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## State Efforts to Support Low-Income Families and Communities Through the Earned Income Tax Credit

### Executive Summary

The Earned Income Tax Credit (EITC) is one of the largest antipoverty programs in the country. A refundable tax credit for low-income workers, the EITC has been widely credited with increasing the number of single mothers who work and reducing welfare dependency. Census figures indicate that in 2002, 4.9 million people—more than half of them children—left poverty due to the combined benefit of work and the EITC.<sup>1</sup> In addition to the support the EITC can provide to low-income households, the credit also benefits local economies in which workers spend their refunds.

Two major issues limit the EITC's effectiveness. First, an estimated 15 to 20 percent of eligible working families do not claim the credit. Workers often do not file for the EITC because they are unaware they are eligible, are intimidated by the process, or decide that their refund would be too small to warrant filing a tax return. Second, low-income workers who do claim the credit often rely on costly tax preparation services to do so. In fact, despite the existence of free tax preparation services, nearly three-quarters of those who claim the EITC pay a private company to assist them. The money families spend on tax preparation services—or forgo altogether by not filing for the credit—could be critical in helping them pay for basic necessities or save for the future.

Recognizing that the EITC can lift many hard-working families out of poverty and bring money into their local economies, state leaders are initiating a range of strategies to ensure that their states' low-income residents and communities benefit from the credit. States are:

- Increasing awareness of the EITC by airing public service announcements and posting information in public places, using the Internet to disseminate information, and holding briefings and other events.
- Publicizing the availability of free tax preparation services.
- Supporting the expansion of free tax preparation services.
- Enacting state EITCs.
- Using the EITC as a vehicle for building assets by offering EITC filers financial literacy classes, providing them information on credit repair, and linking them with opportunities to establish bank accounts.

## Introduction

The federal government first enacted the Earned Income Tax Credit (EITC) in 1975 and expanded it in 1986, 1990, and 1993. A federal tax benefit for working people earning approximately \$35,000 or less per year, the EITC is one of the largest and most effective antipoverty programs in the country.<sup>2</sup> Through the EITC and the Child Tax Credit (CTC), working families and some individuals can receive refunds of thousands of dollars by simply filing their federal income tax return and claiming the credits.

The EITC works by offsetting income taxes owed by qualifying low-income workers; if the credit is larger than the amount the person owes in taxes, the person receives a refund. Although about 80 percent of the workers who claim the credit have children, some workers without children also can qualify. The amount of the EITC depends on the worker's wages, marital status, and family size. For a family with two or more children in 2006, the maximum credit is \$4,536. In 2003, the average return for all EITC filers that year was approximately \$1,800. Workers also can opt to receive an advance EITC, having the credit added to their paycheck during the year and increasing their pay by \$1 to \$2 per hour at no cost to their employer.<sup>3</sup>

The CTC also is a refundable federal tax credit that can benefit many low-income households. Although not exclusively for low-income working families, the CTC can reduce the amount of tax a family owes by up to \$1,000 for each qualifying child.<sup>4</sup> Even workers who earn too little to pay federal taxes can claim the CTC and receive a refund without affecting the amount of their EITC refund. Although this *Issue Brief* focuses on EITC strategies, most states include CTC outreach in those efforts.

Several studies have concluded that the EITC increases labor market participation among low-income, single parents. In two separate studies, for example, economists from the University of North Carolina at Greensboro and Northwestern University found that the EITC expansions were responsible for approximately 63 percent of the large increase in employment among single mothers between 1984 and 1996.<sup>5</sup> In other research, economists concluded that the EITC has played an important role in increasing employment among low-skilled workers, particularly those who received or were receiving welfare cash assistance.<sup>6</sup> Data also show that the EITC helps raise incomes and lower poverty. Census figures indicate that in 2002, 4.9 million people—more than half of them children—left poverty due to the combined benefit of work and the EITC.<sup>7</sup> The credit also benefits local economies in which workers spend their refunds.

Although the EITC is a proven antipoverty tool, several issues limit its effectiveness:

- A lack of awareness about the EITC among eligible workers
- Costly tax preparation options for filers
- A lack of awareness about existing free or low-cost tax preparation assistance.

An estimated 15 to 20 percent of eligible working families do not claim the EITC. In 2003, an estimated \$11.7 billion went unclaimed by 6.5 million eligible workers.<sup>8</sup> Workers often do not claim the credit because they are unaware they are eligible, are intimidated by the required tax forms, or feel their refund is too small to warrant filing a tax return.<sup>9</sup>

Low-income workers who do claim the credit often rely on costly tax preparation services to do so. In fact, despite the existence of free tax preparation services, nearly three-quarters of those

who claim the EITC pay a private company to assist them. In 2003, low-income workers paid approximately \$1.2 billion in fees to private companies.<sup>10</sup> The money families spend on tax preparation services—or forgo altogether by not filing for the credit—could be critical in helping them pay for basic necessities or save for the future.

### **Policy Options for States**

Recognizing that the EITC can lift many hard-working families out of poverty and bring money into their local economies, state leaders are initiating a range of strategies to ensure low-income residents and communities benefit from the credit. States are:

- Increasing awareness of the EITC
- Publicizing the availability of free tax preparation services
- Supporting the expansion of free or low-cost services
- Enacting state EITCs
- Promoting the EITC as a vehicle for building assets.

### **Increase Awareness about the EITC**

States and localities are implementing a variety of strategies to increase awareness of the EITC. Some publicize the tax credit by airing public service announcements on television and radio; posting information in public buildings, such as libraries, post offices, and career centers; erecting billboards; posting information on government Web sites or creating new state EITC Web sites; and creating informational brochures to distribute in mailings to public assistance recipients, government employees, or in utility bills. Governors can raise awareness of the credit by sponsoring media events, endorsing outreach materials, or holding briefings with key constituents. In **Louisiana**, Governor Blanco, other public officials, and faith-based leaders appeared on television and radio as part of an aggressive public awareness campaign. **Indiana's** former Governor O'Bannon and the Indiana Social Services Administration conducted a promotional blitz that included visiting newspaper editorial boards, sending letters to legislators and employers, and providing envelope inserts for welfare recipients and Section 8 landlords and tenants. First Lady Judy O'Bannon also taped a public service announcement. **West Virginia** Governor Manchin records public service announcements and hosts an annual EITC campaign kickoff breakfast each year.

### ***Use Technology***

State officials are taking advantage of technology to promote tax credits to their residents. Many state human services departments and governors' offices post information about the EITC on their Web sites, and some states create a stand-alone EITC Web site. In late 2003, **Michigan's** Governor Granholm and Lieutenant Governor Cherry launched a state [Web site](#) that provides easy access to EITC information and resource materials. States also can use hotlines or call centers to inform workers about tax credits.

States are taking steps to ensure local social service departments and service providers are aware of the credit and share that information with their low-income clients. Under Governor Owens' leadership, the state of **Colorado** conducted EITC information and briefing sessions for county departments of human services and other public and nonprofit organizations that serve low-income populations. In February 2005, the **Tennessee** Department of Human Services featured

the EITC in its monthly video conference with all field office staff and circulated brochures across the state. Governors also can sponsor events such as informational breakfasts with employers, faith-based leaders, and other natural spokespersons.

States may want to target their outreach efforts to specific populations or specific areas of the state. Government welfare agencies in many states are working to inform individuals transitioning off welfare, foster care parents, food stamp recipients, and Women, Infant, and Children (WIC) clients about the benefits of EITC. **Louisiana** added a provision to state law requiring that welfare recipients be informed both orally and in writing about the EITC—either because of earnings, time limits, or sanctions. One of **South Carolina's** EITC Coalitions targets families that include low-income, minority children and those with disabilities.<sup>11</sup> In **California**, a statewide coalition provides tax credit information at Cash for College workshops, which provide financial aid counseling to low-income families of prospective college students.<sup>12</sup> States also may target specific regions or neighborhoods in which a high number of low-income workers live or where EITC uptake has been low.

### *Reach Out to the Private Sector*

States can inform employers about the EITC and encourage them to alert their workers about the credit as well as help them apply for the advance credit. Several large companies can serve as models to other businesses for employee outreach. For example, Marriot International, Inc., uses a toll-free line, the company Intranet, and newsletters to inform its employees about the tax benefits.<sup>13</sup> CVS partners with nonprofit and faith-based centers to help new workers file for the credit, with a special emphasis on filing for the advance EITC.<sup>14</sup> To assist employers in their outreach efforts, states can provide brochures, posters, or stuffers for employers to distribute. States do not have to develop these tools—the Internal Revenue Service (IRS) and other organizations have prepared free informational brochures that can be reproduced and disseminated as part of this effort. However, governors and other state policymakers can link employers with these resources and educate businesses about how the EITC can benefit their workers by supplementing wages at no cost to their organization.

Governors also can reach out to chambers of commerce and business associations to engage them in educating employers about the importance of the EITC. These entities can inform a wide variety of employers, many of whom are either unaware of the credit or assume that the wages they pay are too high for their workers to qualify. Employers are often surprised to learn that working parents earning as much as \$17 an hour could receive more than \$4,000 a year in EITC.<sup>15</sup>

Some businesses, such as retail and grocery stores, easily lend themselves to providing information to the public about tax credits. For example, during tax season in **Delaware**, every McDonalds in the state printed information about the EITC on their tray liners and every grocery store inserted fliers in grocery bags. Similarly, in Louisville, **Kentucky**, brochures are taped to Kentucky Fried Chicken boxes; in Chicago, **Illinois**, grocery stores print EITC information on grocery bags.<sup>16</sup>

### *Form Statewide Coalitions*

To organize EITC outreach activities, states are forming or joining coalitions of diverse public and private partners. In August 2003, **Arizona** Governor Napolitano created the Governor's Task

Force on the EITC, composed of members from the business community, financial institutions, the IRS and the Arizona Department of Revenue, social service agencies, and local governments. In October 2004, representatives from **Louisiana** Governor Blanco's office; Departments of Social Services, Labor, and Revenue; and the IRS came together to launch the Louisiana Tax Assistance Preparation and Information Network (LA TAP-IN).

Governors can sponsor events to spearhead EITC coalitions or bring together existing coalitions to expand or coordinate various efforts across the state. **Louisiana's** TAP-IN held a statewide conference to build capacity for communities and organizations to organize local initiatives, highlight best practices on EITC outreach, provide a toolkit for launching an EITC campaign, and facilitate the development of local and regional action plans. In January 2005, **West Virginia's** Department of Health and Human Resources sponsored a one-day roundtable for state and federal agencies and service providers across the state. Although the state had established a state EITC network several years earlier (2000), the roundtable provided structure for the statewide campaign by identifying a project coordinator, forming steering committees at the state and regional levels, formulating a statewide action plan, and creating a listserv to facilitate communication.

Below are some lessons that can be learned from successful EITC campaigns:

- *Designate a Leader:* Governors can designate a lead agency—such as the state tax entity, the workforce development department, or the department responsible for welfare or human service issues—or designate a key staff person within the governor's office to coordinate efforts.
- *Build on Existing Efforts:* Most major cities and many rural communities have existing initiatives to promote the EITC to low-income workers. Statewide efforts should build upon and coordinate existing outreach and service efforts.
- *Start Early:* Coordinating efforts, crafting a message, and distributing campaign materials can take time. Initiate efforts in early fall with plans to launch a public awareness campaign in January and February and wrap up in April and May.
- *Utilize Available Resources:* Local IRS territory offices are charged with assisting states and localities with issues related to preparing tax returns. These officials are a good source for tax data and information, technical assistance, and materials that are often free. The U.S. Department of Health and Human Services and organizations such as the National Governors Association, the National Community Tax Coalition, Center on Budget and Policy Priorities, the Brookings Institution, and the United Way often provide technical assistance to states interested in beginning an EITC campaign.

### **Linking Low-Income Workers with Free Tax Services**

To assist low-income filers in claiming the EITC and CTC, government and nonprofit organizations have established free tax preparation services. A major source of free tax services is the Volunteer Income Tax Assistance (VITA) program supported by the IRS. VITA uses IRS-trained volunteers at community-based sites who offer tax preparation service to workers. Other organizations, including the American Association of Retired Persons and the United Way, also offer free services for low-income workers.

Despite the existence of free services, most people who claim the EITC use a private for-profit service to help them complete and file their forms. In 2002, VITA sites prepared only 600,000 returns out of 38 million returns filed by taxpayers with incomes below \$33,000.<sup>17</sup> Although for-profit tax preparation services likely help workers who might not otherwise claim the credit, the fee people pay to these companies can diminish the value of their refund by several hundreds of dollars. In addition to fees for preparing and filing returns, companies make money by charging taxpayers for an advance, or refund anticipation loan (RAL), against the amount of the refund they are owed. For many low-income families who need access to cash fast, obtaining their refund weeks in advance is an attractive option. In fact, low-income taxpayers are more likely to use paid preparers and much more likely to purchase an RAL than are higher earners; in 2003, low-income filers paid an estimated \$740 million in loan-related fees alone.<sup>18</sup> The billions of dollars low-income taxpayers pay tax preparers could greatly benefit working families, many of whom are struggling to make ends meet.

To maximize the amount of money low-income working families and their communities receive from EITCs, states and localities have initiated a range of strategies to link low-income workers with free tax services. States can publicize free tax preparation services, expand the number or reach of free tax services, partner with commercial tax preparation companies to provide low-cost assistance, and regulate private tax preparers.

#### ***Publicize Free Tax Services for Low-Income Workers***

States are publicizing free tax preparation services, typically building off efforts to educate the public about the EITC. As with EITC outreach discussed above, states are working with service providers, employers, and local businesses to advertise free services; launching media campaigns; and distributing information through Web sites, mailings, or EITC hotlines.

States may want to create a central point for workers to access information regarding available free tax preparation assistance. States with EITC Web sites, including **Illinois**, **Indiana**, **Michigan**, and **Texas**, include contact information and locations of free tax preparation sites. Organizations in **Arizona**, **Illinois**, and **Maryland** all offer hotline numbers providing statewide information on tax preparation services.<sup>19</sup> States also can use existing hotlines, such as 211 information lines, to inform callers about the availability of services.

Low-income workers also can use specialized IRS-approved software to complete their own returns without the assistance of a tax preparation service or volunteer.<sup>20</sup> In **Washington**, local workforce development sites provide workers access to computers and IRS-approved software called I-CAN to complete their own returns.<sup>21</sup>

#### **Support Free Tax Preparation Services**

In addition to educating the public about free tax services, states can support the expansion of services or the development of new sites that offer free tax assistance. Free tax preparation services are offered in most urban settings but may not be accessible to all populations or be able to meet the increased demand of new clients generated by public awareness campaigns. Furthermore, services may be scarce outside of metropolitan areas.

Since 1996, the **Illinois** Department of Human Services has used federal welfare dollars (TANF) and state maintenance-of-effort (MOE) dollars to support the Tax Counseling Project. Operated by a nonprofit organization, the project has focused on expanding service sites outside of Chicago

and increasing the number of filers in those sites faster than in the more established Chicago locations.<sup>22</sup> In 2004, the state spent approximately \$380,000 to complete more than 22,000 tax returns at 28 sites, facilitating the return of more than \$30 million to their communities.<sup>23</sup>

Concerned that 66 percent of **Arizona** taxpayers who filed for the EITC used paid preparers who charged an average of \$300 per tax return, the governor's task force took action. It recruited more than 700 volunteers to help prepare tax returns, encouraged state employees to become VITA volunteers, partnered with the IRS to offer free training to all volunteers on tax law and tax preparation software, provided information to local human service providers for help in promoting VITA sites or becoming a site, and hosted more than 73 VITA sites across the state.

Similarly, in 2002, an estimated \$400 million in EITC benefits was unclaimed by **Michigan's** low-income workers, prompting Governor Granholm to launch a statewide campaign to raise awareness about the EITC. The governor designated the Family Independence Agency as the lead entity to coordinate the state's efforts. The agency used nearly \$500,000 in TANF resources to support the EITC initiative—the majority of which funded the expansion of free tax preparation services. The state initially allocated TANF funds to local coalitions through a mini-grant process; however, in 2004, it began directly funding community action agencies to prepare tax returns.<sup>24</sup>

**Pennsylvania** provided \$200,000 in TANF funds to Philadelphia's Campaign for Working Families, the largest free tax assistance program in Pennsylvania. The Campaign expanded outreach by testing the use of mobile tax sites, deploying volunteers with laptop computers to union offices, charter schools, and churches.

**Louisiana's** EITC network provided mini-grants to assist in the expansion of VITA sites and mobile services in rural communities. A modest amount of TANF funding supported existing and new outreach strategies and enhanced the participation of TANF clients and minority communities. The state prioritized rural communities with limited or no existing tax assistance resources and strongly encouraged mobile outreach strategies. In areas without VITA activity, the state enlisted community partners to host state Department of Labor staff to provide free income tax assistance to the public. In 2006, the state aims to increase the number of VITA sites and the number of EITC returns by 10 percent and to increase the number of VITA CTC returns and the number of direct deposits by 5 percent.

As noted, the IRS VITA program is a major source of free tax preparation services. In addition to training volunteers, the IRS can provide IRS-approved tax software and free outreach materials, as well as arrange for electronic filing of returns at VITA sites. State leaders can contact their local IRS territory managers to arrange for VITA training or receive additional information about expanding VITA sites in their area. Some coalitions have developed sites independently by using volunteer accountants and other available tax-preparation software.<sup>25</sup>

Although supporting new sites is more expensive than launching an outreach campaign, states report that their investments have paid off. **Michigan's** initiative was responsible for bringing \$32 million into the state in 2003 and raising income by 14 to 17 percent in areas that had new tax preparation sites.<sup>26</sup> **Washington's** efforts are similar; in 2003, the state reported a 16.5 percent increase in EITC refunds from previous years.<sup>27</sup>

As with EITC outreach efforts, states can work with businesses to provide and promote free tax services. In 2004, **Maryland's** statewide EITC campaign received support from electric utility companies PEPCO and Connectiv to open 12 new VITA sites in underserved low-income communities.<sup>28</sup>

States can engage postsecondary institutions to assist in providing services as part of EITC initiatives. **New York's** Office of Temporary and Disability Assistance works with local colleges to obtain student volunteers to assist county social service departments with their VITA efforts. Some universities give students service learning credits for helping prepare tax returns during tax season. The **Louisiana** Department of Labor developed a youth strategy that recruited high school students to assist in the collaborative outreach effort as volunteer tax preparers.

In **New Mexico**, a network of community colleges and nonprofit organizations work together to provide free tax preparation assistance to low-income and elderly filers statewide. The network, referred to as TAX HELP, developed a Web-based training curriculum that volunteers can access from their homes, schools, or workplaces. The technology allows the network to train many more volunteers and at a lower cost than it could using a traditional classroom approach.

### **Improve Commercial Options for Low-Income Tax Filers<sup>29</sup>**

Even as states increase the availability of free tax assistance, many low-income workers will continue to use well-publicized and accessible private services. States can, however, partner with companies to provide assistance at a reduced price. For example, as part of an EITC campaign effort, the Consumer Credit Counseling Service in Atlanta, **Georgia**, partnered with Liberty Financial to provide low-cost tax assistance. Liberty offered discounted services that were further subsidized by the EITC campaign.<sup>30</sup> The **New Jersey** Department of Human Services explored partnering with Liberty franchise owners in two counties.<sup>31</sup> The new franchises, which sought to increase their name in the community, were interested in offering free tax preparation services for EITC-eligible filers. In exchange, the department would advertise their services along with other free tax preparation sites. Although this partnership never materialized, states and localities may want to pursue similar strategies for working with commercial tax preparation companies.

States also can take steps to curb predatory practices and ensure consumers are educated about their options. To date, a few states have opted to enact laws protecting tax filers from abusive practices by for-profit tax preparation companies. For example, the **California** Tax Preparers Act requires commercial tax preparers to register with the California Tax Education Council, to complete continuing education each year, and to adhere to professional standards.<sup>32</sup> Under the law, tax preparers will be charged with a misdemeanor if they make fraudulent, untrue, or misleading statements to customers, or if they engage in advertising practices that are fraudulent, misleading, or untrue. Similarly, **Oregon** adopted strict licensing requirements, especially for self-employed and independent tax preparers.<sup>33</sup> States should be aware that efforts to regulate tax preparation could drive up the cost for consumers once preparers invest in required training and compliance.<sup>34</sup>

**Minnesota, North Carolina, and Wisconsin** regulate tax preparers who offer RALs, typically requiring them to disclose information about fees and the customers' full range of options. In Wisconsin, tax preparers must disclose the following information to customers and get their signature before they enter into a RAL loan contract: fees, charges for electronic filing, total

dollar amount of all charges and fees, anticipated length of time by which the customer will receive the RAL proceeds, disclosure that the customer may electronically file an income tax return without obtaining a RAL, the length of time customers would wait to receive the refund if they did not get a RAL, disclosure that customers are responsible for the RAL loan and fees even if they do not receive a refund or if it is lower than expected, and the estimated annual percentage rate.

### **Enacting a State Earned Income Tax Credit**

Building on the success of the federal EITC, several states have enacted a state EITC. Twelve states—**Colorado, Illinois, Indiana, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Vermont, and Wisconsin**—and the District of Columbia have enacted refundable state EITCs. Six other states—**Delaware, Iowa, Maine, Oregon, Rhode Island, and Virginia**—offer a nonrefundable state EITC.<sup>35</sup> Most states set their credit at a percentage of the federal credit, ranging from 5 percent in Illinois and Oklahoma to 30 percent in New York and Vermont. Wisconsin's credit varies according to family size—4 percent for families with one child; 14 percent for families with two children, and 43 percent for families with three or more children.

In contrast to promoting the federal credit, creating a state EITC entails substantial resources. The cost of a state EITC varies depending on whether it is refundable, the size of the population claiming the credit, and the percentage of the federal credit at which the state credit is set.<sup>36</sup> The annual cost of existing refundable EITCs range from \$14 million in Vermont to more than \$500 million in New York. States typically use general funds, federal TANF block grants, or state maintenance-of-effort dollars to pay for the refundable portion of the credit. In addition to the costs associated with the tax refunds, enacting a state EITC will cost states in forgone revenue.

Amid tight state fiscal climates in recent years, only Virginia and Delaware have enacted new state EITCs, and Colorado has suspended its state EITC because of budget concerns. However, recognizing that providing progressive income support to low-income workers fosters employment, **New York** significantly expanded the state EITC program between 2001 and 2004. In tax year 2003, the state paid approximately \$682 million in refundable tax credits to about 1.35 million low-income working families.<sup>37</sup> In his 2005 budget address, Governor Pataki proposed to further expand the state's EITC by increasing support for young, noncustodial parents. Though not enacted by the legislature, the governor's proposal would have increased the maximum combined EITC dollar amount to \$1,950 for noncustodial parents (ages 18 to 30) who are employed, have a child support order, and are current on child support payments. The proposal remains a priority for the governor.

### **Linking EITC Efforts with Other Asset Development Strategies**

Some states are building on their efforts to publicize the EITC and provide filers with access to free tax preparation services by helping low-income workers initiate savings and develop assets. The ability of families to earn income and accumulate savings is critical for their long-term economic self-sufficiency. Wealth resulting from asset accumulation can be passed down from generation to generation and affords families greater economic stability than wage income alone can provide. (For more information about asset development policies, see NGA Issue Brief *State Policy Options to Encourage Asset Development for Low-Income Families*.) Although many

low-income families use their EITC refund to cover immediate necessities, they also can invest in education and training and save for future items, such as a car or house. In fact, research indicates that many EITC filers intend to use part of their refund for social mobility purposes—to pay tuition, repair or purchase a car, move into improved housing, or build savings.<sup>38</sup> Because the refund is a large amount relative to current income, the EITC presents an asset-building opportunity for low-income families.<sup>39</sup>

State EITC campaigns and free tax preparation sites are good vehicles for promoting asset development opportunities for low-income workers. States can easily include information about credit counseling and financial literacy classes in their EITC outreach campaigns with no additional cost. Workers at VITA and other free tax preparation sites can distribute information about financial literacy, including how to repair credit, build savings, and avoid predatory lenders; or they can offer finance-related classes on site. **Pennsylvania's** largest free tax assistance campaign launched a pilot program to offer free credit counseling along with tax assistance preparation services. At tax assistance sites, counselors provided credit reports for EITC filers and offered advice about how to improve credit scores by making payments on specific bills. In its first year, the service was very well-received, and the state intends to expand the campaign to serve 1,000 customers next year.

**New York's** Office of Temporary and Disability Assistance is partnering with the State Employees Financial Credit Union (SEFCU) to pilot financial literacy programs for EITC filers in two counties. SEFCU, which has experience designing and operating financial literacy programs, will provide direct services and work with local areas to ensure that clients who access the EITC have the ability to open up checking accounts through SEFCU.

Many low-income people are not connected to mainstream financial services; an estimated 22 million U.S. households having neither a checking nor savings account.<sup>40</sup> Without a link to formal bank accounts, many of these families must rely on alternative services such as check cashers and other fee-for-service businesses that often charge exorbitant interest rates. Importantly, research has shown that people who have a bank account are more likely to own other types of assets.<sup>41</sup> States can help link low-income workers to mainstream financial institutions as part of their asset development strategy. Tax preparation sites can partner with banks and credit unions to establish bank accounts for EITC filers and allow filers to directly deposit refunds to savings accounts or Individual Development Accounts. In Omaha, **Nebraska**, several banks participating at tax preparation sites help filers arrange for direct deposit accounts and consumer credit counseling.<sup>42</sup>

Since many EITC filers report that they need their refund to pay off debt and meet immediate critical needs, they may not opt to directly deposit their refund into a savings account. However, they may be more likely to save if they could split their refund, depositing only a portion into an account. In 2004, a nonprofit in **Oklahoma** launched a pilot program to test refund splitting. Working with the Bank of Oklahoma and the Community Action Project of Tulsa County, the Doorways to Dream Fund gave taxpayers the option to automatically deposit a portion of their refunds in savings accounts. More than 20 percent of the 500 individuals offered the free service used it, saving an average of 47 percent of their refunds.

### **Conclusion**

The EITC is both a successful antipoverty tool and a strong work support. Governors and other state policymakers can do a lot to increase the take-up rate of the EITC and bring money to low-income families and communities in their state. They also can ensure that low-income tax payers have access to free tax preparation services, have information about financial literacy, and are linked to financial mainstream institutions. Many of the efforts to promote the EITC cost very little, and states report that investments have paid off. Through their leadership, governors can lend credibility and attention to existing EITC efforts, direct resources to support EITC initiatives, and bring important stakeholders to the table.

## End Notes

<sup>1</sup> [Greenstein](#), Robert, “The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor,” Center on Budget and Policy Priorities, Washington, DC, July 19, 2005.

<sup>2</sup> For 2006 tax year, workers with more than one qualifying child and income under \$36,348 (\$38,348 if married filing jointly) are eligible for the EITC. See IRS Web site for more information: <http://www.irs.gov/individuals/article/0,,id=150513,00.html>.

<sup>3</sup> *Maximizing the Earned Income Tax Credit in Your Community*, National League of Cities, p. 2

<sup>4</sup> The child must be claimed as the tax filer’s dependent; be under the age of 17 at the end of the tax filing year; be the tax filer’s son, daughter, adopted child, grandchild, stepchild, eligible foster child, sibling, stepsibling, or their descendant; and be a U.S. citizen or resident alien.

<sup>5</sup> Meyer, Bruce D., and Rosenbaum, Dan T. “Making Single Mothers Work: Recent Tax and Welfare Policy and its Effects.” In Bruce D. Meyer and Douglas Holtz-Eakin, eds., *Making Work Pay: The Earned Income Tax Credit and Its Impact on America’s Families* (New York: Russell Sage Foundation, 2001); and Meyer, Bruce D., and Rosenbaum, Dan T., “Welfare, The Earned Income Tax Credit, and the Labor Supply of Single Mothers,” *Quarterly Journal of Economics* 116(3):1063-2014.

<sup>6</sup> Hotz, V. Joseph; Mullin, Charles; and Scholz, John Karl, “The EITC and Labor Market Participation of Families on Welfare” *Joint Center for Poverty Research*, 3(7): Northwestern University/University of Chicago, January 31, 2001, <http://www.jcpr.org/book/pdf/IncentivesHotzChap3.pdf>.

<sup>7</sup> [Greenstein](#), Robert, “The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor,” Center on Budget and Policy Priorities, Washington, DC, July 19, 2005.

<sup>8</sup> Calculations compiled by the US. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, based on Zip code data provided by the Internal Revenue Service. Estimated unclaimed dollars should be interpreted only as an indicator of the need to raise awareness.

<sup>9</sup> *Facts About the Earned Income Tax Credit*, Center on Budget and Policy Priorities, p. 19, 2003.

<sup>10</sup> *The High Cost of Quick Tax Money: Tax Preparation, ‘Instant Refund’ Loans, and Check Cashing Fees Target the Working Poor*, National Consumer Law Center, Consumer Federation of America, Washington, DC, January 2003.

<sup>11</sup> <http://www.cbpp.org/eitc-partnership/states/South%20Carolina.xls>

<sup>12</sup> <http://www.cbpp.org/eitc-partnership/states/California.xls>

<sup>13</sup> *Employers Guide: Promoting the Earned Income Tax Credit*, Corporate Voices for Working Families, Washington, DC, 2005.

<sup>14</sup> *Employers Guide: Promoting the Earned Income Tax Credit*, Corporate Voices for Working Families, Washington, DC, 2005.

<sup>15</sup> Scott, Geri, *Private Employers and Public Benefits*, Jobs for the Future, Washington, DC, February 2004.

<sup>16</sup> U.S. Conference of Mayors, “Successful EITC Campaigns in Cities: What Experience Has Shown,” [http://www.usmayors.org/uscm/uscm\\_projects\\_services/workingfamilies/eitclessons.pdf](http://www.usmayors.org/uscm/uscm_projects_services/workingfamilies/eitclessons.pdf).

<sup>17</sup> National Taxpayer Advocate, 2002.

<sup>18</sup> Berube, Alan, and Kornblatt, Tracy, *Step in the Right Direction: Recent Declines in Refund Loan Usage Among Low-Income Taxpayers*, The Brookings Institution, Washington, DC, April 2005.

<sup>19</sup> *Helping Workers Claim the Tax Credits They've Earned: How to Link them to Free Tax Filing Assistance*, Center on Budget and Policy Priorities, Washington, DC, 2003, p. 9-10.

<sup>20</sup> National League of Cities, p. 43.

<sup>21</sup> See the I-CAN Web site at [www.icanefile.org](http://www.icanefile.org) for more information.

<sup>22</sup> Berube, Alan, and Tiffany, Thatcher, *The "State" of Low-Wage Workers: How the EITC Benefits Urban and Rural Communities in the 50 States*, Brookings Institution, Washington, DC, February 2004.

<sup>23</sup> [http://www.centerforprogress.org/press\\_5.25.04\\_celebration.pdf](http://www.centerforprogress.org/press_5.25.04_celebration.pdf)

<sup>24</sup> Michigan Statewide EITC Coalition, 2005 Innovations Awards Program Application, April 4, 2005.

<sup>25</sup> National League of Cities, p. 43.

<sup>26</sup> University of Michigan. p. 6.

<sup>27</sup> <http://www.governor.wa.gov/speeches/speech-view.asp?SpeechSeq=570>

<sup>28</sup> *Helping Workers Claim the Tax Credits They've Earned: How to Link Them to Free Tax Filing Assistance*, Center for Budget and Policy Priorities, Washington, DC, 2005.

<sup>29</sup> Berube, Alan, and Tiffany, Thatcher, *The "State" of Low-Wage Workers: How the EITC Benefits Urban and Rural Communities in the 50 States*, Brookings Institution, Washington, DC, February 2004.

<sup>30</sup> Brown, Amy, *Partnering with Commercial Tax Preparation Firms: Lessons from Atlanta, Baltimore and New Jersey*, The Aspen Institute, December 2004.

<sup>31</sup> Ibid.

<sup>32</sup> See <http://www.aroundthecapitol.com/code/code.html?sec=bpc&codesection=22250-22259>

<sup>33</sup> Berube, Alan, and Tiffany, Thatcher, *The "State" of Low-Wage Workers: How the EITC Benefits Urban and Rural Communities in the 50 States*, Brookings Institution, Washington, DC, February 2004.

<sup>34</sup> *Tax Notes*, January 8, 2001.

<sup>35</sup> For more information, see <http://stateeitc.org/>

<sup>36</sup> For more information, see *How Much Would a State EITC Cost?* Center on Budget and Policy Priorities.

<sup>37</sup> Approximately 90 percent of the New York's EITC program is supported by state TANF maintenance-of-effort (MOE) spending—comprising the largest proportion of the state's MOE funds.

<sup>38</sup> Smeeding, Timothy, *The EITC and USAs/IDAs: Maybe a Marriage Made In Heaven?* Center for Policy Research, December 2000.

<sup>39</sup> Ibid.

<sup>40</sup> Stuhldreher, Anne, and Tescher, Jennifer, "Breaking the Savings Barrier: How the Federal Government Can Build an Inclusive Financial System" *Issue Brief #6*, New America Foundation, Asset Building Program., February 2005, p. 1.

<sup>41</sup> Stuhldreher and Tescher, p. 2.

<sup>42</sup> U.S. Conference of Mayors, p. 4.