

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.