

EITC Boosts Income of Low-Income Families

Earned Income Tax Credit (EITC) is designed to encourage and reward work, and it means that lower income workers keep more of what they earn. Enacted by Congress in 1975, EITC is a federal income tax credit for workers whose income is low enough to meet the eligibility requirements. Taxpayers who qualify and claim the credits either pay less federal tax, pay no tax or even get a tax refund.

Income and family size determine a taxpayer's eligibility and the amount of the tax credit a lower income worker can receive. According to the Internal Revenue Services (IRS), in 2012, working families with children that have annual incomes below about \$36,900 to \$50,300 (depending on marital status and the number of dependent children) may be eligible for the federal EITC. Working people with no children with income below \$13,900 and married couples with income below \$19,200 are generally eligible for EITC this tax credit.

The IRS describes EITC as one of the largest anti-poverty programs for low-income people. IRS reports that nationwide:

- Over 26.8 million received almost \$59.5 billion in EITC for the 2010 tax year returns.
- EITC lifted an estimated 6.6 million people out of poverty, including 3.3 million or half of them children.

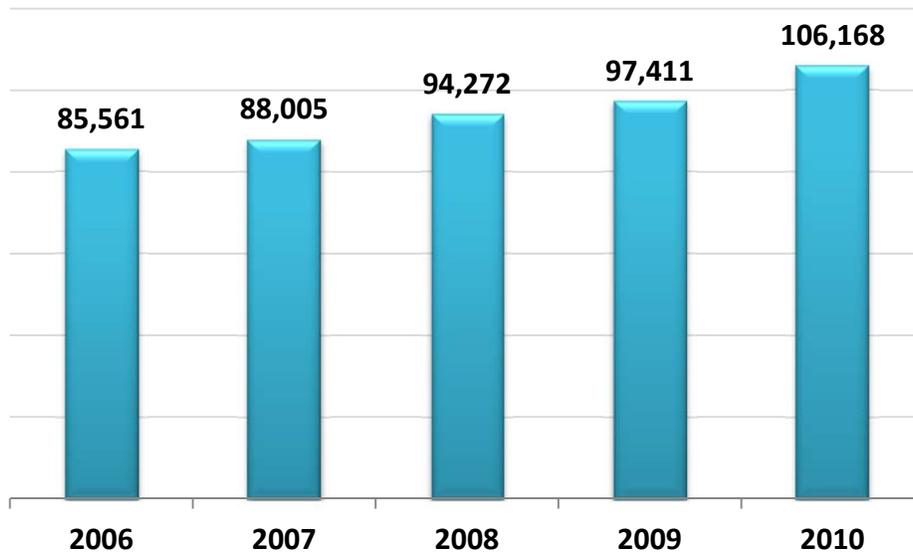
According to Center on Budget and Policy Priorities report updated on February 22, 2012, *Policy Basics: The Earned Income Tax Credit*, The EITC reduces poverty by supplementing the earnings of workers with low wages and low earnings. The number of children living in poverty would have been one-quarter higher without the EITC. The report emphasizes the importance of moving young children out of poverty. The report cites that research has found that lifting incomes in early childhood not only tends to improve a child's immediate educational outcomes, but is associated with more schooling, more hours worked, and higher earnings in adulthood.

From these analysis, assisting many low-income families obtain work and hence boosting their incomes through the EITC, would certainly promote better social and economic outcomes for many people in poverty. The same report mentions that research indicates that families mostly use the EITC to pay for necessities, repair homes, maintain vehicles that are needed to commute to work, and in some cases, obtain additional education or training to boost their employability and earning power.

Local Participation Level

According to data from the IRS, the number of EITC claims filed in Davidson County has increased steadily in the last five years. The following chart shows how many claims were filed in Davidson County. There has been an increase each year in the number of EITC claims filed, from 85,561 claims filed in 2006 to 106,168 in 2010.

**Number of EITS Refunds Received
from Claims Filed (Davidson County) By Year**



Unclaimed EITC

The IRS estimates that nationwide, four out five workers claim the EITC for which they are eligible. This means there are still many workers who miss thousands of dollars of EITC each year. It is important for communities to reach out to potentially qualifying workers. It is projected that among those who may have lower participation rates are:

- Persons living in rural areas
- Self-employed
- Recipients of certain disability pensions or who have children with disabilities
- Those who do not have a qualifying child
- Persons who are not proficient in English
- Grandparents raising their grandchildren,
- Persons who are recently divorced, unemployed, or experienced other changes to their marital, financial, or parental status.

<http://www.eitc.irs.gov/central/abouteitc/basicqualifications/>

The IRS reports that there were 654,098 EITC claims filed in Tennessee in 2011 for the 2010 tax year returns, which resulted in tax credits of \$1.51billion. In Davidson County, 106,168 claimed EITC and received \$226,662,570 in the same period. Based on this estimate, if the other 20% that were eligible for the EITC in Nashville in 2010 had filed, the number could increase to 127,402. In order to reach out the estimated 20% who did not claim their tax credits, it is important to educate the potential recipients about the opportunity to receive EITC.

Local Outreach Efforts

Reaching out to those who need to be making the EITC claims has been a community-wide effort. Nashville Alliance for Financial Independence (NAFI) of United Way of Metropolitan Nashville has made a concerted effort to engage the Nashville community both private and public to increase knowledge and awareness of the EITC. These include building partnerships, connecting households to claim EITC, recruit volunteers for the Volunteer Income Tax Assistance (VITA) to help household file their tax returns free of charge.

NAFI has adopted the famous theme of “Earn it, Keep it, and Save it” with these goals:

1. Make sure that eligible taxpayers and claim the EITC.
2. Discourage claimants from using tax preparers that charge costly fees.
3. Encourage claimants to use their refunds to build assets.

In order to advance the efforts to reach these goals, United Way of Metropolitan Nashville has analyzed several data and set-up new sites this season and has 19 VITA sites in various parts of the city, and AARP and IRS have additional sites. There have been marketing and promotion efforts to use Public Service Announcements, including partnership with Tennessee Association of Broadcasters. Consumer education has been essential as some taxpayers do not know that they are eligible because they are either married or do not have children, which are not the only determinants for eligibility. In addition, some taxpayers are reluctant to use volunteers because they may believe that if they would receive larger refunds if they use a paid preparer.

These collaborations encourage low-income taxpayers to have their tax return prepared by volunteers. There are taxpayers who use costly Refund Anticipation Loans (RAL). According to advocates, RAL is an advance of a taxpayer’s expected refund that is facilitated by the preparer. It is a short-term bank loan secured by assignment of the refund. The loan comes with high interest rate and other fees. A RAL can also be the vehicle for payment of the return preparation fee, enabling a taxpayer to obtain services without any out-of-pocket expense. Taxpayers can avoid these predatory practices by using the free VITA services and have their refunds deposited directly into their bank accounts.

However, some low-income taxpayers do not have access to bank accounts. To create opportunities for economic stability, the Bank On Music City campaign was launched on March 7, 2012. The Bank On is a nationwide initiative that provides access to mainstream financial services to low-and moderate-income families by offering low-cost checking and savings accounts.

Bank On Music City is based on a partnership with local communities and their financial institutions, local governments, community-based organizations, and non-profits. The initiative itself is not a bank but a coalition of entities that commit to affording low-income people to obtain financial education that helps them how to manage their money when they choose to open checking and savings accounts. Some of the benefits include a program called Second Chance. This is a program to help persons with negative banking histories take financial education and then get back to financial stability. Financial institutions that participate in the Bank On initiative may also choose to participate in the Second Chance program.

Financial education is a key component In order to help the low-income taxpayers, earn, keep, and save their refunds and other financial assets that would allow them to achieve and remain in financial stability.

For more information, please contact Abdelghani Barre, Planning Analyst, at 615-862-6459, or abdelghani.barre@nashville.gov

Additional information about Economic Opportunity is available in the annual Community Needs Evaluations completed by Metropolitan Social Services-Planning & Coordination:
<http://www.nashville.gov/sservices/planningcoordination/communitneeds.asp>

A red rounded rectangular button with white text that reads "Metropolitan Social Services Planning & Coordination".

**Metropolitan Social Services
Planning & Coordination**

Metropolitan Social Services – Planning & Coordination
615-862-6494
<http://www.nashville.gov/sservices/planningcoordination/index.asp>