

Report Recommends Methods for Increasing EITC participation Low and middle-income families can benefit from program

A new report finds that more than 7,800 tax filers in the city of Cleveland and more than 14,600 tax filers in Cuyahoga County who do not currently claim the Earned Income Tax Credit (EITC) may be eligible to receive the credit. The EITC is a refundable tax credit available to low-income workers. For example, four-person families earning as much as \$34,780 and single adults earning up to \$11,230 are eligible.

Taking Credit: Boosting Participation in the Earned Income Tax Credit in Greater Cleveland, a September 2004 study by Policy Matters Ohio, reports that in tax year 2002, 726,000 Ohio families received an average EITC of \$1,700 to bring a total of more than \$1.2 billion in federal refund money to the state. The credit can be as large as \$4,204 and can boost earnings by as much as 40 percent. Other findings for the 2002 tax year include:

- The Cleveland-Lorain-Elyria Metropolitan Statistical Area (Cleveland MSA) had 137,237 filers claim the credit, Cuyahoga County had 97,925 claimants and zip codes that include the city of Cleveland had 52,103 claimants. (The borders of the MSA have since changed and the region is now called the Cleveland-Elyria-Mentor MSA, but these data conform to the old borders.)
- A conservative national estimate is that 15 percent of those eligible don't claim the EITC. In central cities, it is likely that rates of non-claiming are higher. Assuming a 15 percent rate of eligible non-claimants, more than 20,500 additional filers in the MSA, more than 14,600 in Cuyahoga County, and more than 7,800 in Cleveland could be eligible. Getting these households to file could bring an estimated additional \$34 million in federal money to families in this MSA.
- Nationally, 68 percent of EITC claimants seek assistance from paid tax preparers, at an average cost of between \$90 and \$105. Refund anticipation loans (RALs), extremely high-interest, very short-term loans marketed to filers needing quick refund access, are purchased by 46.9 percent of EITC claimants in Cuyahoga County and 54.1 percent of Cleveland claimants, according to the Internal Revenue Service. Nearly 60,000 taxpayers in the MSA purchased these loans, at an average cost of \$120, in addition to tax preparation fees.

A strong volunteer income tax assistance system can boost participation in the EITC and reduce reliance on refund anticipation loans. The Cleveland territory, which encompasses all of Cuyahoga County and some of Summit County has a volunteer program, which assisted 1,973 EITC claimants in 2004. Advocates want to improve participation next tax year. With an estimated 14,689 eligible non-claimants in the county, and an estimated 7,815 in the city of Cleveland, coordinators aim to more than double the number of EITC returns that they help in each of the next two tax years. This would bring more than \$5 million in new federal dollars to the city.

The report recommends that the state of Ohio implement legislation to regulate RAL providers as four states and the city of New York have done. The report also makes recommendations for how Cuyahoga County, the city of Cleveland and inner ring suburbs can increase participation by informing citizens about the credit, about the high costs of RAL, and about the existence of free volunteer tax preparation sites. The city and county can also collaborate with a grassroots EITC coalition to ensure that volunteer sites have the resources they need.

“Increasing claiming of the EITC will reduce poverty and bring needed income to working families,” said Amy Hanauer, report author and Executive Director of Policy Matters Ohio.