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## WHO TAKES CREDIT? EARNED INCOME TAX CREDIT RECIPIENTS IN CLEVELAND

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Amy Hanauer and Christine Haley-Medina, designed the survey used in this report. Ben Nichols and all of the many hard-working members of the Cuyahoga County Earned Income Tax Coalition have provided excellent leadership to establish free, fair tax preparation for low- and middle-income working families in Cuyahoga County.

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Policy Matters Ohio, the publisher of this study, is a non-profit, nonpartisan statewide research institute dedicated to bridging the gap between research and policy in Ohio. Policy Matters seeks to broaden the debate about economic policy in Ohio, by providing quantitative and qualitative analysis of important issues facing working people in the state. Other areas of inquiry for Policy Matters have included unemployment compensation, workforce policy, wages, education, housing, energy, tax and budget policy, and economic development. All reports are available at [www.policymattersohio.org](http://www.policymattersohio.org).

The Cuyahoga County Earned Income Tax Coalition promotes free and fair tax preparation services for middle and low-income filers. The coalition coordinates Volunteer Tax Assistance (VITA) sites, where filers receive free tax assistance. Coalition members also train volunteer tax preparers, promote saving and wealth building, advocate on legal issues, and provide research on policy. For more information on the Coalition, reference its website: [www.refundohio.org](http://www.refundohio.org).

## Executive Summary

The Earned Income Tax Credit (EITC) is a federal tax credit available to families earning less than about \$37,000 a year. Credit eligibility and amount vary by family size. In 2002, 726,000 Ohio families received \$1.2 billion for an average EITC of approximately \$1,700 per family. The Brookings Institution and others have estimated that at least 15 percent of those eligible do not claim the credit. Those who do claim it often pay high fees to preparers, both to prepare the returns and to provide expensive refund anticipation loans that allow the filer to get the refund a few days earlier. Paying for these services can cost more than \$300 for a filer eligible for a \$1,500 EITC credit. To increase the returns to families, Cuyahoga County provided funding to the Cuyahoga County Earned Income Tax Coalition to provide free, certified tax assistance.

Of the 1581 filers at Cleveland volunteer income tax assistance (VITA) sites, 580 filled out surveys on their experience. This summarizes the results of that survey. Of those filers, about 48 percent claimed the EITC and 17 percent claimed the Child Tax Credit.

The average adjusted gross income of filers was \$14,642, indicating that very low-income filers are finding the VITA sites. Of survey participants, nearly 75 percent were African American, 15 percent were white and five percent were Hispanic (of any race). A quarter of those surveyed received some form of public assistance, such as food stamps or Medicaid. Nearly 75 percent of those who received free tax preparation did not receive public assistance.

Filers were most likely to have learned of both the EITC and the VITA site from friends or family. While slightly more than half of the EITC filing respondents indicated they had received the EITC in a previous year, nearly one quarter did not know if they had ever been eligible. Some learned about the EITC from the VITA sites themselves (15 percent) or from print and electronic commercials (10 percent). Filers knew about the sites because they'd received service the previous year (17 percent) or because they'd seen a commercial (16 percent).

More than one-third of those surveyed were return customers to Cleveland VITA sites. However, one-quarter of those surveyed filed their returns with paid preparers in the past. More than 16 percent had not filed at all in the previous year.

Nearly half of filers said the primary reason for using a VITA site was that the service was free. This dwarfed other reasons, which included advertisements (19 percent), personal recommendations (18 percent), and proximity (14 percent).

Filers said they would use refunds toward basic needs such as housing (19 percent); saving (22 percent); clothing and furniture (20 percent); and bill-paying (50 percent, cumulative). Groceries, car-repair, school expenses, and childcare were other responses.

Nearly 30 percent of the filers had savings accounts and almost 65 percent had checking accounts. A quarter had no bank account, but half those wanted an account.

This survey data provides a strong baseline as we enter the 2005 tax season. Even before the grant period began, Cuyahoga County was doing a better job of serving tax filers. The paper provides conclusions to enhance the effectiveness of free tax preparation services.

## **Who Takes Credit? Earned Income Tax Credit Recipients in Cleveland**

The Earned Income Tax Credit is a refundable tax credit available to low- and moderate-income families with at least one employed person. Very low-income childless adults or families can qualify, but the credit is targeted toward and primarily helps families with children. The credit boosts family income, sometimes substantially. It also assists poor communities, bringing federal money in and stimulating local economies.

The Earned Income Tax Credit (EITC) does more to lift low-wage families out of poverty than any other government program. The federal EITC is a tax credit for working families who earn less than about \$37,000 per year and have two children, or less than about \$33,000 a year and have one child. Each year, this refundable tax credit lifts 5 million Americans above the federal poverty line. The EITC targets low and moderate-income families, whose eligibility and refund amount are determined by income levels and number of children. For instance, in Ohio in 2002, 726,000 Ohio families received \$1.2 billion from the EITC for an average credit of approximately \$1,700 per family.<sup>1</sup>

The EITC has been extremely effective and has enjoyed broad bipartisan support. However, the Brookings Institution and others have estimated that at least 15 percent of those eligible do not claim the credit. Further, EITC claimants often pay high fees to preparers, both to prepare the returns and to provide refund-anticipation-loans (RALs) that allow the filer to get the refund a few days earlier. These fees take much-needed money from poor families and communities, diverting it instead to paid preparers. To increase the returns to families, many cities and counties have enlisted the help of volunteer income tax assistance (VITA) sites to provide free, certified tax and income assistance. The Cuyahoga County Earned Income Tax Coalition was created with support from Cuyahoga County to advocate increased use of the EITC and free tax assistance to low-income families in the area.<sup>2</sup> Policy Matters receives generous support from the Cleveland Foundation to assess the project, conduct research, and ensure continuous improvement.

In what follows, we provide an analysis of survey results and specified filer data from selected Cleveland VITA sites. We distributed more than 600 surveys to the 1581 filers at Cleveland VITA sites, of which 580 were returned with at least one question answered. The questions ranged from demographic to tax preparation experiences. Filers were not asked any identifying information, and were given the option to refuse the survey entirely or to refuse to answer certain questions.<sup>3</sup>

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<sup>1</sup> For a more detailed analysis of the Earned Income Tax Credit in Cuyahoga County and Ohio, see the following two reports: [Taking Credit: Boosting Participation in the Earned Income Tax Credit in Greater Cleveland](#) and [An Ohio Earned Income Tax Credit: Costs and Benefits](#) from [www.policymattersohio.com](http://www.policymattersohio.com).

<sup>2</sup> For more information on the Cuyahoga County Earned Income Tax Coalition, visit the website at: [www.refundohio.org](http://www.refundohio.org).

<sup>3</sup> Because filers were given the option of selecting more than one answer per question, the percentages for each question may be more than 100%.

Table 1, below, reports on number of people served, number claiming the EITC and number claiming the Child Tax Credit (CTC) at the six major Cleveland VITA sites during the 2004 filing season (between January and April 2005). The number served, alone, represents a large improvement over previous filing seasons.<sup>4</sup>

About 48% of filers claimed the EITC. It is important to increase the percentage of participants who claim the credit. The VITA sites currently attract many elderly participants who are ineligible for the EITC either because they are not working or because they don't have dependent children (while some workers without children are eligible, the vast majority of those eligible do have dependents). Coalition members hope to maintain current service levels of non-EITC filers, but to increase outreach to eligible communities. Efforts are in place to conduct outreach through schools, community groups, religious institutions and other networks to increase participation by families with children and working adults.

Relatively few of the filers served were able to claim the CTC. The average percent of filers claiming the CTC for all Cleveland VITA sites was 17 percent. Filers can receive both credits if they qualify. The CTC, however, requires a taxable income above \$10,750. Thus, not all filers who receive the EITC are eligible for the CTC.<sup>5</sup>

<b>Table 1: Participation in the EITC for selected Cleveland VITA Sites</b>					
Cleveland VITA Site Location	Number of surveys completed	Number of filers served	Number of filers receiving EITC	Percentage of filers receiving EITC	Percentage of filers receiving CTC
Cleveland Housing Network	276	279	156	56%	29%
Cuyahoga County, Employment and Family Services	182	184	64	35%	20%
FAMICOS	42	62	24	39%	16%
Park Village Apartments	41	91	54	59%	22%
Merrick House West	18	56	24	43%	13%
CWRU Weather head School of Business	18	13	5	38%	6%
	577	685	327	48%	18%

*Source: Policy Matters Ohio, Cuyahoga County EITC Coalition*

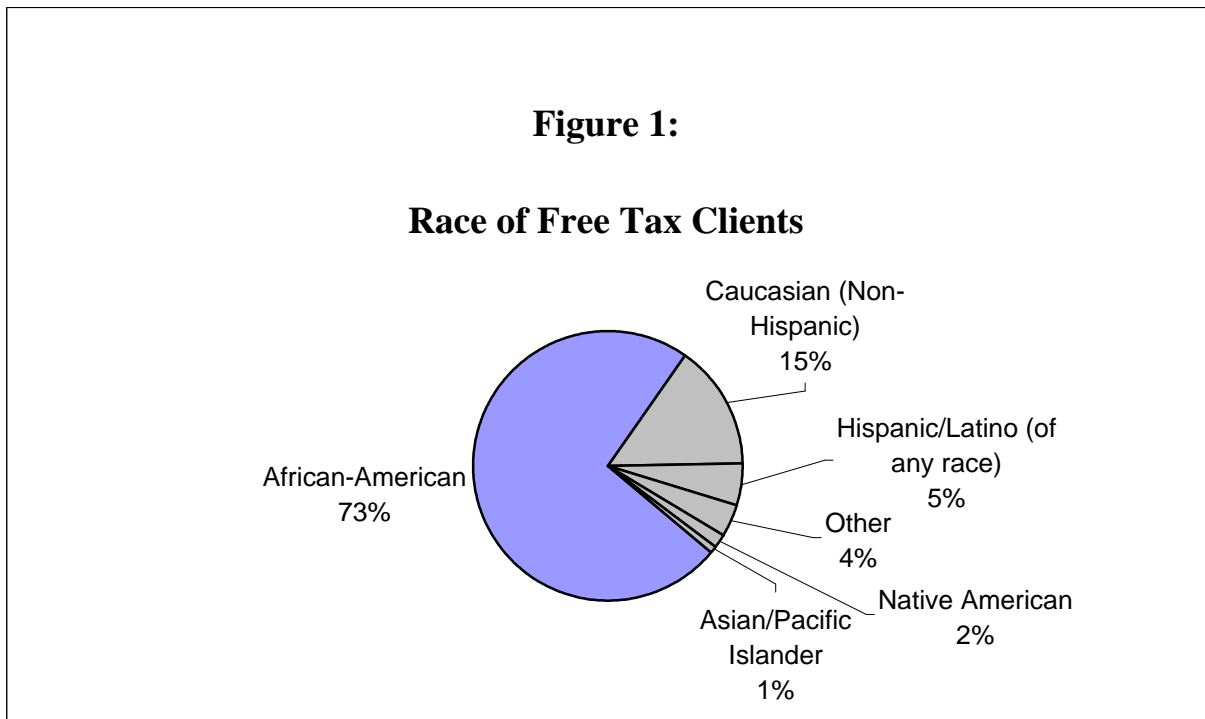
<sup>4</sup> Michelle Bell of the IRS reports that the sites participating in the coalition increased the number of filers served from 1190 in 2004 to 1560 in 2005, a 34% increase for the Cuyahoga County Earned Income Tax Coalition.

<sup>5</sup> For more information on the Child Tax Credit, see the [Center for Community Solutions](#) or the [Center on Budget and Policy Priorities](#).

## Demographics

The sites are doing a good job of reaching tax filers who are working but very low income, filers of diverse ethnic backgrounds, and filers who don't take part in other social programs. This section describes the demographic mix of participants. The average adjusted gross income of participants was \$14,642, indicating that very low-income filers are finding the VITA sites.

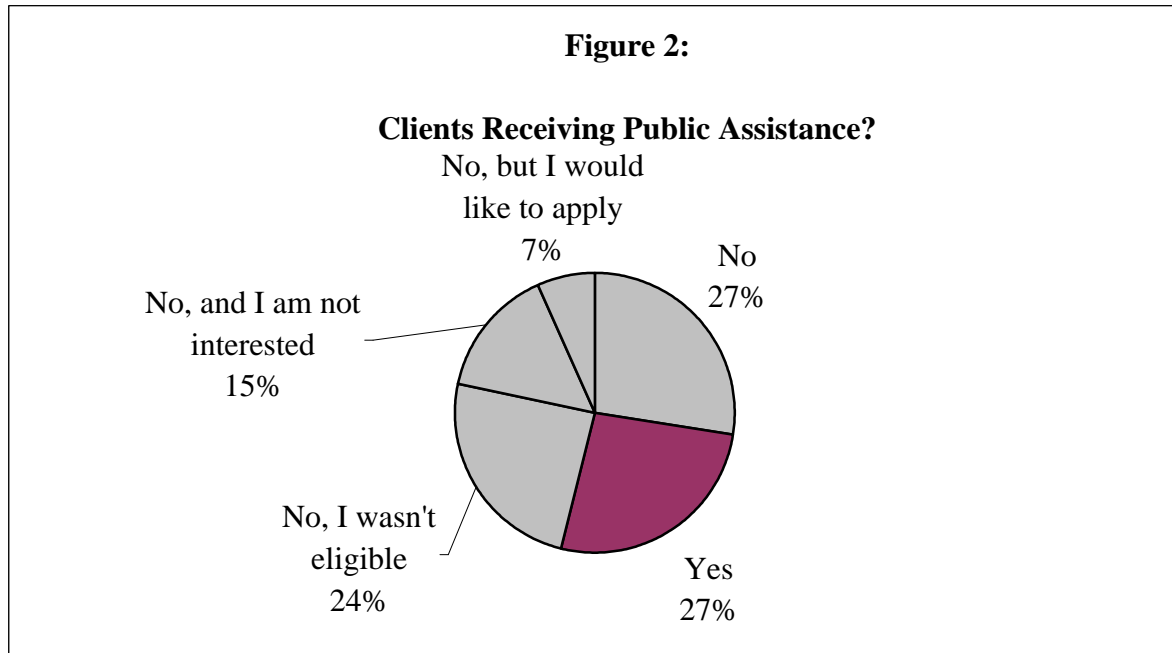
Our survey results reflect excellent reach into the black community. African-Americans made up just below 75 percent of those surveyed with whites and Hispanics (of any race) making up 15 and 5 percent, respectively.<sup>6</sup>



Source: Policy Matters Ohio, Cuyahoga County EITC Coalition

<sup>6</sup> In the 2000 Census, Cleveland's population was 51% African American, 41.5% white, and 7.3% Hispanic (of any race).

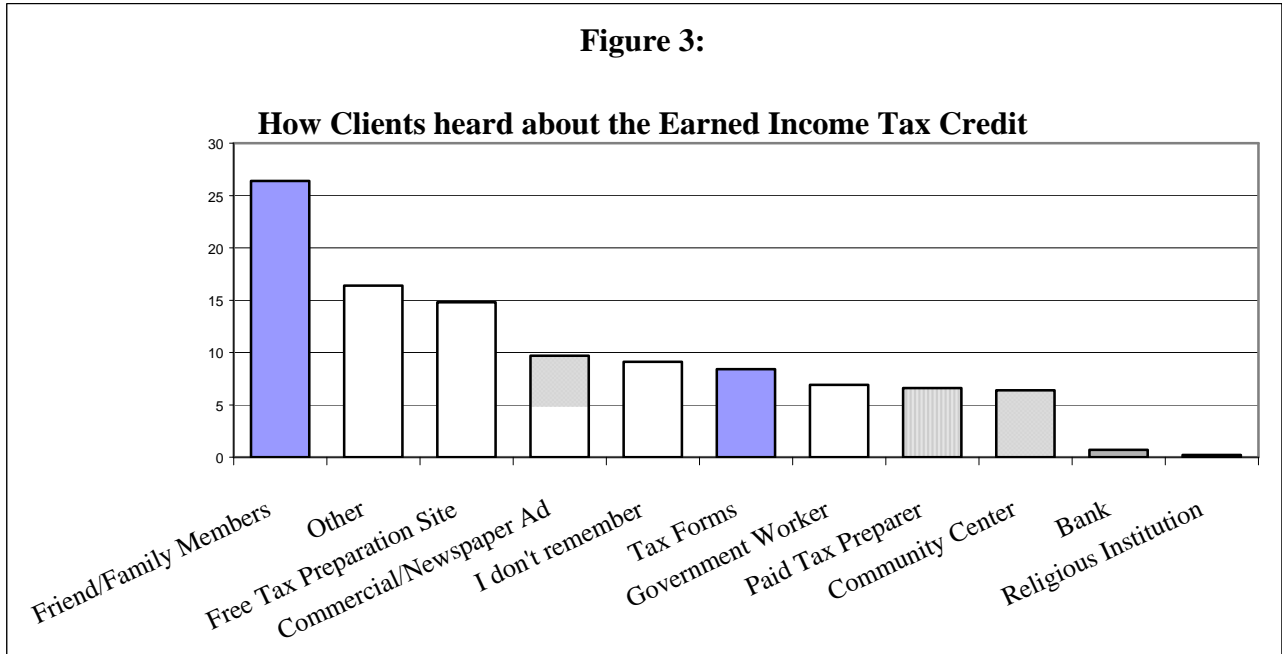
Survey results also indicate that while a quarter of those surveyed received some form of public assistance (such as food stamps or Medicaid), nearly a quarter were not eligible and nearly 15 percent were not interested in applying for that type of assistance (see Figure 2). In sum, nearly 75 percent of those who received free tax preparation did not receive public assistance.



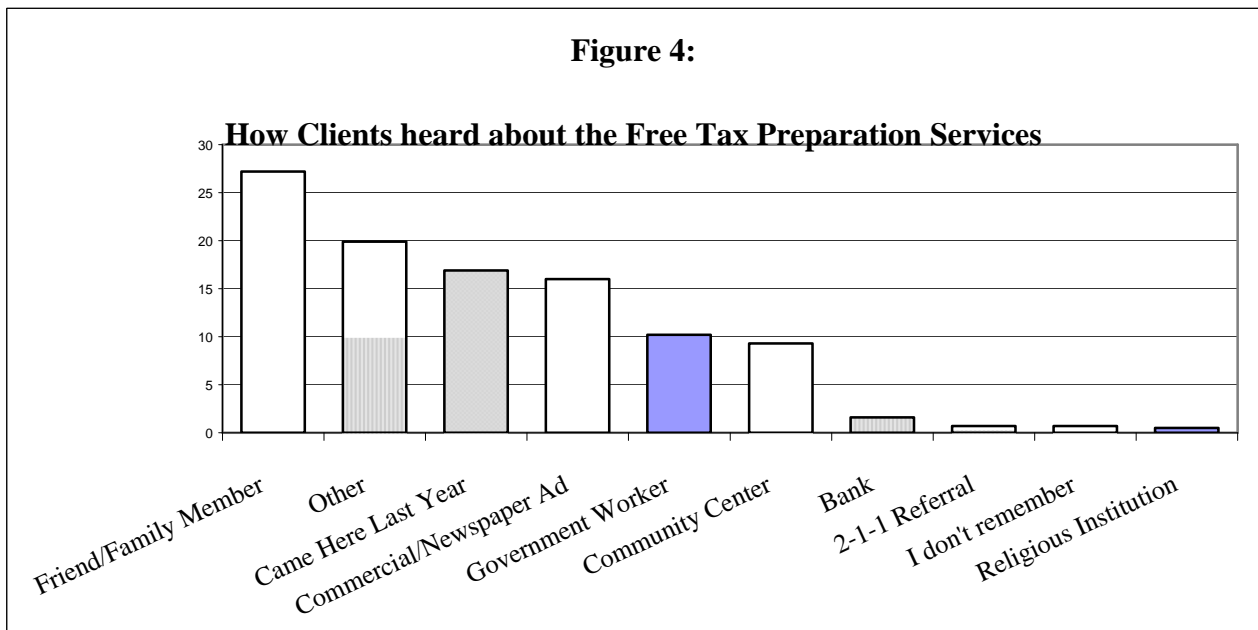
Source: Policy Matters Ohio, Cuyahoga County EITC Coalition

### How Clevelanders learned about the VITA sites

Filers were most likely to have learned of both the EITC and the VITA site from friends and family members (see Figures 3 and 4). More than one quarter of those surveyed cited friends and family as their information source. Some learned about the EITC from the VITA sites themselves (15 percent) and also from print and electronic commercials (10 percent). Many filers knew about the sites because they'd received service the previous year (17 percent). Commercials were also an effective way to inform people about the sites (16 percent).



Source: Policy Matters Ohio, Cuyahoga County EITC Coalition



Source: Policy Matters Ohio, Cuyahoga County EITC Coalition

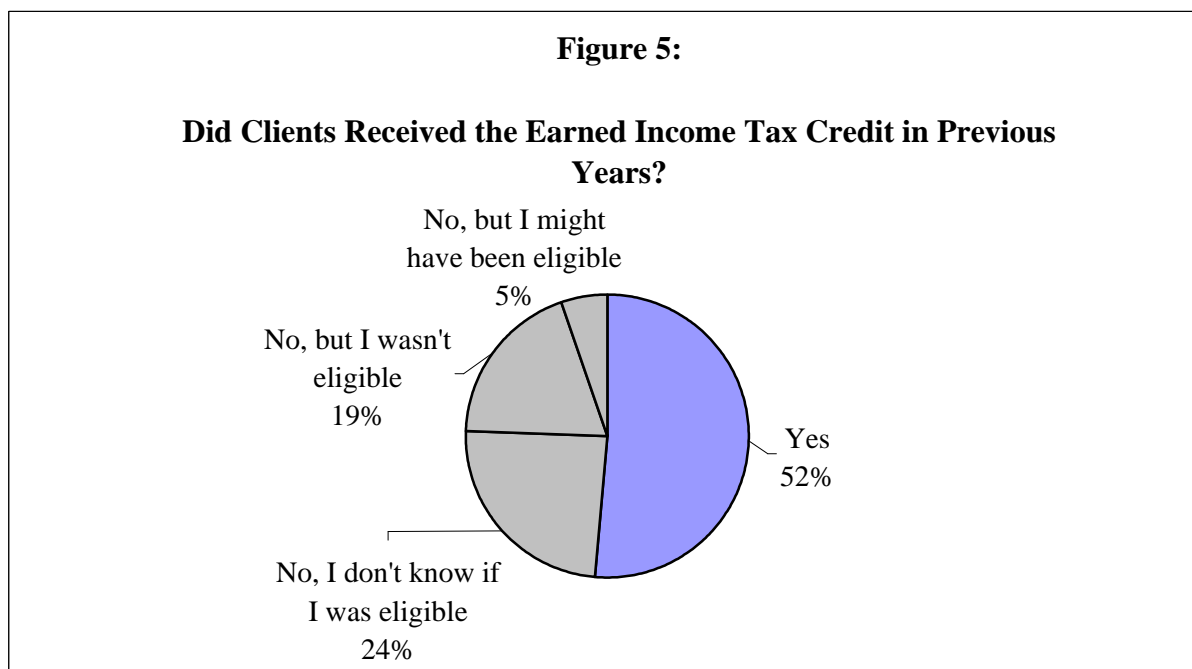
Nearly 50 percent of filers said their primary reason for using a VITA site was that the service was free. This dwarfed other reasons (see Table 2), although participants also mentioned advertisements (19 percent), recommendations from friends and family (18 percent), and proximity (14 percent).

It's Free	50%
Saw an Advertisement	20%
A Friend Told Me About It	18%
I Came Here Last Year	17%
It's Close to Where I Live	14%
Other Reasons	12%

*Source: Policy Matters Ohio, Cuyahoga County EITC Coalition*

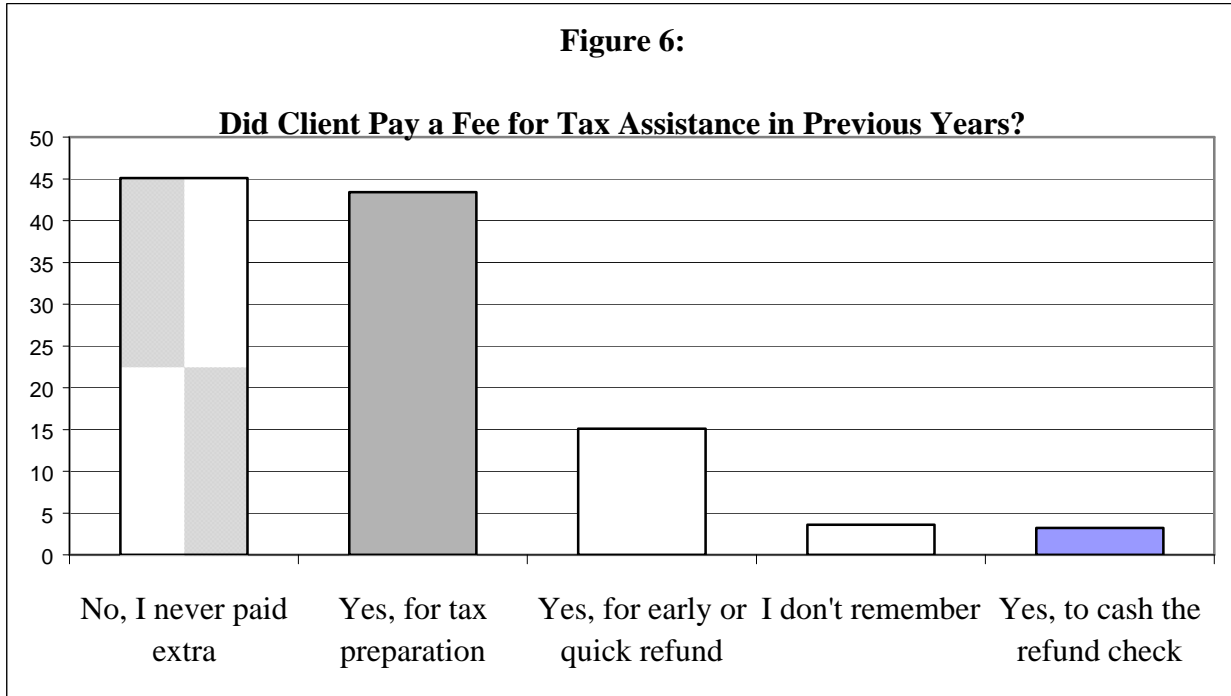
### Getting Credit

While slightly more than half of the EITC filing respondents indicated they had received the EITC in a previous year, nearly one quarter did not know if they had ever been eligible (see Figure 5). Others indicated that they might have been eligible (5 percent) and 20 percent stated that they were not eligible for the EITC in the past.



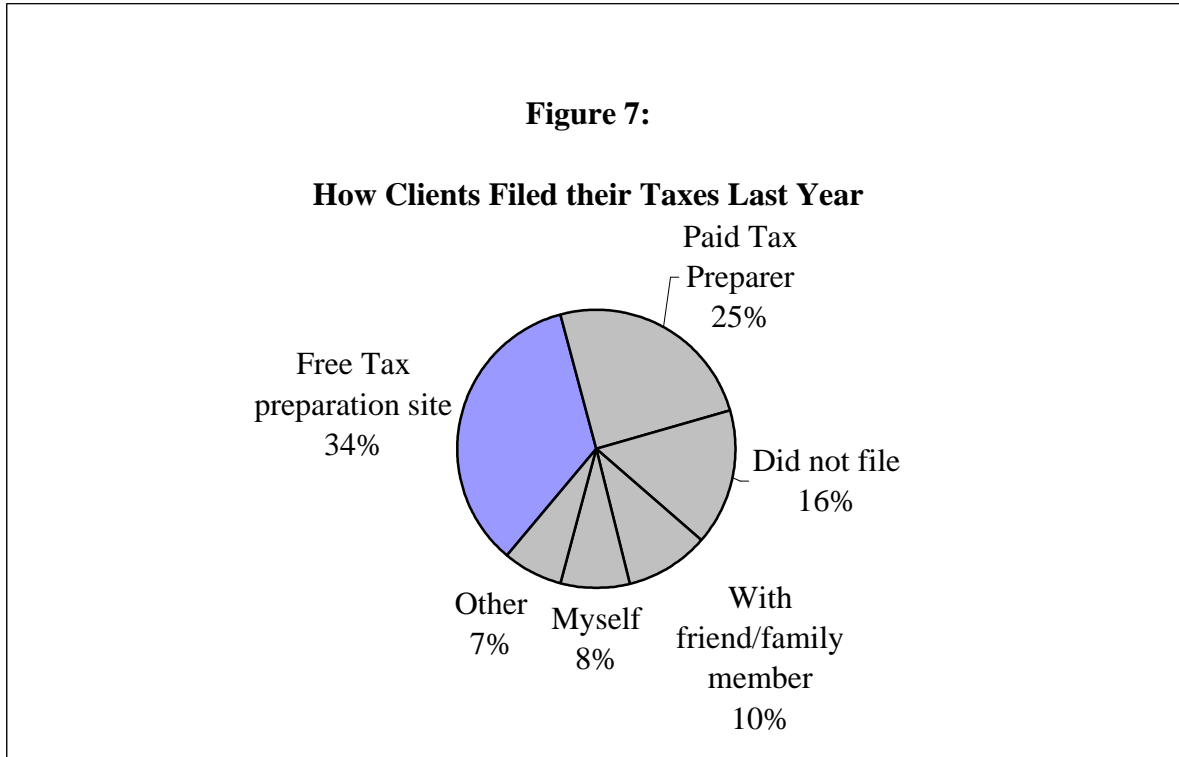
*Source: Policy Matters Ohio, Cuyahoga County EITC Coalition*

For those who have received the EITC, many filers paid a preparer for both tax preparation assistance and an early refund (see Figure 6). According to the Brookings Institution, paying for these services can cost more than \$300 for a filer eligible for a \$1,500 EITC credit.



Source: Policy Matters Ohio, Cuyahoga County EITC Coalition

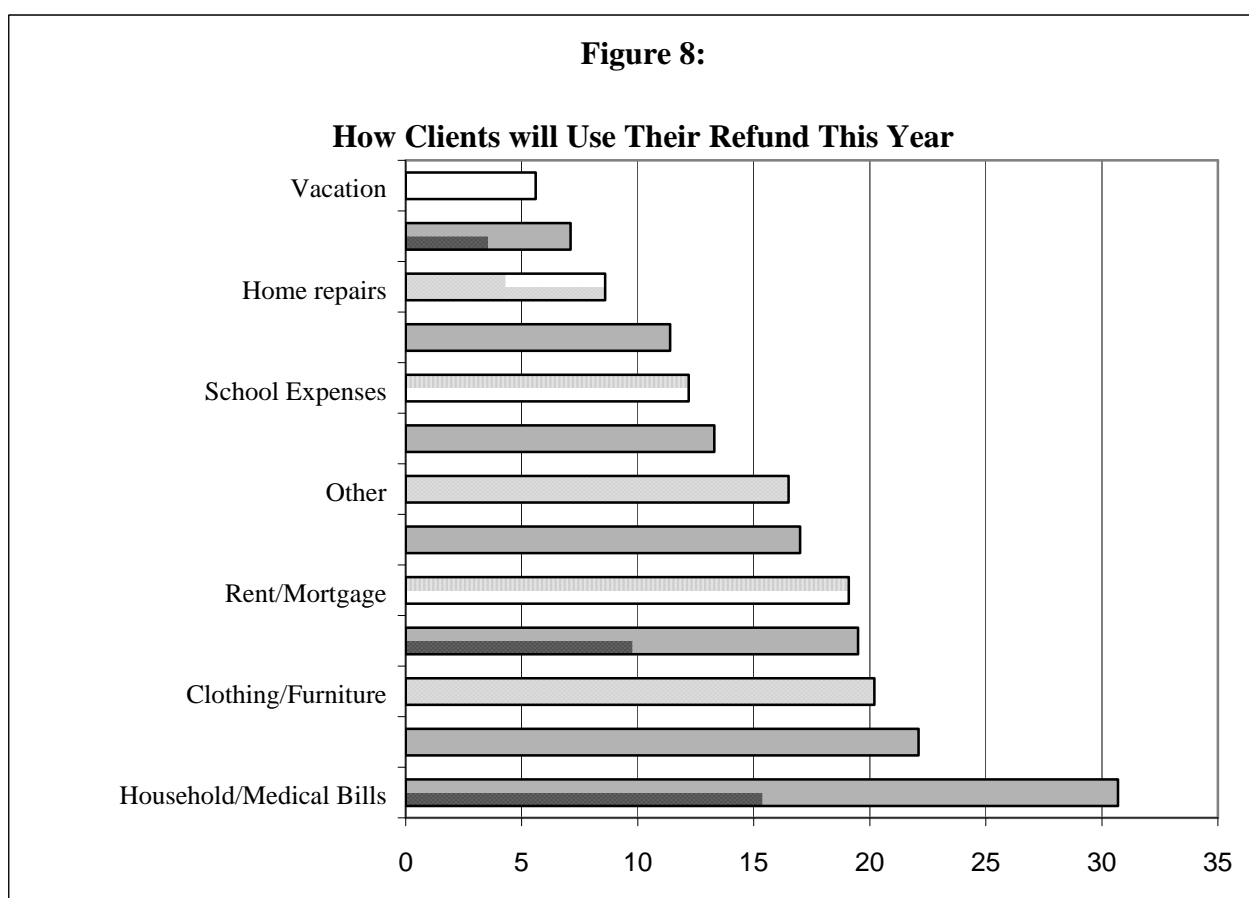
More than one-third of those surveyed were return customers to Cleveland VITA sites (see Figure 7). However, one-quarter of those surveyed filed their returns with paid preparers in the past. More than 16 percent did not file at all, and may still be eligible to receive refunds for those previous years.



*Source: Policy Matters Ohio, Cuyahoga County EITC Coalition*

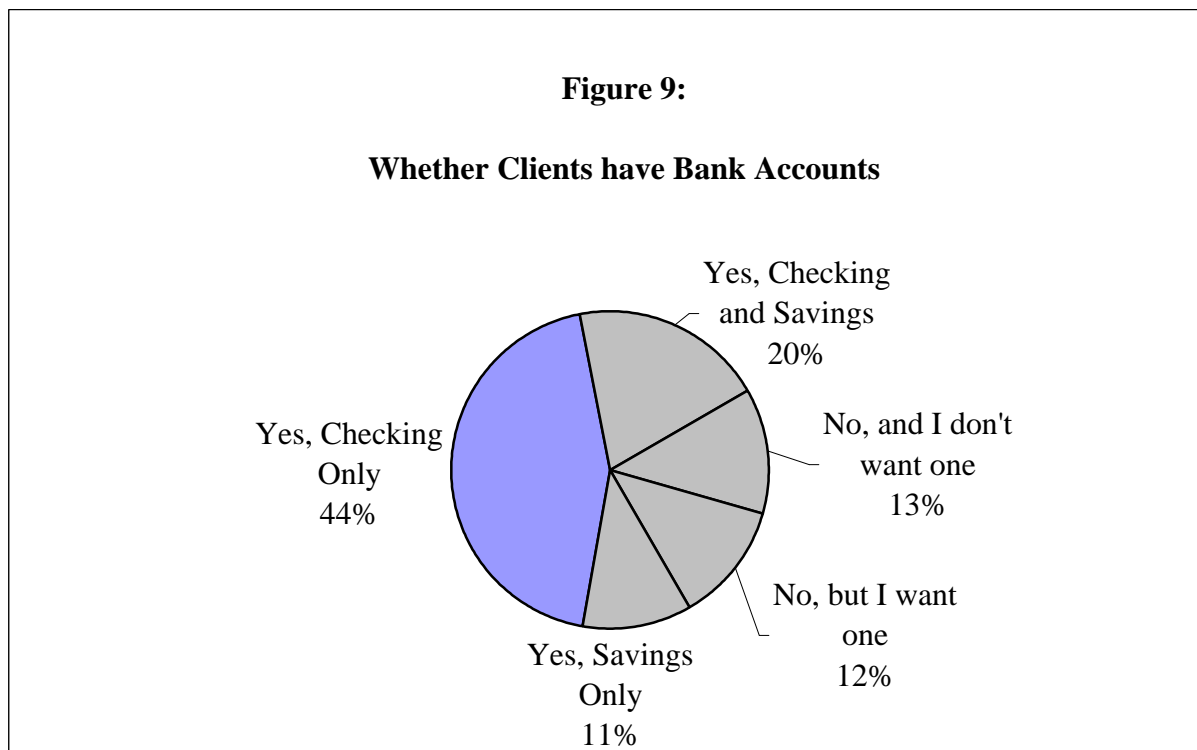
## The EITC and the Community

The EITC refund and free tax preparation that filers receive seems likely to keep resources in Cleveland and its communities (see Figure 8). Filers stated that they would use refunds toward basic needs such as housing, food, clothing and bill-paying. For instance, 30 percent of filers said they would use their refund to pay for medical and household bills and 20 percent indicated they would use their refund for credit card bills. Many respondents indicated that their refunds would be saved or spent locally. More than 22 percent stated they would save their refund toward a home, car, or school purpose. Others indicated that their refund would go toward rent or mortgage (19 percent) while more than 20 percent said they would use their refund toward clothing and furniture purchases. Buying groceries, repairing cars, school expenses, and paying for child care were also common responses.



*Source: Policy Matters Ohio, Cuyahoga County EITC Coalition*

Nearly 30 percent of the filers had savings accounts and almost 65 percent had checking accounts (see Figure 9). This makes it more feasible for these participants to devote some of the refund to savings. A quarter of those surveyed did not have either a checking or savings account, but half those wanted a bank account. Of the entire group surveyed, 20 percent had both checking and savings accounts.



Source: Policy Matters Ohio, Cuyahoga County EITC Coalition

EITC coalitions and outreach campaigns have networked with banks, credit unions, and non-profit financial counselors to help low-income citizens build and manage wealth. The Cuyahoga coalition is currently working closely with banks and financial counselors to increase savings through this effort. Because the EITC and CTC usually arrive in a large sum, they provide a unique opportunity to establish savings accounts and begin developing financial assets.<sup>7</sup> The Cuyahoga coalition is working with several banks and is seeking to establish a strong relationship with Cleveland Saves, which can offer financial literacy planning, motivational seminars, and assistance with asset development.

Although the financial support from Cuyahoga County is primarily to assist with the 2005 tax year, this glimpse of activity under the 2004 tax year provides a good baseline for moving forward. The campaign is already reaching many more people than in past years. Outreach to the black community and to very low-income families seems strong. The services are clearly allowing some people who might otherwise fail to claim the credit or pay for assistance to instead get free, high quality tax assistance.

Direction for improvement is also clear from this initial survey. The program needs to reach more eligible participants, the Hispanic community requires special outreach, and the very challenging work of ensuring adequate volunteer recruitment and sufficient marketing of the program remains daunting. However, survey results from last year, coupled with strong coalition work, indicate that excellent progress is likely.

<sup>7</sup> See the Los Angeles efforts at: <http://www.eitc-la.com/index.htm>.



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