



Building Family Economic Success

THE EARNED INCOME TAX CREDIT (EITC)

The Earned Income Tax Credit (EITC) has become our nation's largest and most important anti-poverty program, offering an average of \$1,700 per year to each of 20 million low-income working families. As part of the federal tax code, these credits provide a unique financial opportunity for the working poor and they make a substantial impact on the economies of their communities. EITC campaigns seek to boost the impact of these credits by raising the awareness of eligible families, offering free or low-cost tax preparation services, and encouraging recipients to utilize their credits for saving or building assets.

The Importance of EITC Campaigns

As the largest federal work support program in the country—\$37 billion in tax relief annually—the EITC moves over 2.5 million children above the poverty line each year, more than any other federal program. In addition, seventeen states and the District of Columbia have established their own EITCs, lifting tens of thousands more families over the poverty threshold. The credits provide crucial income that hard-working families can use to reduce debt, fund savings, offset education costs, buy a car to get to work, or make the down payment on a home. And they bring millions of dollars into the economies of distressed rural and urban communities. Because they offer benefits only to families who work, earned income credits (and also the federal Child Tax Credits) have earned strong bipartisan support.

Tax incentives are an important part of an asset-building strategy for low-income families that ultimately contributes to their financial stability and the economic viability of entire communities. Unfortunately, millions of eligible taxpayers still do not know that the credits exist, don't know that they qualify, or are paying too much money to claim them. Also, many EITC recipients lack financial education or access to savings programs and other financial services that could help them put credits to optimal use.

Some important facts about the EITC:

- The federal EITC provides up to \$4,300 in tax relief to working families with children and limited income, with the largest credits going to families with income less than \$15,000 per year and lesser amounts available to families who earn up to \$35,000 per year. State EITC programs offer hundreds of dollars in additional tax relief for low-income working families.
- Most EITC benefits are collected by suburban and rural residents, not city dwellers. In 2001, 4.6 million urban EITC filers claimed \$8 billion in EITC benefits, while 14.3 non-city residents collected \$24.1 billion.
- The IRS estimates that 4 million eligible individuals fail to file for the EITC, which translates to almost \$3 billion dollars. Anecdotal evidence suggests that eligibility requirements, complexity and the cumbersome nature of tax filing make filing for the credit an onerous process for many families.
- A 1999 Urban Institute study found that nearly two-thirds of parents nationwide knew about the EITC. But only 55 percent of parents with incomes below 50 percent of the federal poverty level—and only 32 percent of Hispanic families—knew about the tax credit.
- Despite their modest means, an estimated 67 percent of EITC recipients use paid preparers compared to 59 percent of the general population. Tax preparation fees and refund anticipation loans (RALs) siphon away an estimated two billion EITC dollars each year from eligible recipients.

Strategies for Family Economic Success

The Annie E. Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services or social support systems required to consistently meet their families' needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, accumulate savings and live in stable, economically viable neighborhoods through a combination of workforce development, family economic supports and community investment strategies—an approach known as building *family economic success*, or FES. This fact sheet is one in a series outlining the key strategies of the Foundation's FES grantmaking agenda.

Centers for Working Families

The Earned Income Tax Credit (EITC)

Financial Planning and Education

Financial Services

The High Cost of Being Poor

Homeownership and Predatory Lending

Individual Development Accounts (IDAs) and Other Savings Tools

Workforce Development

Work Supports

Building Family Economic Success

THE EARNED INCOME TAX CREDIT (EITC)

Resources

The Annie E. Casey Foundation
(www.aecf.org)

The Brookings Institution
(www.brookings.edu)

Center on Budget and Policy Priorities
(www.cbpp.org)

Corporate Voices for Working Families
(www.cvworkingfamilies.org)

IRS
(www.irs.gov)

National Community Tax Coalition
(www.tax-coalition.org)

National League of Cities
(www.nlc.org)

For More Information:
www.aecf.org

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FES and the EITC

Since 1994, the Annie E. Casey Foundation has used strategic outreach and partnerships to increase awareness and use of the EITC by eligible families. Over the last four years, Casey and its partners and allies also have supported free or low-cost tax preparation services for low-income families in both rural and urban sites. In January 2003, the National Tax Assistance for Working Families Campaign was launched as a way to expand the impact of local EITC outreach and free tax preparation projects. Campaign goals include: (1) increasing the number of eligible low-income families who claim the EITC; (2) saving families money through free tax preparation services and by discouraging the use of high-cost refund anticipation loans; and (3) connecting low-wage workers to work supports, financial education, and asset-building opportunities.

The 2005 tax season results were impressive. Forty-four local campaigns offered tax preparation services in 450 locations, filing 216,391 returns and bringing over \$310 million dollars in refunds to low-income families. Participating families avoided nearly \$14 million in preparation and RAL fees. In line with an emphasis on asset-building, the 2005 campaign helped participating families open 2730 bank accounts and nearly 300 Individual Development Accounts to begin saving for their futures, and it exposed 2400 people to financial education opportunities.

There are several steps funders, advocates, and local leaders can take to support the growth and effectiveness of EITC campaigns:

- Conducting market research, facilitating peer-to-peer exchanges, and identifying best practices to maximize the effectiveness of local campaigns.
- Engaging influential public sector leaders to support EITC campaigns and by linking efforts to existing public programs, mobilizing private sector involvement and volunteer recruitment, and publicizing tax preparation and other asset-building opportunities in low-income neighborhoods.
- Building a broad coalition of government, community, business, and philanthropic leaders to increase funding for EITC campaigns and related asset-building activities and to strengthen public policies that contribute to their success.

Challenges and Opportunities

- New strategies are needed to help local EITC campaigns sustain funding and expand operations over time.
- Tax preparation should be linked to other asset development and financial literacy opportunities for low-income families.
- The EITC must be protected from legislative or regulatory changes that might undermine its positive impact for low-income families.
- Free and low-cost tax preparation campaigns can be strengthened through developing simple tax preparation software, boosting quality control, improving data collection, and providing training and technical assistance.

