



Tax Policy Center

Urban Institute and Brookings Institution

EITC CLAIMING ACROSS ZIP CODES

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December 2, 2014

ABSTRACT

This brief provides a fresh look at the role of the EITC by utilizing zip-code level data on taxes and demographics. In the following sections, we focus on the relationship between EITC claiming rates (i.e., the percent of tax returns receiving the EITC) and poverty rates, the demographic characteristics of zip codes with high EITC claiming rates, and the variation in EITC claiming rates and average EITC amount cross counties.

The opinions expressed here are solely those of the author and do not necessarily reflect the views of the Urban-Brookings Tax Policy Center.

EITC CLAIMING ACROSS ZIP CODES

I. INTRODUCTION

Since its creation in 1975, the Earned Income Tax Credit (EITC) has played a major role in the U.S. safety net. In 2011, 27.9 million low- and middle-income families received the EITC, which is designed to alleviate poverty and promote employment among working families. In 2012 alone, the EITC lifted the incomes of [6.5 million people](#)—including 3.3 million children—above the official poverty measure. The EITC has also been shown to be one of the most effective ways to [encourage work](#), particularly among [single mothers working for low wages](#); the EITC expansions that took place between 1984 and 1996 accounted for more than half of the increase in employment among single mothers during that period. Furthermore, recent research suggests that [the children of EITC recipients](#) perform better in school, are more likely to attend college, and have higher wages as adults.

A household's EITC benefit depends on income, marital status, and number of children; notably, households without children receive almost no benefit. As earned income increases, the amount of the credit rises until it reaches its maximum level. At a certain income threshold, the EITC begins to phase out until it reaches zero. For example, in 2013 a [married couple with two children](#) would receive the maximum EITC of \$5,370 for earnings between \$13,430 and \$22,870, after which the credit amount would decline with earnings. (A married family of four earning poverty-line income of \$23,550 would receive a credit of \$5,224, slightly below the maximum EITC.) Importantly, the EITC is a refundable credit: if the credit's amount exceeds a family's income tax liability, the remainder of the credit is paid as a tax refund.

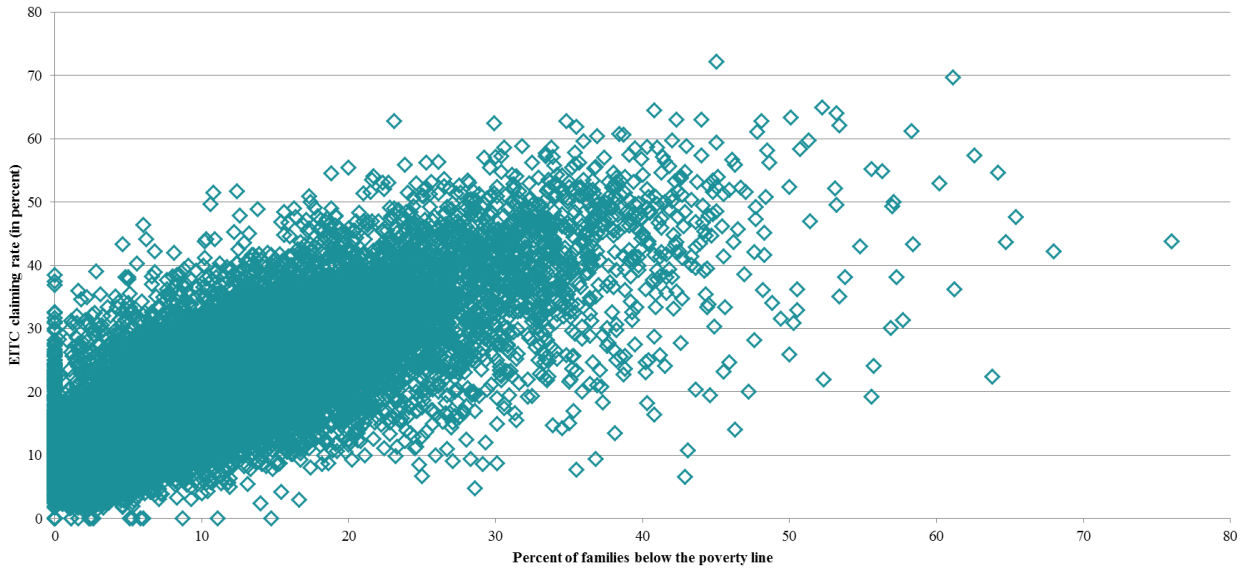
The goal of this brief is to provide a fresh look at the role of the EITC by utilizing zip-code level data on taxes and demographics. In the following sections, we focus on the relationship between EITC claiming rates (i.e., the percent of tax returns receiving the EITC) and poverty rates, the demographic characteristics of zip codes with high EITC claiming rates, and the variation in EITC claiming rates and average EITC amount cross counties.

II. THE EITC AND ZIP-CODE LEVEL POVERTY RATES

Given that the EITC is designed to benefit low-income families, it is not surprising to find a positive correlation between zip-code level poverty rates and the EITC claiming rate, as seen in Figure 1. (Note that these poverty rates are the official measure, and do not account for non-cash benefits including rent subsidies, Supplemental Nutrition Assistance Program benefits, and refundable tax credits such as the EITC.) As the share of families living below the poverty level increases in a given zip code, the percent of tax returns claiming the EITC also increases.¹ For example, Macy, Nebraska, with the highest EITC claiming rate in the country at 72.2 percent, also has a familial poverty rate of 45.0 percent.

¹ Among all but the smallest zip codes in the United States, the correlation between these two variables is 0.8; when accounting for zip code population, this correlation rises to 0.9.

Figure 1. EITC Claiming Rate and Share of Families Living in Poverty by Zip Code



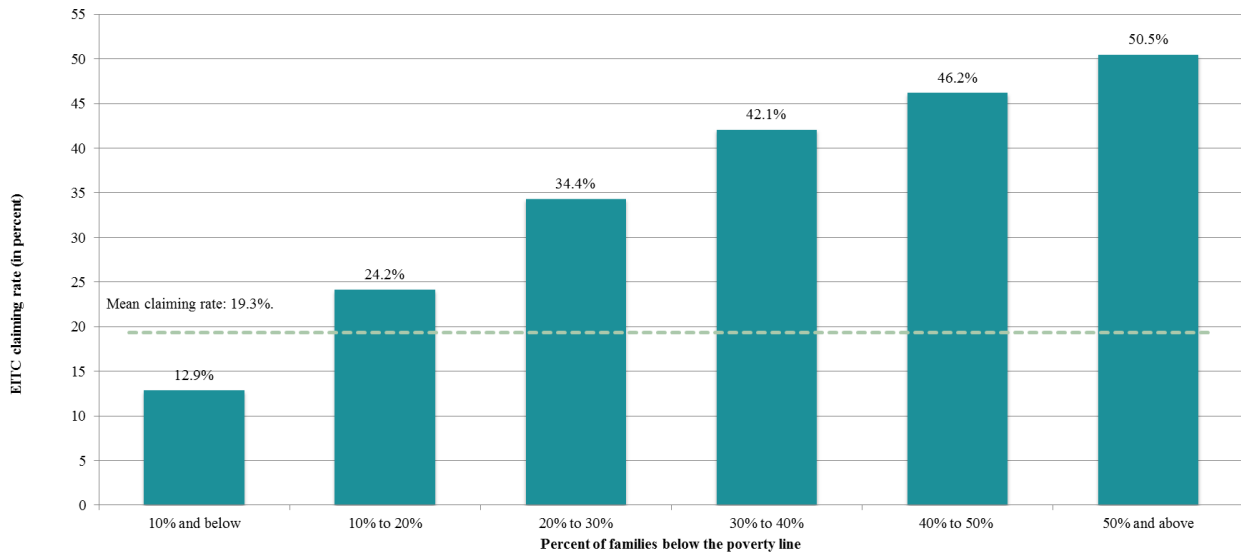
Sources: SOI 2014; U.S. Census Bureau n.d.; authors' calculations.

Note: The EITC claiming rate is equal to the number of tax returns receiving the EITC divided by the total number of tax returns within a given zip code. EITC data are derived from SOI (2014) and are for tax year 2012. Poverty data are derived from U.S. Census Bureau (n.d.) and are five-year estimates from 2008–2012. Zip codes that filed fewer than 300 tax returns are excluded from the analysis.

Among all zip codes in the United States, an average of 19.3 percent of tax units received the EITC in 2012 (Figure 2).² Among those zip codes with familial poverty rates of 10 percent and below (57.4 percent of zip codes), the EITC claiming rate is only 12.9 percent, nearly four times lower than that of the 1.0 percent of zip codes with poverty rates exceeding 50 percent. As the share of families living below the poverty level increases, the share of families receiving the EITC increases as well.

² The mean EITC claiming rate is weighted using the number of tax returns in each zip code.

Figure 2. EITC Claims by Zip-Code Poverty Rate



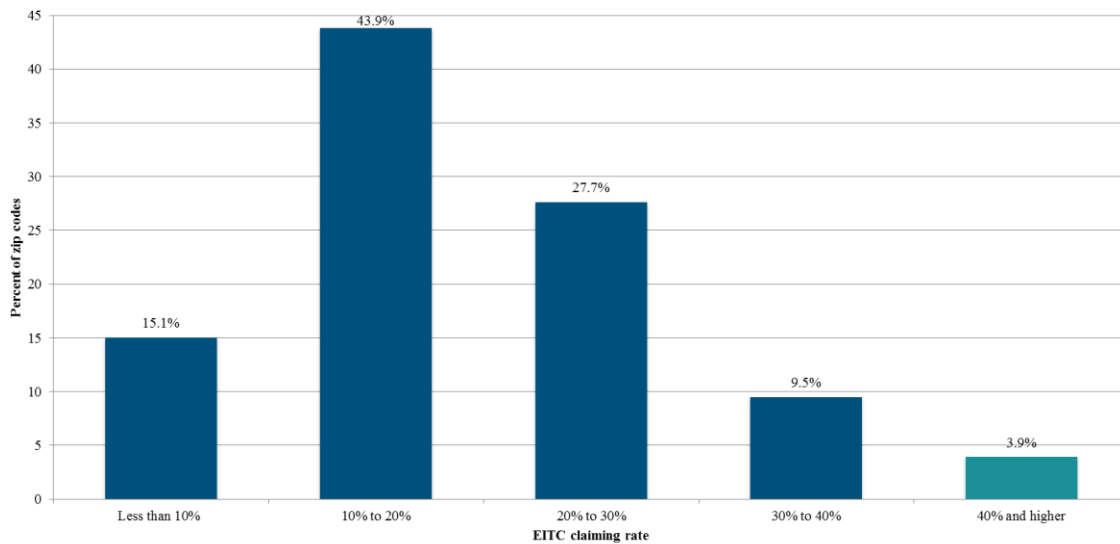
Sources: SOI 2014; U.S. Census Bureau n.d.; authors' calculations.

Note: Mean EITC claiming rates are weighted using the number of tax returns in each zip code. The EITC claiming rate is equal to the number of tax returns receiving the EITC divided by the total number of tax returns within a given zip code. EITC data are derived from SOI (2014) and are for tax year 2012. Poverty data are derived from U.S. Census Bureau (n.d.) and are five-year estimates from 2008–2012. Zip codes that filed fewer than 300 tax returns are excluded from the analysis.

III. CHARACTERISTICS OF ZIP CODES WITH HIGH EITC CLAIMING

EITC claiming rates vary substantially across zip codes. In the majority of zip codes, between 10 and 30 percent of families receive the EITC (43.9 percent have claiming rates between 10 and 20 percent; 27.7 percent of zip codes have claiming rates between 20 and 30 percent). A small share of zip codes (3.9 percent) have EITC claiming rates of at least 40 percent, and 15.1 percent of zip codes have an EITC claiming rate below 10 percent (Figure 3).

Figure 3. Zip Code EITC Claiming Rate



Sources: SOI 2014; authors' calculations.

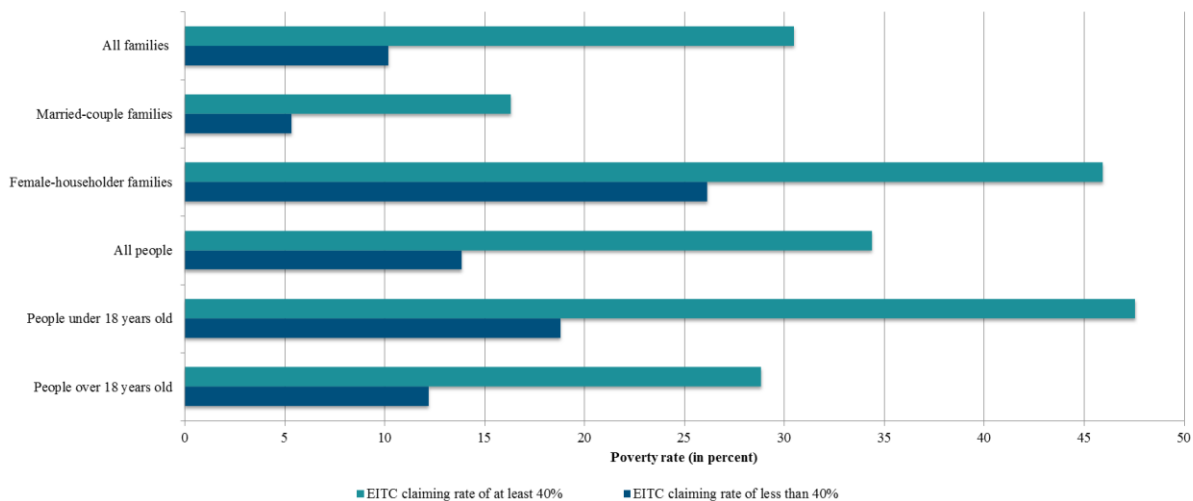
Note: The EITC claiming rate is equal to the number of tax returns receiving the EITC divided by the total number of tax returns within a given zip code. Data are derived from SOI (2014) and are for tax year 2012. Zip codes that filed fewer than 300 tax returns are excluded from the analysis.

The characteristics of high-claiming zip codes—those with claiming rates in excess of 40 percent—are markedly different from those with sub-40 percent claiming rates. For example, within zip codes with EITC claiming rates of 40 percent and over, the poverty rate among families is highest at 45.9 percent for female-householder families with no husband present, compared to 26.2 percent for zip codes with claiming rates below 40 percent. For every poverty rate shown, the rate among zip codes with higher EITC claiming rates is at least 70 percent higher than it is among the remaining zip codes. However, likely due to the fundamental link between EITC and work, the employment rate among those zip codes with the highest EITC claiming rate is only slightly lower (at 47.2 percent) than it is among the other zip codes (59.0 percent).

The racial composition of zip codes with EITC claiming rates of greater than or equal to 40 percent differs from that of lower-claiming zip codes. Among the high-EITC-claiming zip codes, 45.7 percent of the population is black or African American, and 38.3 percent of the population is white, whereas among the lower-EITC-claiming zip codes, 10.8 percent of the population is African American, and 76.1 percent of the population is white (Figure 5). An additional 2.4 percent of the population among the high-EITC-claiming zip codes is Asian (compared to 5.0 percent in the remaining zip codes), and 9.9 percent are other races (compared to 4.5 percent).

Among those zip codes with EITC-claiming rates of 40 percent or higher, the majority of households are either married-couple families (32.6 percent) or non-family households (32.9 percent). The remaining one-third of households is unevenly distributed between female-householder families at 27.8 percent, and male-householder families at 6.7 percent (Figure 6). In contrast, in zip codes with EITC claiming rates below 40 percent, nearly half of the households are married-couple families at 49.7 percent, with non-family households comprising an additional 33.6 percent. In this group, female-householder families make up only 12.2 percent of households, and male-householders only 4.5 percent.

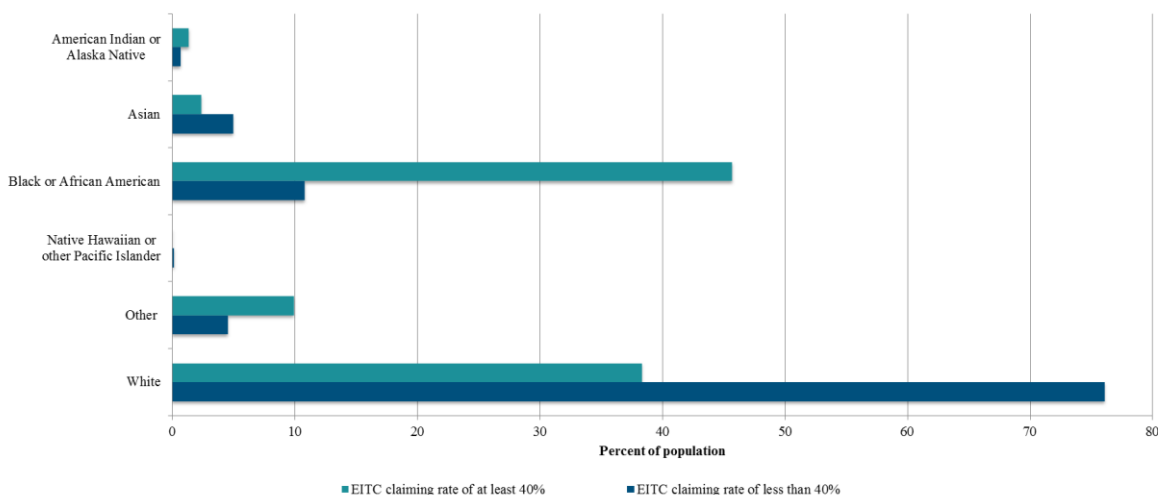
Figure 4. Poverty Rates by Zip-Code Level EITC Claiming Rate



Sources: SOI 2014; U.S. Census Bureau n.d.; authors' calculations.

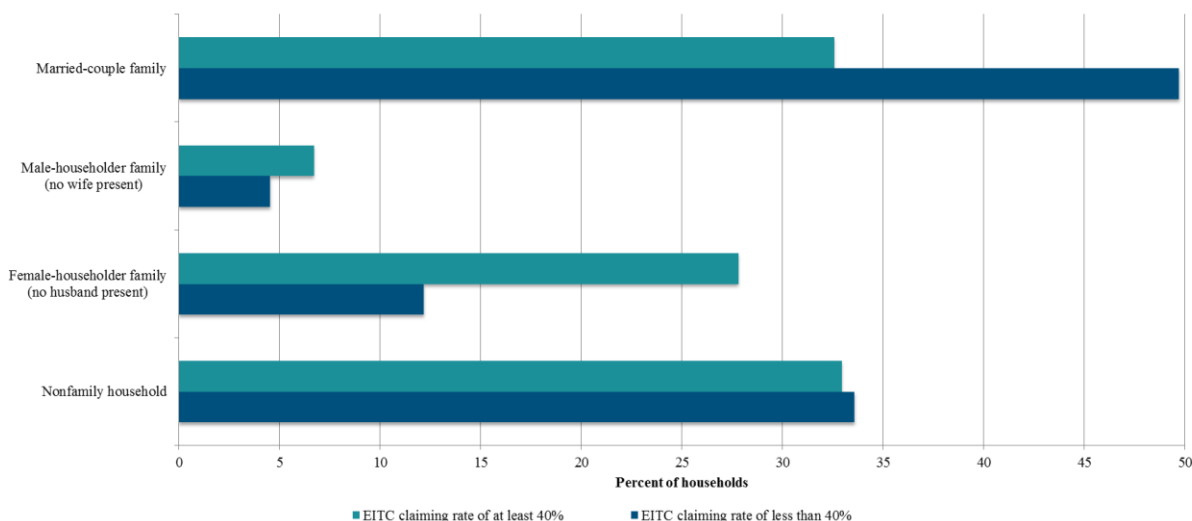
Note: Family poverty rates are weighted using the total households in each zip code. Individual poverty rates are weighted using the total population in each zip code. The EITC claiming rate is equal to the number of tax returns receiving the EITC divided by the total number of tax returns within a given zip code. EITC data are derived from SOI (2014) and are for tax year 2012. Poverty data are derived from U.S. Census Bureau (n.d.) and are five-year estimates from 2008–2012. Zip codes that filed fewer than 300 tax returns are excluded from the analysis.

Figure 5. Race by Zip-Code Level EITC Claiming Rate



Sources: SOI 2014; U.S. Census Bureau n.d.; authors' calculations.
 Note: Racial composition is weighted using the total population in each zip code. The EITC claiming rate is equal to the number of tax returns receiving the EITC divided by the total number of tax returns within a given zip code. EITC data are derived from SOI (2014) and are for tax year 2012. Race data are derived from U.S. Census Bureau (n.d.) and are five-year estimates from 2008–2012. Zip codes that filed fewer than 300 tax returns are excluded from the analysis.

Figure 6. Household Composition by Zip-Code Level EITC Claiming Rate



Sources: SOI 2014; U.S. Census Bureau n.d.; authors' calculations.
 Note: Household types are weighted using the total households in each zip code. The EITC claiming rate is equal to the number of tax returns receiving the EITC divided by the total number of tax returns within a given zip code. EITC data are derived from SOI (2014) and are for tax year 2012. Household composition data are derived from U.S. Census Bureau (n.d.) and are five-year estimates from 2008–2012. Zip codes that filed fewer than 300 tax returns are excluded from the analysis.

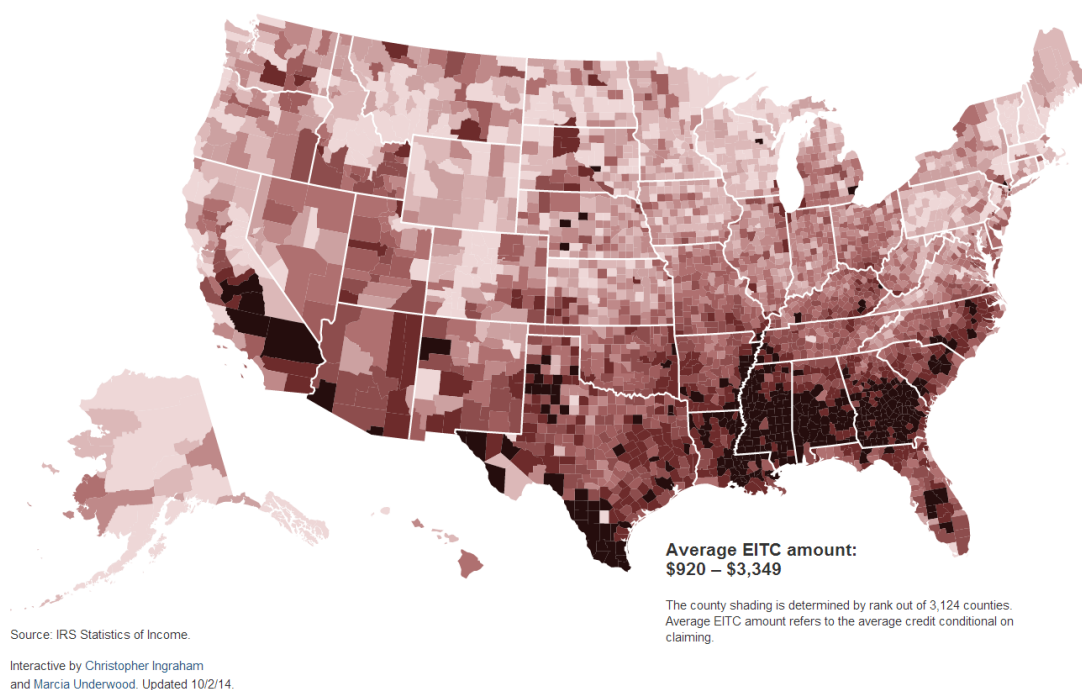
IV. COUNTY-LEVEL VARIATION IN EITC CLAIMING

In addition, there is notable variation across counties in EITC claiming. Ranked by share of taxpayers claiming the EITC, the lowest-claiming decile of counties has claiming rates of 11.2 percent or lower, while the highest-claiming decile of counties has claiming rates of 27.3 percent or higher. The median county sees 18.9 percent of taxpayers claiming the EITC.

The size of the average EITC, among those claiming the credit, varies less than claiming rates. Half of all counties—the range between the 25th and 75th percentiles—have average credits between \$2,066 and \$2,406. Ten percent of counties have average credit values of \$1,923 or less, while 10 percent of counties have average credit values of \$2,558 or more.

The regional variation EITC claiming is stark. The counties with the highest share of taxpayers claiming the EITC are overwhelmingly located in the Southeast. As evidenced by the accompanying map, over half the taxpayers in a large share of counties in Alabama, Georgia, and Mississippi claim the EITC. With few exceptions, almost all counties with high EITC claiming are located in the South. Relative to the South, the Northeast and the Midwest have much lower claiming rates. Moreover, average EITC benefit closely follows the pattern for share of taxpayers taking up the credit: in counties where more taxpayers claim the credit, the credit is larger on the whole.

Average EITC amount, 2012, in dollars



V. CONCLUSION

This brief adds to public knowledge of the EITC by illustrating key demographic and geographic trends. Utilizing zip code level data, we identify characteristics most correlated with the share of families receiving the EITC. We find that people living in high-poverty zip codes receive the EITC at higher rates than people in zip codes with low poverty rates. Likely as a result of the correlation between race and poverty, counties with more EITC recipients have higher concentrations of African-Americans, and counties with high shares of EITC recipients are overwhelmingly located in the Southeast.