



METROPOLITAN POLICY PROGRAM

THE BROOKINGS INSTITUTION

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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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Some background on the EITC

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Maximizing the EITC's Benefit

Background

Effects

Maximizing Benefit

The EITC has existed for over 30 years

It was created in 1975 to shield low-wage workers from rising payroll taxes

It has been expanded under both Democratic and Republican administrations—in 1986, 1990, 1993, and 2001

The credit's *refundability* distinguishes it from other credits—taxpayers receive the full value of the EITC regardless of their tax liability

Background

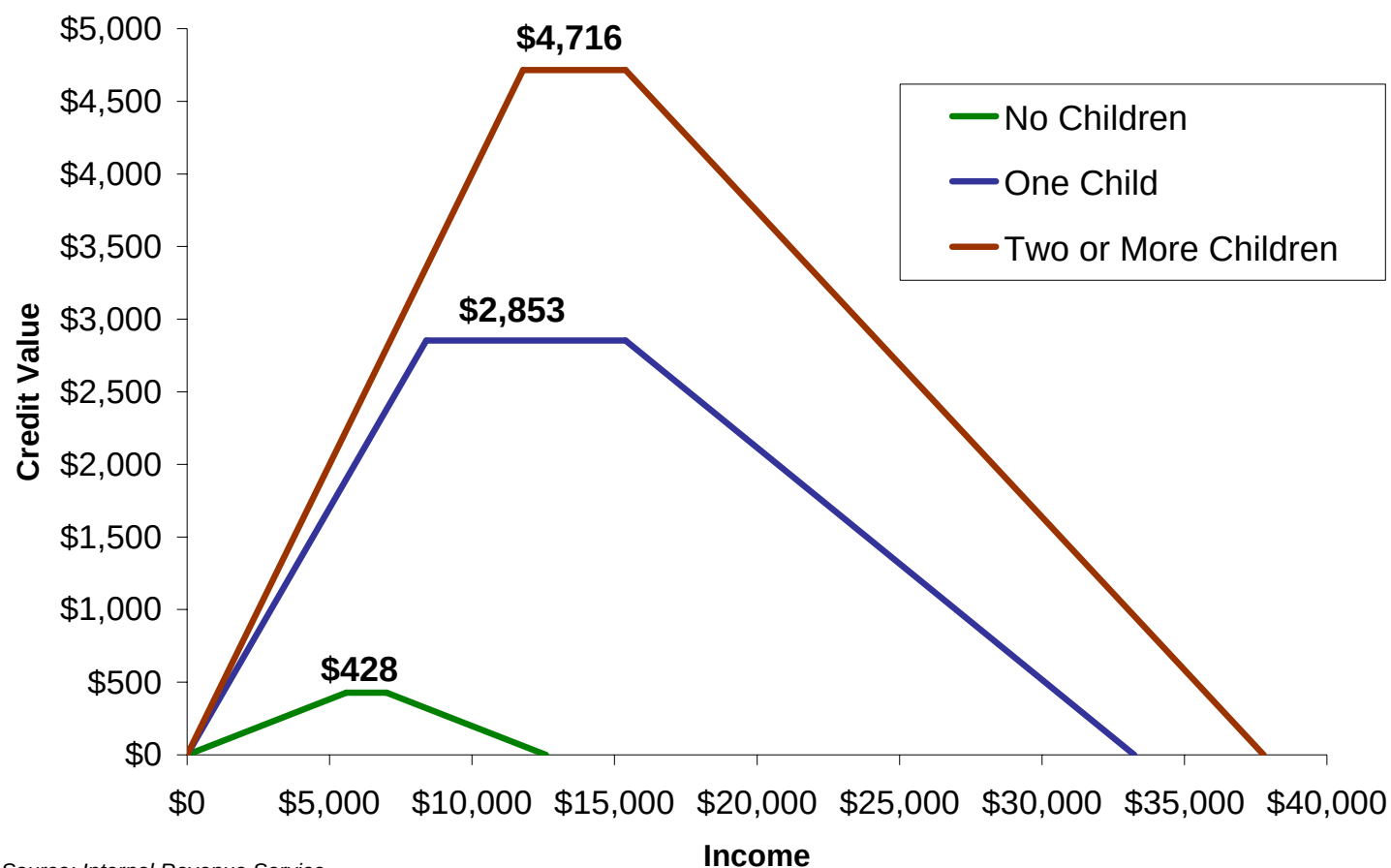
Effects

Maximizing Benefit

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



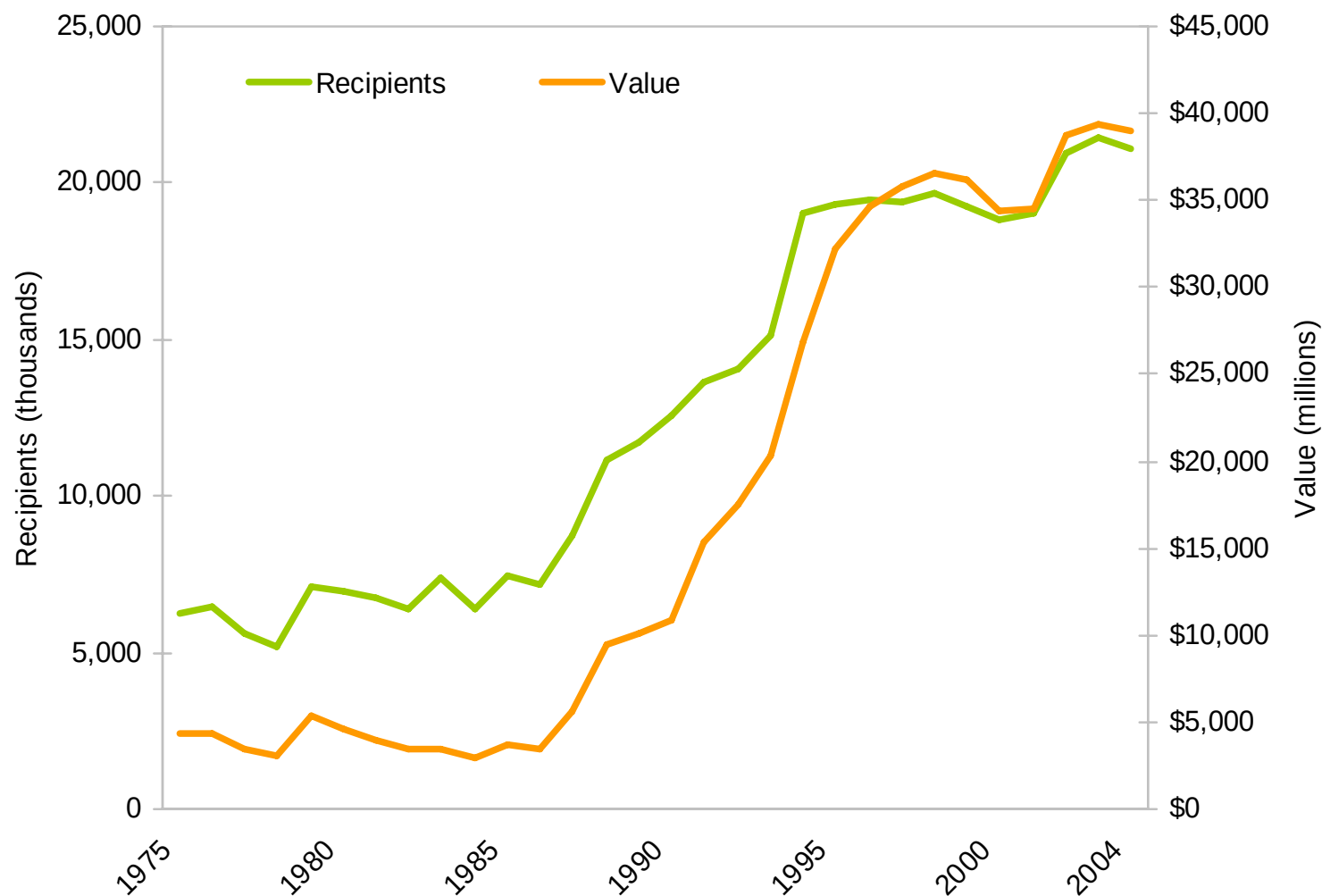
Source: Internal Revenue Service

* 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



Background

Effects

Maximizing Benefit

22 states, and some localities, have adopted versions of the EITC in their own tax codes

States with
EITCs, TY 2007

San Francisco

New York City

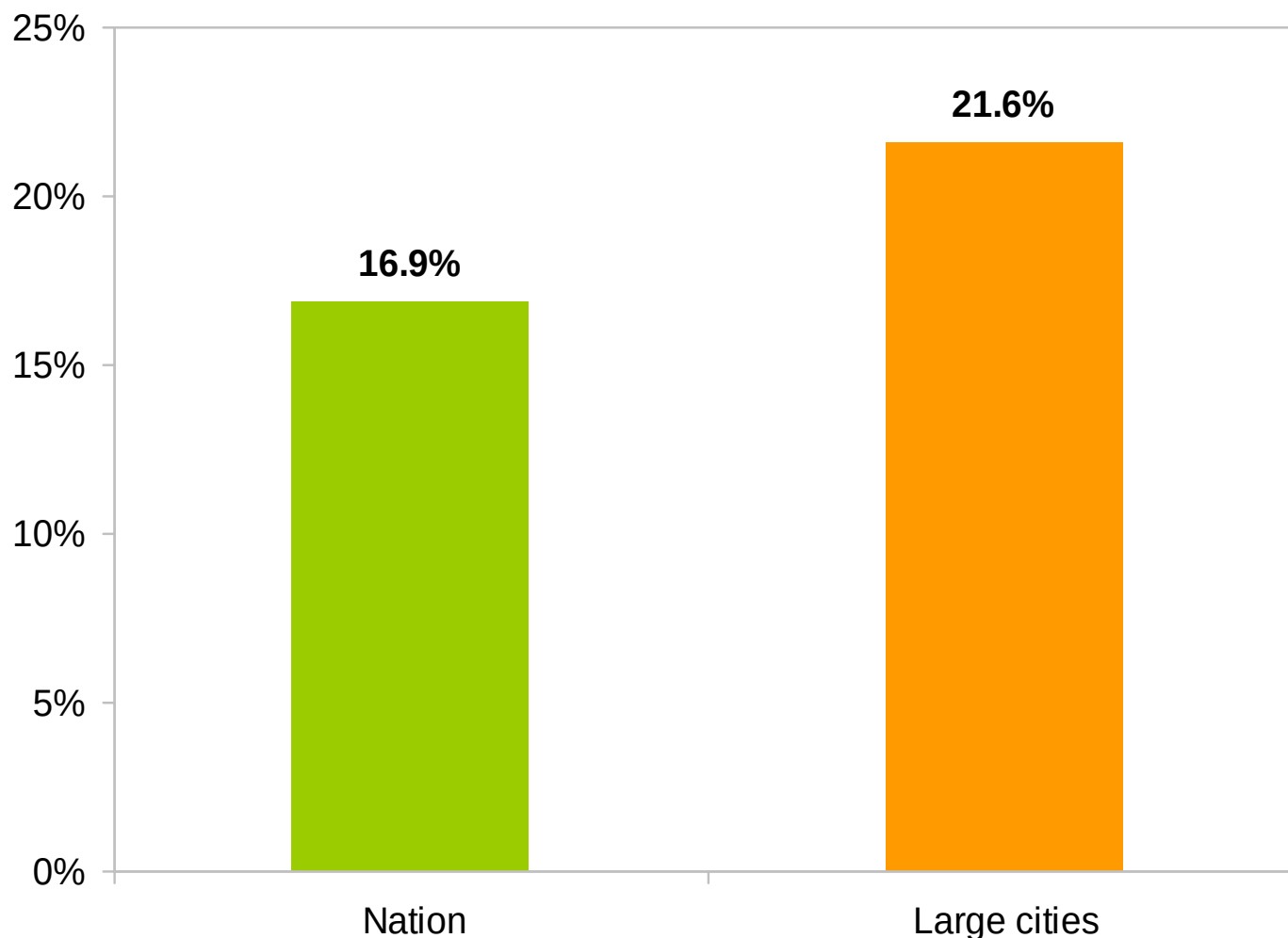
Montgomery
County, MD

-  States with refundable EITCs
-  States with non-refundable EITCs
-  States without an EITC

City taxpayers claim the EITC at rates above the national average

Percentage of taxpayers receiving EITC, tax year 2004

Source: Brookings analysis of IRS data



Background

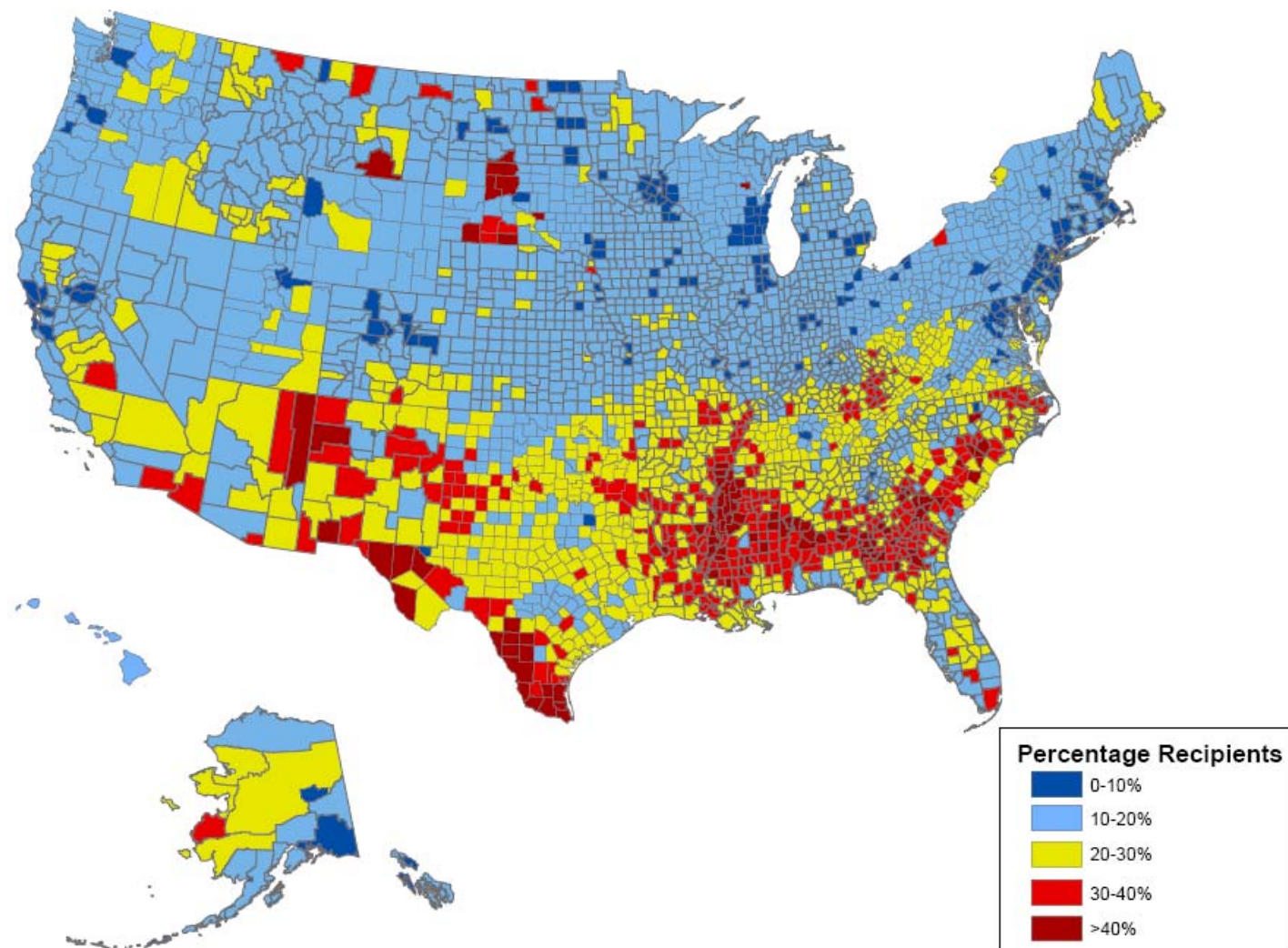
Effects

Maximizing Benefit

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

Source: Berube. "The New
Safety Net" (2006)

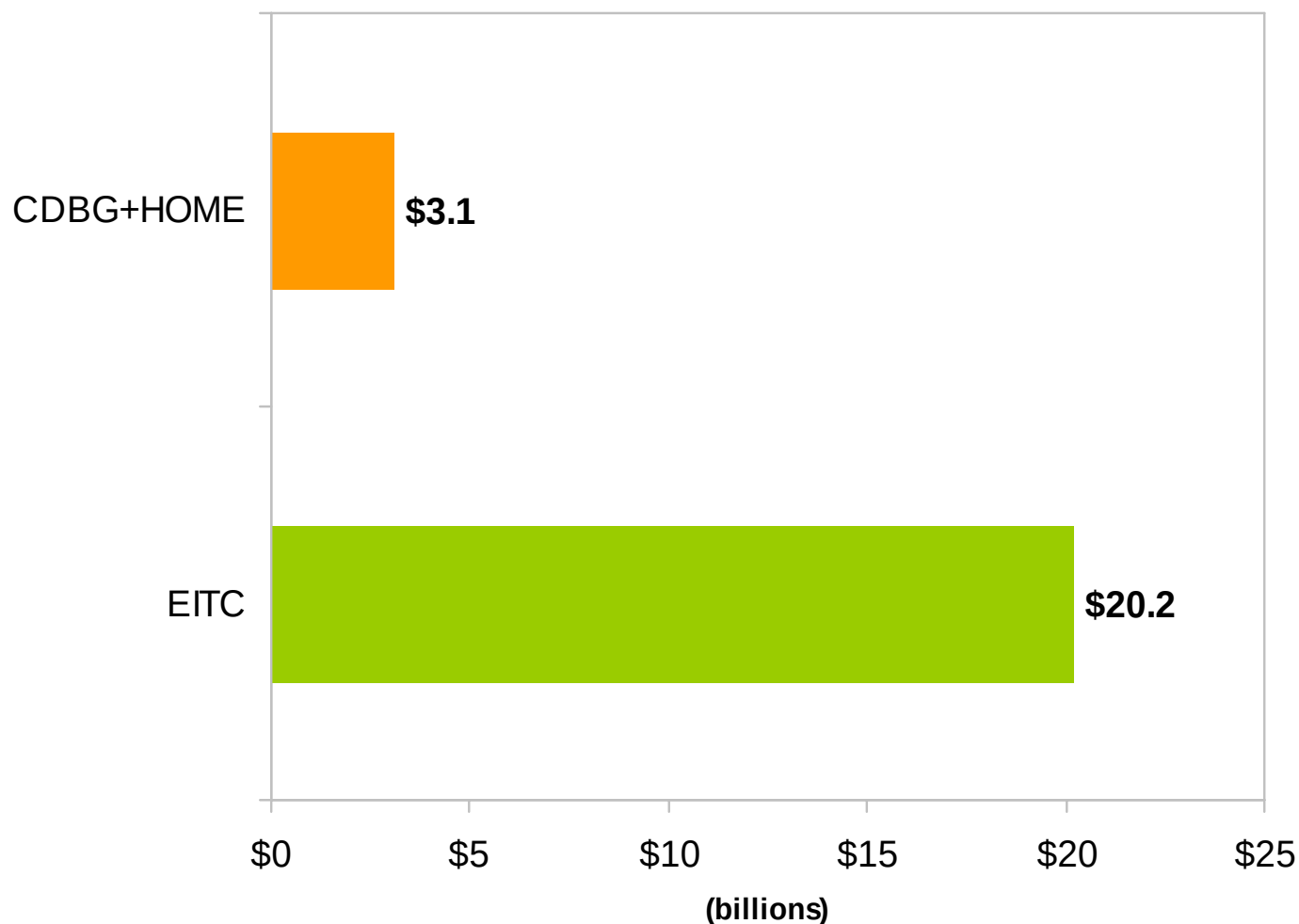


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The EITC provides a larger cash infusion for cities than some traditionally “urban” programs

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

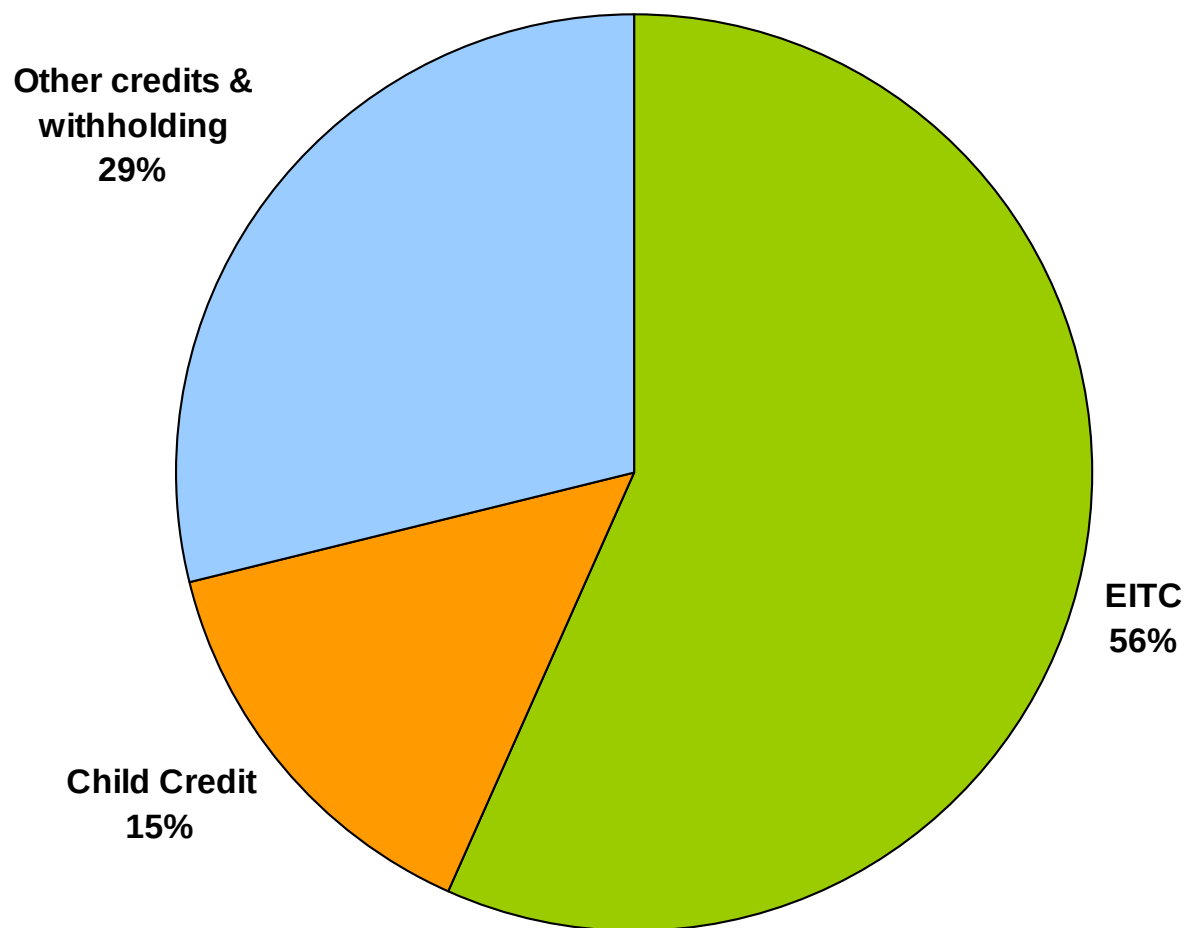
Source: Brookings analysis of
HUD and IRS data



The Child Tax Credit and over-withholding also contribute to refunds for EITC claimants

Composition of
refunds for EITC
recipients, tax year
2004

Source: Brookings analysis of
IRS data



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EITC dollars stimulate local economies through a “multiplier” effect

About two-thirds of EITC recipients spend the bulk of their refunds on immediate expenses

Source: Spader, Ratcliffe, and Stegman (2005)

The city of San Antonio estimated that each additional \$1.00 in EITC claimed would generate \$1.58 in local economic activity

Source: Texas Perspectives (2004)

EITC dollars spent in Baltimore generate nearly \$600,000 in annual local income and property tax revenues

Source: Jacob France Institute (2005)

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Cities also benefit from the broader labor market and anti-poverty effects of the EITC

The EITC annually lifts 4.5 million people above the poverty line—half of them children

Source: Center on Budget and Policy Priorities (2006)

EITC expansions accounted for one-third of the increase in employment among single mothers between 1993 and 1999

Source: Grogger (2003)

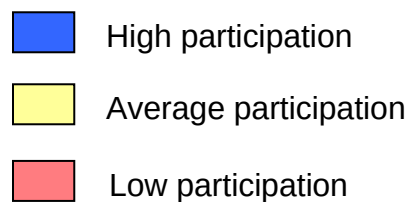
Increases in the credit in the 1990s reduced welfare usage by 10 percent

Source: Grogger (2003)

Despite its broad reach, about 15%-20% of eligible families fail to claim the EITC

Gap between EITC claims and estimated EITC eligibility, tax year 2004

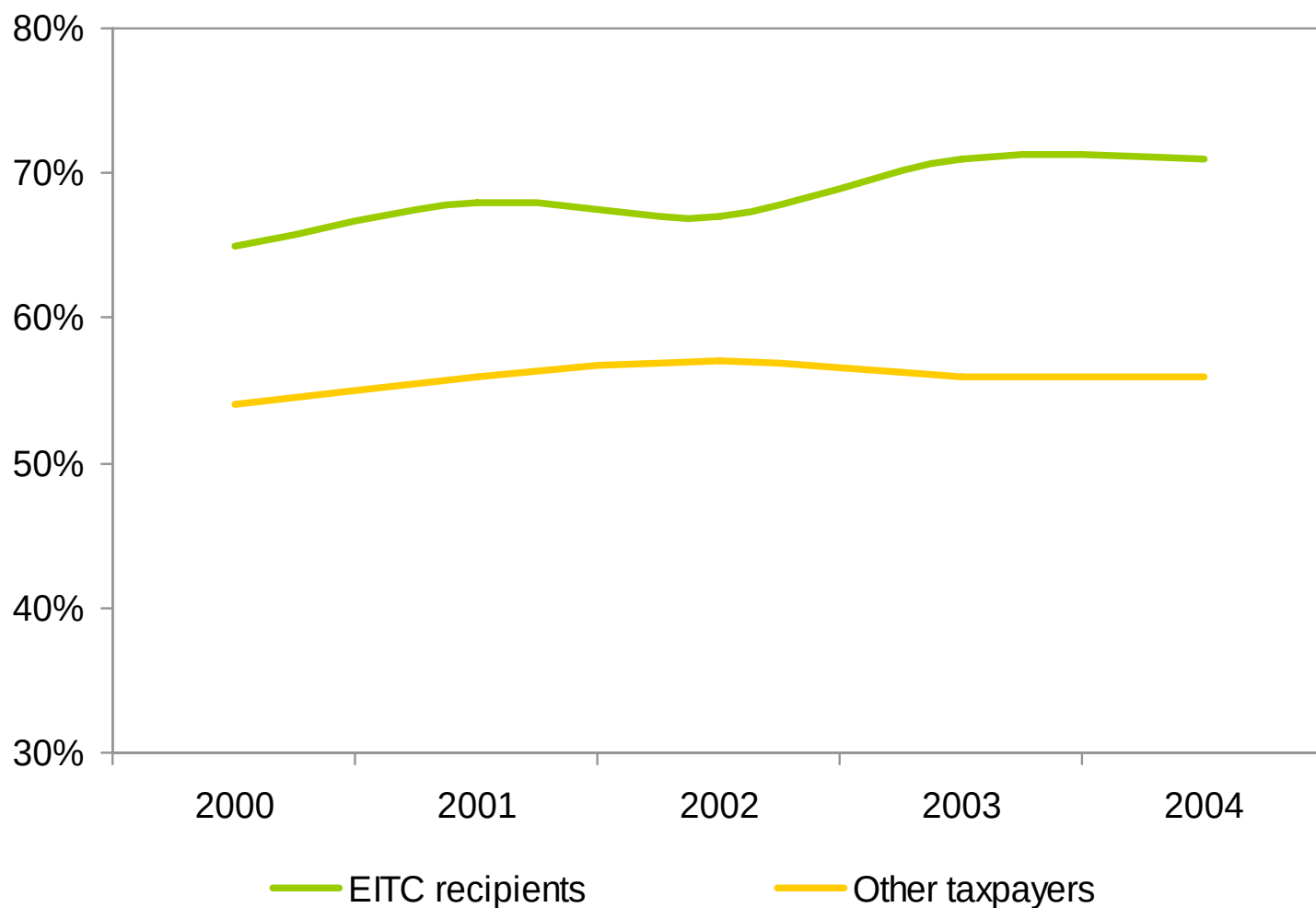
Source: forthcoming
Brookings analysis



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

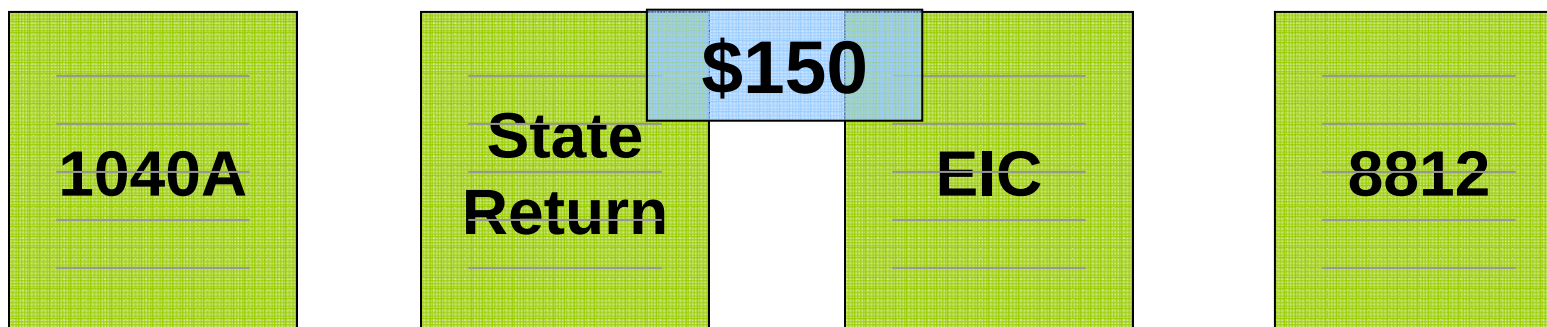


Background

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About 35% pay for a refund loan, on top of the amounts paid for completing and filing the return



***SUPERFAST
REFUNDS*** *When you want your
refund in a hurry!*
[click here](#)

\$130 (for average
EITC refund)

$\$130 \text{ (loan cost)} \div \$2,780 \text{ (loan amount)} \times 365 \text{ (days in a year)} \div 10 \text{ (term of loan)}$

171% APR

Background

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Maximizing Benefit

Many of the nation's large cities have a coordinated campaign to maximize EITC participation



Boston



Philadelphia



Louisville

EITC\$\$\$\$

Los Angeles

EarnIt!KeepIt!\$aveIt!

SF Bay Area



Greater Dayton EITC/
CTC Coalition

Most of these efforts also help connect lower-income families to free tax assistance programs

Top 10 cities by percentage of EITC taxpayers using volunteer preparer, tax year 2004

Source: Brookings analysis of IRS data

Rank	City	Taxpayers	% Taxpayers
1	Tulsa, OK	4,472	13.5
2	Rochester, NY	2,036	8.3
3	Albuquerque, NM	3,047	7.7
4	Minneapolis-St. Paul, MN	3,105	7.0
5	Madison, WI	606	6.9
6	San Antonio, TX	8,209	5.8
7	Des Moines, IA	745	5.2
8	Portland, ME	236	5.2
9	Hartford, CT	787	5.0
10	Milwaukee, WI	2,883	5.0

Members can **publicize** the EITC at tax time using newsletters, websites, op-eds, and public service announcements

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U.S. Representative David Price
4th District of North Carolina

For Release: Immediate
Date: April 3, 2004

Contact: Bridget Lowell
Phone: 202-225-1784

North Carolinians Are Due a \$97M Refund Price Partners With Local Coalition To Help Working Families File Taxes

DURHAM – Today, US Rep. David Price (NC-04) partnered with the Money Wise Durham Coalition and EITC Carolinas to help working families reclaim and keep tax credits they are entitled to.

About 15-25% of lower-income working families who are eligible for the Earned Income Tax Credit (EITC) don't get it, simply because they don't know how to file for it. In North Carolina, that translates into \$97M in unclaimed EITC refunds – \$4M of it in Price's district alone.

"The EITC will be especially important this year, as Triangle families struggle to recover from an economic downturn," said Price. "This tax credit can be a vital tool in helping people invest in education or put a down payment on a house. And it puts money in the hands of those who need it and will spend it quickly, creating a much-needed stimulus for our lagging economy."

Price, along with the Retired Senior Volunteer Program (RSVP) of Durham and EITC Carolinas, helped to explain the EITC, release important statistics about tax refunds North Carolinians are due, and show working families and seniors how to file for this much-needed tax credit. The RSVP volunteers remained available for 3 hours to help seniors and families with their tax returns.

"At a time when so many of North Carolina's working families are struggling to make ends meet, no one can afford to leave this money on the table," said Lucy Gorham, director of EITC Carolinas. "We believe through an organized statewide effort we can help these families, and in helping them, we help their communities and the state."

The EITC is a federal credit for working families making up to \$34,692, designed to provide them with a credit on their earned income. It serves as an incentive for families to work rather than receive public assistance, effectively reducing their annual tax burdens by providing them a refundable credit. The credit can put more than \$4,000 in the pockets of those who qualify, with an average credit of \$1,700. In the last year for which we have information, the credit helped to lift 4.7 million people out of poverty.

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-xxx-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

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Maximizing Benefit

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

Background

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Maximizing Benefit

Our website provides information on the EITC by Congressional District

www.brookings.edu/metro/eitc

Tax year 2004 data on Brookings website

The screenshot shows a Microsoft Internet Explorer browser window displaying the website <http://www.brookings.edu/metro/eitc>. The page is titled "EARNED INCOME TAX CREDIT SERIES" under the "METROPOLITAN POLICY PROGRAM" header. The main content area features an article titled "A Local Ladder for Low-Income Workers: Recent Trends in the Earned Income Tax Credit". The article text states: "From 2000 to 2004, the number and share of taxpayers receiving the Earned Income Tax Credit (EITC) rose in response to economic challenges. Increases were largest in the suburbs of the nation's largest metropolitan areas, which today contain 2.4 million more EITC recipients than central cities." To the right of the article, there are sections for "INTERACTIVE DATA" (with links for "Display and download ZIP code-level tax return information for states, metro areas, counties, cities, and towns for tax years 1997 through 2003", "Create tax tables", and "User guide") and "TAX YEAR 2004 EITC DATA" (with links for "EITC Data by Zip Code", "EITC Data by State", and "Legislative Districts"). Below these, there is a section for "CONGRESSIONAL DISTRICTS EITC DATA" with links for "Tax Year 2000-2003" and "Tax Year 2004". A black arrow points from the text "Tax year 2004 data on Brookings website" to the "Tax Year 2004" link. The left sidebar contains a navigation menu with links for "Home", "News & Events", "Scholars", "Research", "Programs" (with sub-links for "Economic Studies", "Foreign Policy Studies", "Global Economy and Development", "Governance Studies", "Metropolitan Policy", "Policy Centers", and "Projects"), "Publications", "Bookstore", "Executive Education", and "About Brookings". The right sidebar includes a "SEARCH BROOKINGS" box, a "Metro Program" section with links for "Research by Topic", "Publications", "MetroViews", "Presentations and Events", "About Us", and "Employment", and a "Metropolitan Policy Program" section with links for "Greater Washington Research Program", "Urban Markets Initiative", and a "SUBSCRIBE TO Metro Program Listserv" box.

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