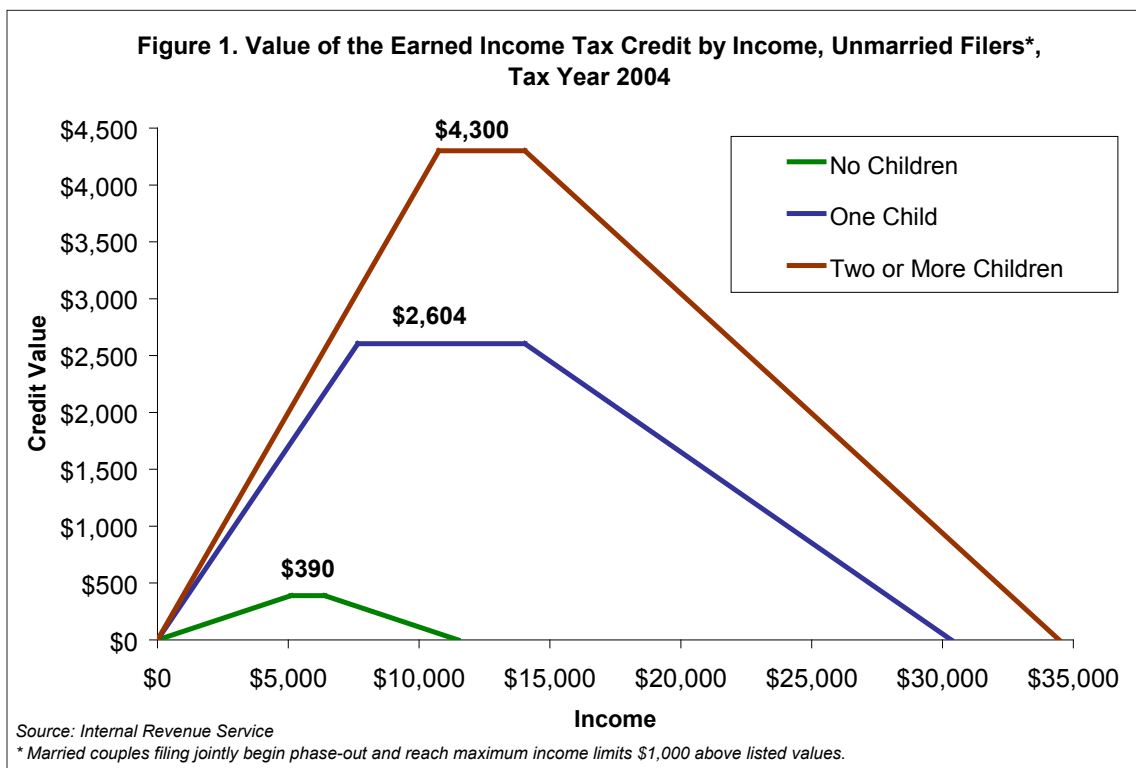
As a tax credit and wage supplement for low-income workers, the federal Earned Income Tax Credit (EITC) played a critical role over this time period in providing resources to low-income families to make work pay and to help them make ends meet. Research has shown the EITC to be an effective poverty alleviation tool that can help low-income families to offset short-term difficulties due to job or income loss or more generally as they work to meet financial obligations.<sup>1</sup> It also acts as a substantial economic stimulus for the communities in which these low-income working families live, particularly in those that have high concentrations of EITC recipients.<sup>2</sup>

This study updates previous analyses by examining the magnitude and spatial distribution of the EITC in tax year 2004 (the most recent tax year for which data are available), and trends from 2000 forward.

After briefly reviewing the methodology, the paper examines EITC usage in tax year 2004, both nationally and within the central cities and suburbs of the nation's 100 largest metropolitan areas. It then assesses national and local trends in the share of filers claiming the EITC since tax year 2000. It also explores the extent to which EITC filers in different parts of the country benefited from the Additional Child Tax Credit (ACTC). The paper concludes by analyzing the most recent information on how EITC recipients file their returns, focusing on the modest but growing role of volunteer tax preparation services in certain U.S. cities.

## Methodology

This study uses data compiled for the IRS Stakeholder Partnerships, Education, and Communications (SPEC) division regarding EITC recipients in tax years 2000 and 2004. The SPEC Database aggregates data from individual income tax returns to the ZIP code level, and provides information on a range of characteristics for the tax-filing population. These characteristics include, among many others, the



number of total filers and those receiving the EITC, the number of EITC recipients claiming the ACTC, filing methods used by EITC recipients, as well as total EITC dollars and ACTC dollars going to EITC filers. These variables are employed throughout this analysis.

The EITC is a tax credit and wage supplement targeted to low-income workers. It is a refundable credit, meaning that EITC filers receive the amount of the credit for which they are eligible in the form of a tax refund even if they have no tax liability. The majority of EITC dollars are directed to working families who have children and earn incomes below \$35,000. In tax year 2004, families with earnings between \$7,700 and \$14,000 were eligible for the largest credits. In that same year, the maximum credit for filers with one qualifying child was \$2,604 and \$4,300 for filers with two or more qualifying children (Figure 1).<sup>3</sup> For tax year 2006, these maximum amounts are \$2,747 for filers with one qualifying child, and \$4,536 for filers with two or more qualifying children.

In tax year 2004, lower-income taxpayers with children and earnings above \$11,000 could benefit from a refundable portion of the Child Tax Credit (CTC), referred to here as the Additional Child Tax Credit (ACTC).<sup>4</sup> The ACTC effectively increases the value of work for many recipients of the EITC.<sup>5</sup> This study presents the first information to date on how the ACTC benefits EITC filers at the national and local levels.

This paper examines trends and characteristics among EITC filers at the national level and within the 100 largest metropolitan areas in the United States.<sup>6</sup> Within those metropolitan areas, it presents information separately for central cities and suburbs.<sup>7</sup>

Because SPEC data are presented at the ZIP code level, and ZIP codes often do not conform to the boundaries of cities or their metropolitan areas, this analysis uses Geographic Information System (GIS) and statistical software to “split” ZIP codes that cross city and county boundaries. Based on the proportion of a ZIP code’s population located within each geography as of Census 2000, the analysis allocates tax data to the appropriate city or county.<sup>8</sup>

Finally, many trends presented in this paper are based on data from tax years 2000 and 2004. The selection of these years does not imply that trends such as the number or percentage of taxpayers claiming the EITC, or the share of those taxpayers receiving the ACTC, moved steadily or even in one direction throughout this period. Rather, the statistics presented here capture the U.S. tax filer population at two points in time from the IRS data. They offer a general sense as to how the early part of the 2000s increased the prominence of the EITC and related credits as features of the tax code and as labor market supports, in cities and suburbs throughout the country.

## Findings

### A. In tax year 2004, more than one in six taxpayers nationwide received the EITC.

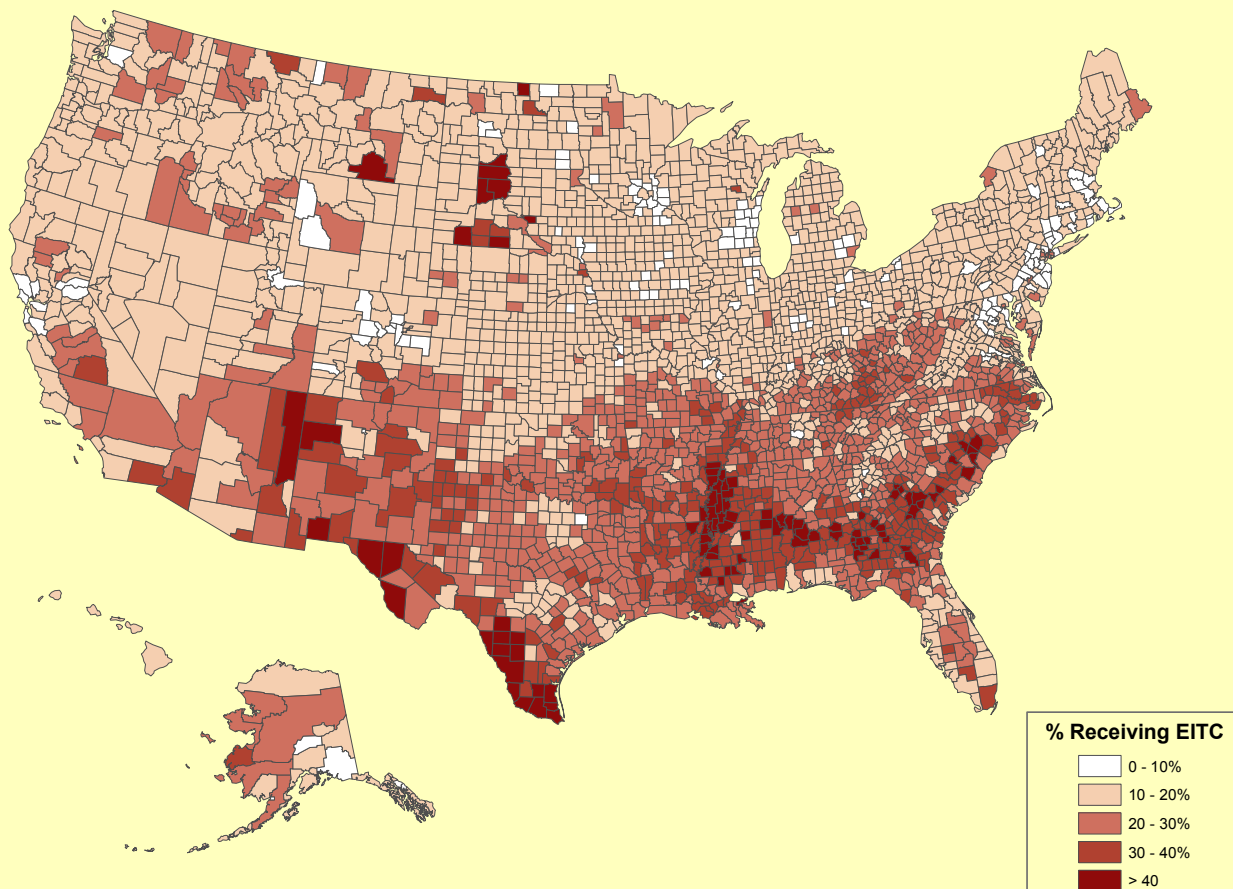
Almost 17 percent of all U.S. individual income tax filers—more than one in six—received the EITC in 2004.

Yet the national average masks wide variation across the country in the share of taxpayers receiving the EITC. Map 1 illustrates a distinct pattern in which the highest concentrations of EITC filers largely cluster in the southern half of the United States. Several counties in the South had more than 40 percent of their tax filers receiving the EITC in 2004—more than twice the national average.

The metropolitan areas with the highest and lowest shares of tax filers receiving the EITC, shown in Map 2, further reinforce the regional patterns shown in Map 1. Eight of the ten metropolitan areas with the highest rates of EITC receipt in 2004 are located in Texas and the Southeastern states. Those metro areas with low percentages of filers claiming the credit cluster in the San Francisco Bay Area, New England, and other high-cost locations.

Similar regional disparities are evident at the local level, with several Southern cities and suburbs appearing among those with the highest proportions of EITC recipients (Table 1). Jackson, MS is notable for being the only large central city with at least 40 percent of its tax-filing residents benefiting from the credit. Less-developed areas along the Texas-Mexico border, and around cities in California's Central Valley, top the list of high-EITC suburbs.<sup>9</sup>

**Map 1. EITC Recipients as a Percentage of Total Returns by County, Tax Year 2004**



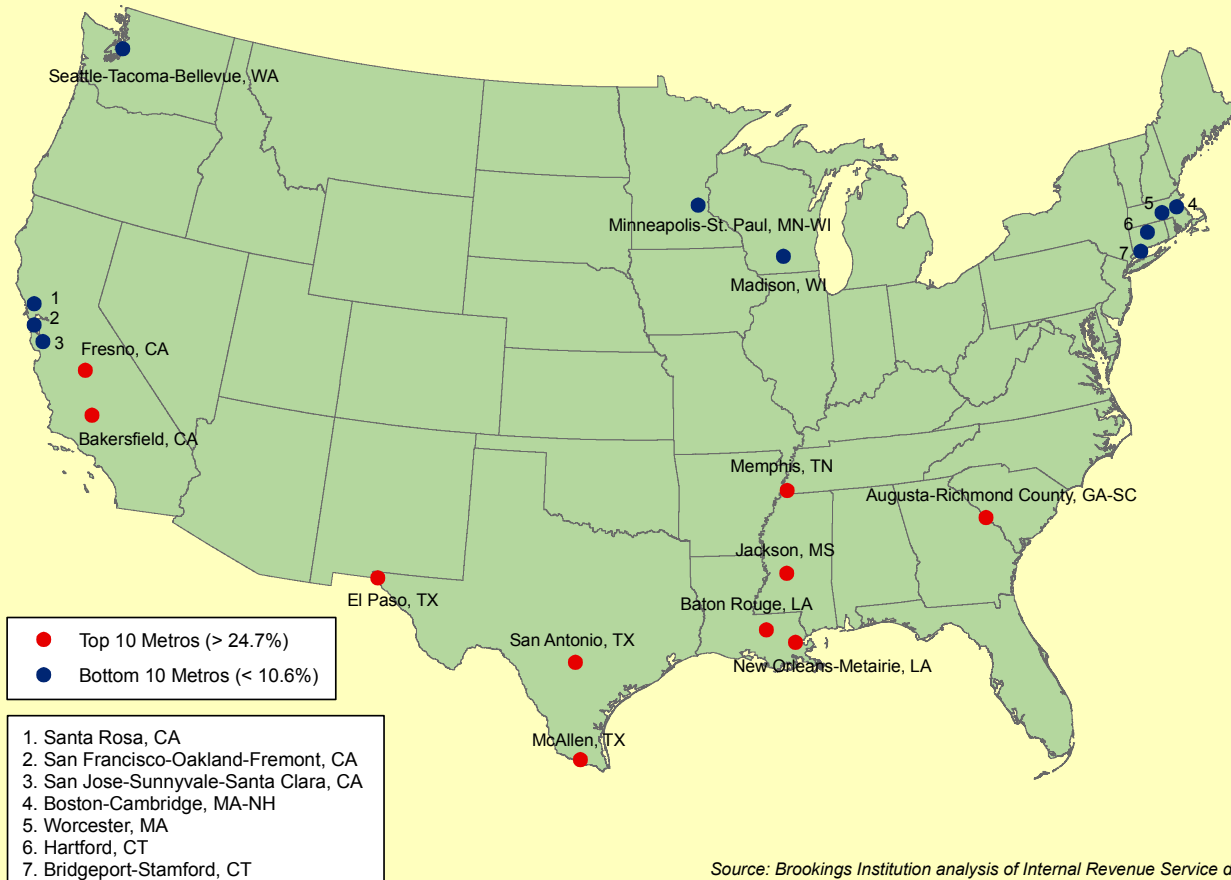
Source: Brookings Institution analysis of Internal Revenue Service data

Older industrial cities in the Northern United States appear among the high-claiming areas too, such as Hartford, CT and Cleveland, OH. Hartford illustrates the pattern in many Northern metropolitan areas, where low-income workers represent high proportions of central-city filers (34 percent claiming the EITC) and low proportions of suburban filers (7.8 percent claiming the EITC). These disparities are much more muted in areas such as Baton Rouge, LA and Augusta-Richmond County, GA.

Overall, central-city taxpayers were more likely to receive the EITC than their suburban counterparts. A little under 22 percent of city filers benefited from the credit in tax year 2004, versus somewhat more than 13 percent of suburban filers (Table 1). Earlier research noted this disparity, though these figures continue to mask the tremendous regional variation in EITC eligibility and participation.<sup>10</sup>

Differences in the share of taxpayers receiving the EITC across the country result from many factors. Population dynamics, variable concentrations of lower-skilled workers or jobs, and regional differences in the cost of living all contribute to the patterns evident in this section. Economically diverse communities with large numbers of middle- and upper-income residents may have significant numbers of low-income working families as well, but their share of total filers claiming the EITC tends to be lower. For instance, Morris County, NJ and Navajo County, AZ each had over 11,000 EITC recipients in tax year 2004. Morris County, with a median income of \$84,010, had only 5 percent of its tax filers receiving the EITC that year, while Navajo County, with a median income of \$31,272, saw over 32 percent of its filers receive the credit.<sup>11</sup>

**Map 2. Top and Bottom Metro Areas by Share of Taxpayers Receiving EITC, Tax Year 2004**



Source: Brookings Institution analysis of Internal Revenue Service data



## B. By 2004, large metropolitan suburbs were home to 2.4 million more EITC recipients than their cities.

From 2000 to 2004, the total number of EITC filers nationwide increased 15.3 percent, from 18.8 million to 21.7 million (Figure 2). The latter figure represented the highest total to date, the result of continued U.S. household growth, the economic downturn and sluggish recovery during the first half of the decade, and recent changes to the credit that slightly expanded the number of eligible families.<sup>12</sup>

Within the nation's 100 largest metropolitan areas, which contain 61 percent of all EITC recipients, the majority of filers receiving the credit lived in suburbs, not central cities. In fact, suburban EITC recipients outnumbered their central-city counterparts by 2.4 million in 2004. What is more, suburbs captured the bulk of recent growth in EITC recipients; between 2000 and 2004, the number of EITC

filers in central cities expanded by a little under 500,000, while suburbs registered a 1.4-million gain in these filers. This reinforces a recent finding that in 2005, about 1 million more poor Americans lived in suburbs than central cities.<sup>13</sup> Against that backdrop, these data suggest that “working poverty”—for which EITC receipt serves as a proxy—tilts even more heavily towards suburbs today than does overall poverty.

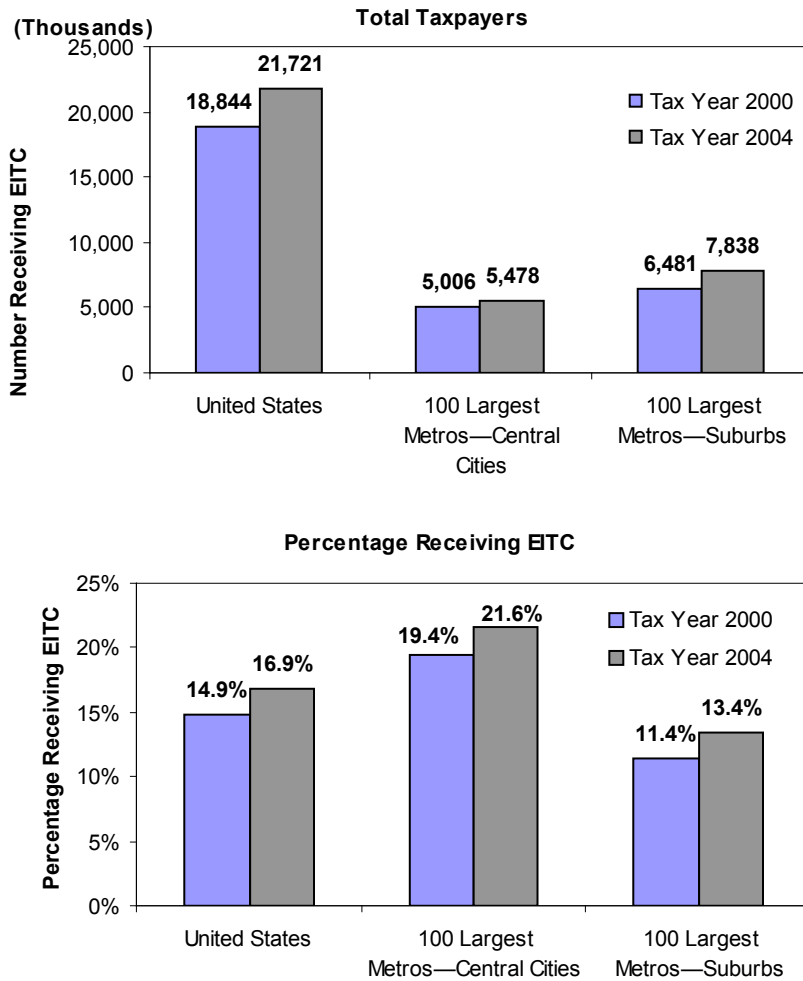
As noted above, EITC recipients still account for a greater share of central-city than suburban tax filers, despite their greater overall numbers in suburbs. Between 2000 and 2004, the share of U.S. taxpayers receiving the EITC rose from about 15 percent to 17 percent (Figure 2). In central cities, this share grew by a little over 2 percentage points, to just under 22 percent in 2004. Suburbs experienced a similar percentage-point increase, though just over 13 percent of their tax filers received the credit in 2004, well below the central-city rate.

**Table 1. Top and Bottom Central Cities/Suburbs by Share of Taxpayers Receiving the EITC, 100 Largest Metro Areas, Tax Year 2004**

Rank	Central Cities	Share (%)	Rank	Suburbs	Share (%)
1	Jackson, MS	40.8	1	McAllen, TX	55.0
2	McAllen, TX	38.4	2	El Paso, TX	53.1
3	Birmingham, AL	36.8	3	Bakersfield, CA	28.2
4	El Paso, TX	36.8	4	Fresno, CA	27.5
5	Memphis, TN-MS-AR	36.0	5	New Orleans-Metairie, LA	25.3
6	Hartford, CT	33.7	6	Jackson, MS	23.8
7	Cleveland, OH	33.2	7	Baton Rouge, LA	23.4
8	New Orleans-Metairie, LA	33.1	8	Augusta-Richmond County, GA-SC	22.6
9	Baton Rouge, LA	32.7	9	Miami-Fort Lauderdale, FL	22.5
10	Augusta-Richmond County, GA-SC	32.6	10	Lakeland, FL	22.5
91	Washington-Arlington-Alexandria, DC-VA-MD-WV	13.9	91	Worcester, MA	8.8
92	San Diego, CA	13.7	92	Boston-Cambridge, MA-NH	8.3
93	Portland, ME	13.4	93	San Francisco-Oakland-Fremont, CA	8.2
94	Boise City, ID	13.2	94	Des Moines, IA	7.9
95	Honolulu, HI	12.8	95	Madison, WI	7.8
96	San Francisco-Oakland-Fremont, CA	11.5	96	Minneapolis-St. Paul, MN-WI	7.8
97	San Jose-Sunnyvale-Santa Clara, CA	9.9	97	Hartford, CT	7.8
98	Seattle-Tacoma-Bellevue, WA	9.7	98	San Jose-Sunnyvale-Santa Clara, CA	7.3
99	Santa Rosa, CA	9.6	99	Milwaukee, WI	6.5
100	Madison, WI	8.6	100	Bridgeport-Stamford, CT	5.5
<b>All central cities</b>		<b>21.6</b>	<b>All suburbs</b>		<b>13.4</b>

Source: Brookings Institution analysis of Internal Revenue Service data

**Figure 2. EITC Receipt, United States and Central Cities and Suburbs of the 100 Largest Metropolitan Areas, Tax Years 2000 and 2004**



Source: Brookings Institution analysis of Internal Revenue Service data

Nationwide, almost all central cities and suburbs experienced at least modest growth in the share of their tax filers receiving the EITC from tax years 2000 to 2004. Only the Washington, DC metro area's central cities experienced a slight decrease in the proportion of filers receiving the EITC (Table 2). Overall, central cities in 89 of the 100 largest metropolitan areas saw their rate of EITC receipt increase at least 1 percentage point, with Jackson, MS experiencing the largest increase of 7 percentage points. Similarly, the share of taxpayers receiving the credit increased at least 1 percentage point in 89 of 100 suburban areas from tax years 2000 to 2004.

Many central cities showing the largest increases in

the share of filers receiving the EITC coincide with those experiencing increased overall poverty during that same time period. Job loss and slow economic recovery hit the Detroit, MI, Dayton, OH, Cleveland, OH, and Greensboro, NC metro areas particularly hard over the first half of the decade. Increases in EITC usage rates in their cities reflect that economic dislocation and sluggish wage growth did not cause all affected families to drop out of the labor market completely, but rather contributed to a rise in lower-wage and part-time work that qualified families for the credit.<sup>14</sup> Meanwhile, many of the suburbs near the top of the list saw growing economic diversity in the first part of the decade, associated with rapid growth in population and lower-wage employment.<sup>15</sup>

**C. More than 46 percent of EITC filers claimed the Additional Child Tax Credit (ACTC) in tax year 2004, and together the EITC and ACTC accounted for more than 70 percent of refunds paid to these low-income working families.**

The EITC provides the largest refundable tax credit targeted to low-income working families. Now, the ACTC—the refundable portion of the Child Tax Credit (CTC)—provides an important boost to tax refunds for EITC recipients and other lower-income filers with children.<sup>16</sup> For the first time, data are available to assess the number and proportion of EITC recipients who also benefit from the ACTC, as well as to evaluate the contribution of the ACTC to EITC filers' refunds.

Populations receiving the EITC and the ACTC overlap to a notable degree. The EITC provided \$39.8 billion

**Table 2. Top and Bottom Central Cities/Suburbs by Change in Share of Taxpayers Receiving the EITC, 100 Largest Metro Areas, Tax Years 2000-2004**

Rank	Central Cities	Share 2004 (%)	Change 2000-04	Rank	Suburbs	Share 2004 (%)	Change 2000-04
1	Jackson, MS	40.8	7.0	1	Honolulu, HI	14.7	3.4
2	Allentown, PA-NJ	25.0	5.6	2	Colorado Springs, CO	13.2	3.3
3	Memphis, TN-MS-AR	36.0	5.1	3	New Orleans-Metairie, LA	25.3	3.2
4	Augusta-Richmond County, GA-SC	32.6	4.6	4	McAllen, TX	55.0	3.2
5	Cleveland, OH	33.2	4.3	5	Orlando, FL	20.2	3.1
6	Baton Rouge, LA	32.7	4.3	6	Atlanta, GA	18.0	3.1
7	Dayton, OH	26.9	3.9	7	Greenville, SC	19.1	3.1
8	Springfield, MA	27.0	3.9	8	Dallas-Fort Worth-Arlington, TX	15.4	3.0
9	Greensboro, NC	18.9	3.8	9	El Paso, TX	53.1	3.0
10	Detroit-Warren-Livonia, MI	29.8	3.7	10	Miami-Fort Lauderdale, FL	22.5	2.9
91	Bakersfield, CA	24.8	0.8	91	San Diego, CA	13.9	0.9
92	Atlanta, GA	24.8	0.8	92	Sacramento, CA	11.9	0.8
93	San Diego, CA	13.7	0.7	93	Los Angeles-Long Beach-Santa Ana, CA	16.6	0.7
94	Modesto, CA	17.4	0.6	94	Oxnard-Thousand Oaks-Ventura, CA	11.3	0.6
95	Albuquerque, NM	18.1	0.1	95	Stockton, CA	15.4	0.5
96	Oxnard-Thousand Oaks-Ventura, CA	14.1	0.1	96	Riverside-San Bernardino-Ontario, CA	19.5	0.1
97	Sacramento, CA	18.0	-0.0	97	Bakersfield, CA	28.2	0.1
98	Los Angeles-Long Beach-Santa Ana, CA	22.6	-0.0	98	Modesto, CA	20.3	-0.4
99	Riverside-San Bernardino-Ontario, CA	24.4	-0.0	99	Albuquerque, NM	21.0	-0.6
100	Washington-Arlington-Alexandria, DC-VA-MD-WV	13.9	-0.1	100	Fresno, CA	27.5	-1.8
<b>All central cities</b>		<b>21.6</b>	<b>2.2</b>	<b>All suburbs</b>		<b>13.4</b>	<b>1.9</b>

Source: Brookings Institution analysis of Internal Revenue Service data

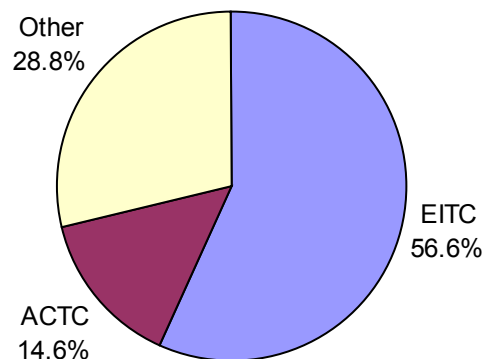
to 21.7 million filers nationwide in 2004, amounting to an average credit of \$1,834. In the same year, the ACTC provided an additional \$9 billion to about 10 million EITC filers for an average credit amount of \$895. While a little under half (47 percent) of all EITC filers received the ACTC, EITC recipients account for a solid majority (71 percent) of those filers receiving the ACTC.

The ACTC thus makes a meaningful contribution to the take-home pay of many low-income working families. Overall, about 88 percent of EITC dollars in 2004 (\$35 billion) were refunded to credit recipients, while 12 percent offset taxes owed.<sup>17</sup> Many EITC recipients, like other taxpayers, also receive over-withheld taxes as part of their refunds.

In the end, the EITC accounts for more than half of recipients' refund dollars, while the ACTC accounts for 14 percent (Figure 3).<sup>18</sup>

Small though notable differences characterize EITC and ACTC amounts received in major metropoli-

**Figure 3. Contribution of the EITC and ACTC to Tax Refunds of EITC Filers, Tax Year 2004**



Source: Brookings Institution analysis of Internal Revenue Service data  
ACTC share reflects amounts received by 53% of EITC filers who did not receive the ACTC



**Table 3. Top and Bottom Central Cities/Suburbs by Share of EITC Filers Receiving ACTC, 100 Largest Metro Areas, Tax Year 2004**

Rank	Central Cities	Share (%)	Rank	Suburbs	Share (%)
1	Riverside-San Bernardino-Ontario, CA	53.9	1	El Paso, TX	59.2
2	Bakersfield, CA	52.8	2	Colorado Springs, CO	56.1
3	Dallas-Fort Worth-Arlington, TX	52.7	3	McAllen, TX	56.0
4	Virginia Beach-Norfolk-Newport News, VA-NC	52.5	4	Las Vegas-Paradise, NV	53.5
5	Phoenix-Mesa-Scottsdale, AZ	52.3	5	Boise City, ID	53.2
6	Houston, TX	51.8	6	Riverside-San Bernardino-Ontario, CA	53.2
7	Las Vegas-Paradise, NV	51.4	7	Salt Lake City, UT	53.1
8	San Antonio, TX	51.4	8	Houston, TX	52.9
9	El Paso, TX	51.2	9	Dallas-Fort Worth-Arlington, TX	52.7
10	Memphis, TN-MS-AR	50.8	10	Memphis, TN-MS-AR	52.4
91	Santa Rosa, CA	40.2	91	San Francisco-Oakland-Fremont, CA	40.4
92	Boston-Cambridge, MA-NH	40.0	92	San Jose-Sunnyvale-Santa Clara, CA	40.4
93	Portland, OR-WA	39.6	93	Bridgeport-Stamford, CT	40.3
94	Scranton, PA	39.0	94	Santa Rosa, CA	40.3
95	Youngstown, OH-PA	38.4	95	Boston, MA-NH	40.2
96	Pittsburgh, PA	37.9	96	Akron, OH	39.7
97	Seattle-Tacoma-Bellevue, WA	35.6	97	Pittsburgh, PA	39.4
98	Madison, WI	33.9	98	Milwaukee, WI	39.2
99	Portland, ME	33.5	99	Youngstown, OH-PA	39.2
100	San Francisco-Oakland-Fremont, CA	33.4	100	Springfield, MA	37.7
<b>All central cities</b>		<b>46.2</b>	<b>All suburbs</b>		<b>47.3</b>

Source: Brookings Institution analysis of Internal Revenue Service data

tan cities and suburbs. Central city EITC recipients claimed a slightly larger average credit than their suburban counterparts (\$1,891 versus \$1,780), but suburban recipients tended to claim larger ACTC amounts (\$914 versus \$868). Differences in average incomes and/or family sizes between cities and suburbs may contribute to these small disparities.

Rankings of cities and suburbs on the share of their EITC recipients who also benefit from the ACTC demonstrate that younger, faster-growing areas of the country, especially those with Hispanic populations, tend to see more of their working families earn both credits (Table 3). In central cities, rates of EITC filers claiming the ACTC ranged as high as 54 percent in Riverside-San Bernardino-Ontario, CA, while suburban rates reached as high as 59 percent in El Paso, TX. Cities and suburbs registering smaller proportions include those with relatively more childless workers among their EITC-earning populations.<sup>19</sup> Overall, in 68 of the 100 largest metropolitan areas, the share of suburban EITC filers claiming the

ACTC outpaced the respective central-city rate.

#### **D. The proportion of EITC recipients who filed their returns through volunteer tax preparers increased steadily in recent years, but by 2004 remained far lower (under 2 percent) than the share using paid preparers (over 70 percent).**

Over the early part of the decade many states and local communities increased their efforts to raise awareness of free tax preparation programs among low-income filers, and to connect these filers to volunteer tax preparation services.<sup>20</sup> Volunteer tax programs include those conducted as part of the IRS' Volunteer Income Tax Assistance (VITA), Military VITA, and Tax Counseling for the Elderly (including AARP's Tax Aide) programs. Each of these programs serves low-income filers, including those who do not qualify for the EITC. All help EITC filers and other

low-income taxpayers to claim their refund dollars, and save amounts they might otherwise spend on commercial tax preparation and related services.

As a result, the nation saw a steady increase during this time in the share of EITC filers using volunteer tax preparation services, reaching a mark of 1.8 percent in 2004 (Figure 4). The gains made by volunteer tax preparation services nationally—reaching a 1-percent greater share of the EITC market than in 2000—illustrate that outreach, awareness, and availability of free tax preparation programs have been increasing each year. Yet the volunteer market share remains far below the more than 70 percent of EITC filers who used paid tax preparers in 2004.

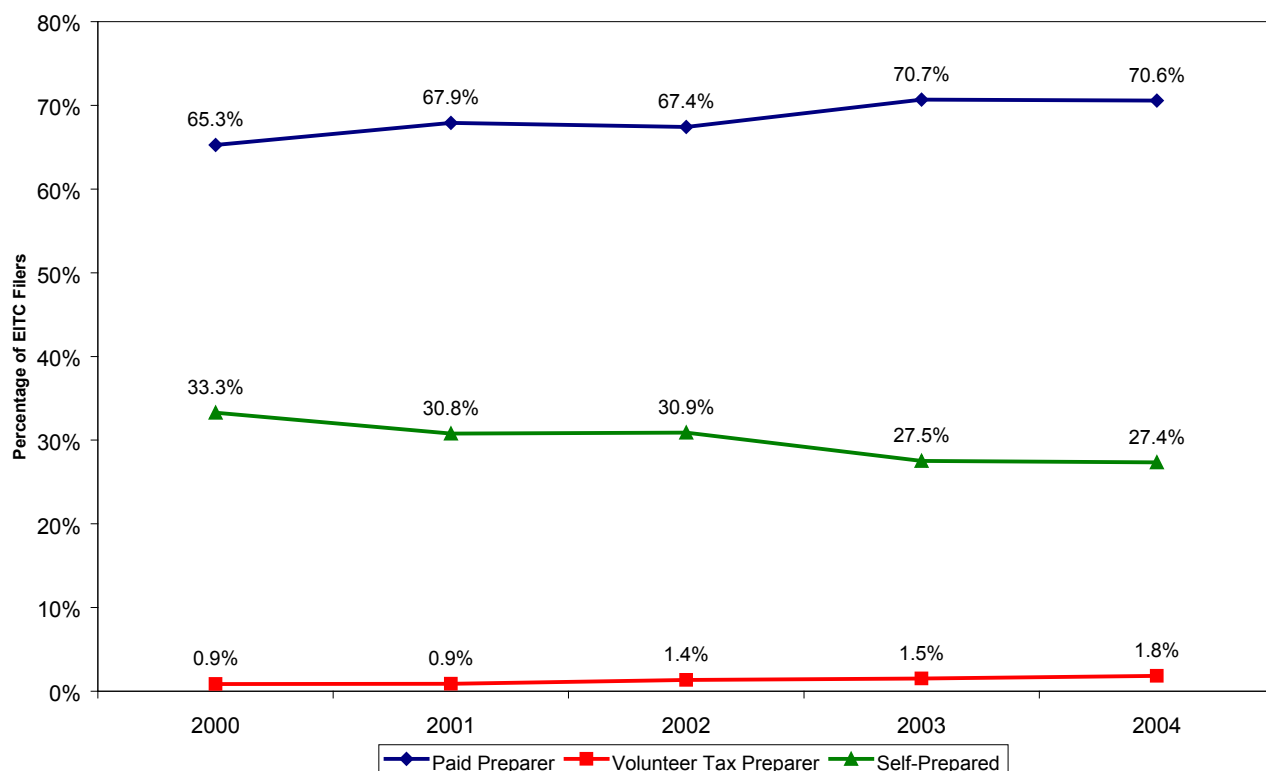
Cities are the locus for a great deal of existing volunteer tax preparation activity. Between 2000 and 2004, the share of central-city EITC recipients using volunteer tax preparers increased 1.7 percentage points, arriving at 2.4 percent in 2004. In 95 of the 100 metro areas studied, central cities experienced

at least a slight increase in volunteers' EITC share, demonstrating the widespread impact of the outreach movement.

While suburbs also saw an increase in the share of EITC returns prepared by volunteers from 2000 to 2004, that share—1.2 percent in 2004—amounts to only half the central-city average. This may reflect that relatively fewer community-based organizations exist to provide services to lower-income suburban populations, and that lower-income taxpayers in suburbs are more spread out and thus harder to reach through volunteer programs. Still, with the majority of metropolitan EITC recipients living in suburbs, a great deal of room exists to expand the reach of volunteer services beyond their present city focus.

Some cities and suburbs, however, have made particularly successful inroads in connecting low-income filers to volunteer tax preparation services (Table 4). At over 13 percent, the city of Tulsa, OK

**Figure 4. Percentage of EITC Filers by Method of Return Preparation, United States, Tax Years 2000-2004**



Source: Brookings Institution analysis of Internal Revenue Service data

had the highest share of EITC returns prepared by volunteers among all central cities studied, followed by Rochester, NY, Albuquerque, NM, and Minneapolis-St. Paul, MN.

Areas around Honolulu, HI and Tulsa led the suburban list with more than 5 percent of their EITC filers served by volunteer programs.

**Table 4. Top Central Cities/Suburbs by Share of EITC Recipients Using Volunteer Tax Preparation, 100 Largest Metro Areas, Tax Year 2004**

Rank	Central Cities	Share (%)	Rank	Suburbs	Share (%)
1	Tulsa, OK	13.5	1	Honolulu, HI	5.7
2	Rochester, NY	8.3	2	Tulsa, OK	5.5
3	Albuquerque, NM	7.7	3	Colorado Springs, CO	4.8
4	Minneapolis-St. Paul, MN-WI	7.0	4	Albuquerque, NM	4.3
5	Madison, WI	6.9	5	Tucson, AZ	4.0
6	San Antonio, TX	5.8	6	Minneapolis-St. Paul, MN-WI	3.2
7	Des Moines, IA	5.2	7	San Antonio, TX	3.0
8	Portland, ME	5.2	8	Rochester, NY	2.6
9	Hartford, CT	5.0	9	Portland-Vancouver, OR-WA	2.4
10	Milwaukee, WI	5.0	10	Seattle-Tacoma-Bellevue, WA	2.4
<b>All central cities</b>		<b>2.4</b>	<b>All suburbs</b>		<b>1.2</b>

*Source: Brookings Institution analysis of Internal Revenue Service data*

## Conclusion

This analysis highlights the important role the EITC, and increasingly the ACTC, played over the first half of this decade in supplementing the wages earned by low-income working families—particularly in regions hardest hit by the economic downturn and subsequent slow recovery.

The paper makes three findings that are particularly worthy of further study and consideration for policy:

- Almost 2.4 million more EITC filers today live in the suburbs of the nation's largest metropolitan areas than in their central cities, reflecting the continued suburbanization of working poverty and low-wage employment across the country.
- The refundable portion of the Child Tax Credit has emerged as an important additional support for low-income working families, with almost half of EITC filers collectively claiming an additional \$9 billion dollars through the ACTC in tax year 2004. This credit may deserve greater “billing” alongside the EITC in outreach campaigns to lower-income filers. In addition, proposals to harmonize and perhaps combine the proceeds of these credits merit further analysis, given the existing overlap between their earners.
- A growing but still-small share of EITC recipients are accessing volunteer programs to file their tax returns. Cities such as Tulsa, Rochester, and Albuquerque have made particular inroads in connecting their low-income taxpayers to free services. Relatively few suburban EITC recipients use these services, however, even though their communities contain the majority of metropolitan EITC earners. New and existing programs may need additional public and private financial support to reach a growing number of suburban working poor who rely on credits like the EITC and ACTC.

As additional years of data and new types of information become available from the IRS, researchers, policymakers, and practitioners at the national and local levels can track these and other trends using the interactive website at [www.brookings.edu/metro/eitc](http://www.brookings.edu/metro/eitc).

## Endnotes

1. Steven Holt, "The EITC at Age 30: What We Know" (Washington: Brookings Institution, 2006).
2. Alan Berube "Using the Earned Income Tax Credit to Stimulate Local Economies" (New York: Living Cities, 2006).
3. A smaller credit of up to \$390 was available for filers with no qualifying children in tax year 2004. Single filers claiming the credit had to have earnings less than \$11,490 and married couples filing jointly had to have joint earnings below \$12,490 in order to claim the credit.
4. Center on Budget and Policy Priorities, "Facts About Tax Credits for Working Families—The Earned Income Credit and Child Tax Credit: Tax Time Can Pay for Working Families" (2006).
5. Alan Berube, "The New Safety Net: How the Tax Code Helped Low-Income Working Families During the Early 2000s" (Washington: Brookings Institution, 2006).
6. The 100 largest metro areas were selected based on their population in the 2000 decennial census and using the 2003 definitions of Metropolitan Statistical Areas (MSAs) announced by the U.S. Office of Management and Budget.
7. A city is designated as a central city if: (1) it is listed first in the name of the metropolitan area; or (2) if the city is listed second or third in the metropolitan area name and had a population greater than 100,000 in the 2000 decennial census. These criteria identify the largest and most prominent cities in each metropolitan area. The suburbs represent the remainder of these metropolitan areas. See Alan Berube and Elizabeth Kneebone, "Two Steps Back: City and Suburban Poverty Trends 1999–2005" (Washington: Brookings Institution, 2006).
8. In the large metropolitan areas that form the focus of this paper, splitting ZIP codes does not introduce a high degree of error into the analysis, and provides totals for each geography of interest without double counting filers.
9. See the Appendices that accompany this paper on the Brookings Institution Metropolitan Policy Program website for detailed data on EITC filers in the central cities and suburbs in each of the 100 largest metropolitan areas: [www.brookings.edu/metro](http://www.brookings.edu/metro)
10. In tax year 1998, 20 percent of central-city filers and 11 percent of suburban filers in the top 100 metro areas received the EITC. Alan Berube and Benjamin Forman, "A Local Ladder for the Working Poor: The Impact of the Earned Income Tax Credit in U.S. Metropolitan Areas."
11. The median income data come from the 2005 America Community Survey. The margin of error associated with Morris County, NJ's median income is \$2,926, and the margin of error for Navajo, AZ is \$2,245. In tax year 2004 Morris County, NJ had 233,270 total filers and 11,614 EITC recipients. Navajo County, AZ had 35,304 total filers, with 11,443 taxpayers receiving the EITC.
12. Preliminary data for tax year 2005 reflect a slight uptick in EITC claims from tax year 2004. "Individual Income Tax Returns, Preliminary Data, 2005." IRS Statistics of Income Bulletin, Winter 2007.
13. Berube and Kneebone, "Two Steps Back."
14. For instance, the share of workers who were only marginally attached to the labor force or working part-time involuntarily rose from 2001 to 2003. Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007* (Cornell University Press, 2006). In 2002, among displaced workers with at least three years of tenure on their previous job, one-third experienced wage losses of 25 percent or more after returning to work. Jeffrey R. Kling, "Fundamental Restructuring of Unemployment Insurance: Wage-Loss Insurance and Temporary Earnings Replacement Accounts" (Washington: Brookings Institution, 2006).
15. These regional dynamics and their effects on poverty are discussed in greater detail in Berube and Kneebone, "Two Steps Back."
16. Slightly different rules concerning family income and the age of children distinguish eligibility for the ACTC from eligibility for the EITC with qualifying children. Center on Budget and Policy Priorities, "Facts About Tax Credits for Working Families."
17. IRS Statistics of Income.
18. This proportion includes the half of EITC recipients who do not receive the ACTC.
19. Brookings Institution analysis of IRS' SPEC EITC Database.
20. See Alan Berube, "EITC Outreach Campaigns." Presentation to the EITC Funders Network, Chicago, IL, June 21, 2004.

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