The Importance of the EITC to Urban Economies

Congressional Former Mayors Caucus
Staff Briefing
July 13, 2007
The Importance of the EITC to Urban Economies

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III. Maximizing the EITC’s Benefit
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<th>Background</th>
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<td>The EITC has existed for over 30 years</td>
<td>It was created in 1975 to shield low-wage workers from rising payroll taxes</td>
<td>It has been expanded under both Democratic and Republican administrations—in 1986, 1990, 1993, and 2001</td>
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<td>The credit’s <em>refundability</em> distinguishes it from other credits—taxpayers receive the full value of the EITC regardless of their tax liability</td>
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The amount of EITC for which taxpayers qualify depends on income and family size.

Value of the EITC by income and qualifying children, unmarried filers, tax year 2007

Source: IRS

Source: Internal Revenue Service

* Married couples filing jointly begin phase-out and reach maximum income limits $2,000 above listed values.
The number of taxpayers claiming the EITC, and the amount claimed, have grown over time.

EITC recipients and total credit value (2004 dollars), 1975-2004

Source: 2004 Green Book
22 states, and some localities, have adopted versions of the EITC in their own tax codes.
City taxpayers claim the EITC at rates above the national average.

Percentage of taxpayers receiving EITC, tax year 2004

- Nation: 16.9%
- Large cities: 21.6%

Source: Brookings analysis of IRS data
This differs by region, too, with places in the South having larger shares claiming the EITC

Percentage of returns receiving EITC by county, tax year 2003

The EITC provides a larger cash infusion for cities than some traditionally “urban” programs.

Amounts received by program, CDBG/HOME municipal grantees, 2004

Source: Brookings analysis of HUD and IRS data
The Child Tax Credit and over-withholding also contribute to refunds for EITC claimants.
### Background

EITC dollars stimulate local economies through a “multiplier” effect

### Effects

<table>
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<tr>
<th>Source</th>
<th>Details</th>
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<td>Spader, Ratcliffe, and Stegman (2005)</td>
<td>About two-thirds of EITC recipients spend the bulk of their refunds on immediate expenses.</td>
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<td>Texas Perspectives (2004)</td>
<td>The city of San Antonio estimated that each additional $1.00 in EITC claimed would generate $1.58 in local economic activity.</td>
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<td>Jacob France Institute (2005)</td>
<td>EITC dollars spent in Baltimore generate nearly $600,000 in annual local income and property tax revenues.</td>
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Cities also benefit from the broader labor market and anti-poverty effects of the EITC

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<td>The EITC annually lifts 4.5 million people above the poverty line—half of them children.</td>
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<td>EITC expansions accounted for one-third of the increase in employment among single mothers between 1993 and 1999.</td>
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<td>Increases in the credit in the 1990s reduced welfare usage by 10 percent.</td>
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</tbody>
</table>

Source: Center on Budget and Policy Priorities (2006)
Source: Grogger (2003)
Source: Grogger (2003)
Despite its broad reach, about 15%-20% of eligible families fail to claim the EITC.
Meanwhile, 70% of EITC recipients pay to have their taxes prepared—often considerable amounts.

Percentage of taxpayers using paid preparer by EITC receipts, TY 2000-2004

Source: Brookings analysis of IRS data
About 35% pay for a refund loan, on top of the amounts paid for completing and filing the return.

$130 (loan cost) ÷ $2,780 (loan amount) × 365 (days in a year) ÷ 10 (term of loan) = 171% APR
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<td>Many of the nation’s large cities have a coordinated campaign to maximize EITC participation</td>
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- **Boston**: EITC Campaign
- **Philadelphia**: The Campaign for Working Families
- **Los Angeles**: EarnIt! KeepIt! SaveIt!
- **SF Bay Area**: Greater Dayton EITC/CTC Coalition
- **Louisville**: The City of Dayton, OH (Seal)
Most of these efforts also help connect lower-income families to free tax assistance programs.

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Taxpayers</th>
<th>% Taxpayers</th>
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<tbody>
<tr>
<td>1</td>
<td>Tulsa, OK</td>
<td>4,472</td>
<td>13.5</td>
</tr>
<tr>
<td>2</td>
<td>Rochester, NY</td>
<td>2,036</td>
<td>8.3</td>
</tr>
<tr>
<td>3</td>
<td>Albuquerque, NM</td>
<td>3,047</td>
<td>7.7</td>
</tr>
<tr>
<td>4</td>
<td>Minneapolis-St. Paul, MN</td>
<td>3,105</td>
<td>7.0</td>
</tr>
<tr>
<td>5</td>
<td>Madison, WI</td>
<td>606</td>
<td>6.9</td>
</tr>
<tr>
<td>6</td>
<td>San Antonio, TX</td>
<td>8,209</td>
<td>5.8</td>
</tr>
<tr>
<td>7</td>
<td>Des Moines, IA</td>
<td>745</td>
<td>5.2</td>
</tr>
<tr>
<td>8</td>
<td>Portland, ME</td>
<td>236</td>
<td>5.2</td>
</tr>
<tr>
<td>9</td>
<td>Hartford, CT</td>
<td>787</td>
<td>5.0</td>
</tr>
<tr>
<td>10</td>
<td>Milwaukee, WI</td>
<td>2,883</td>
<td>5.0</td>
</tr>
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Top 10 cities by percentage of EITC taxpayers using volunteer preparer, tax year 2004

Source: Brookings analysis of IRS data
Members can **publicize** the EITC at tax time using newsletters, websites, op-eds, and public service announcements.

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**Sample PSA Script**

Hi. This is Congressman Sherrod Brown.

If you earned less than $34,000 this year, you may qualify for the Earned Income Tax Credit — the EITC.

You could receive up to $4,200 when you file your taxes. The EITC can help you pay bills, save for college or buy a car.

Community tax preparers can file your taxes for **free**, and help you get all your money back, with no extra fees or costs.

Call the Lorain County Tax Assistance Campaign at xxx-xxxx-xxxx for more information about the EITC or to find a tax preparation site near you.
Members can **participate** in outreach campaigns by visiting free tax assistance sites in their districts.

Rep. Jim Snyder in Little Rock, AR

Rep. Kendrick Meek in Miami, FL
**Background**

Members can **provide** modest financial support for these community-led efforts.

Bipartisan co-sponsored S. 1219 (Taxpayer Protection and Assistance Act) would authorize Treasury to provide up to $10M annually to qualified return preparation clinics.

These clinics would provide free tax assistance to families with incomes under $45,000 a year.

Companion legislation has not yet been introduced in the House.

**Maximizing Benefit**
Our website provides information on the EITC by Congressional District

www.brookings.edu/metro/eitc

Tax year 2004 data on Brookings website
visit metro:

www.brookings.edu/metro