

A REPORT FROM

POLICY MATTERS OHIO

TAKING CREDIT: BOOSTING PARTICIPATION IN THE EARNED INCOME TAX CREDIT IN GREATER CLEVELAND

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POLICY MATTERS OHIO is a non-profit, non-partisan policy research institute dedicated to researching issues that matter to Ohio's working families. We seek to broaden the debate about economic policy in Ohio by providing Ohio's citizens, reporters and policy makers with essential tools to participate in public discussion. Ultimately, we believe that a broader debate will lead to a stronger and more just society. Other areas of inquiry for Policy Matters have included economic development, education, taxes, job growth, and unemployment.

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EXECUTIVE SUMMARY

Taking Credit: Boosting Participation in the Earned Income Tax Credit (EITC), a September 2004 study by Policy Matters Ohio, analyzes how the federal EITC helps and could better help communities in northeast Ohio. With Cleveland's poverty rate now statistically tied for highest in the country, it is more vital than ever that we use available means of assisting low-income workers. The EITC is a refundable tax credit available to low-income single adults and low- and moderate-income families. In tax year 2002, 726,000 Ohio families received an average credit of \$1,700 to bring a total of more than \$1.2 billion in federal refund money to the state. Four-person families earning as much as \$34,780 and single adults earning up to \$11,230 can claim the EITC. 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 (unless otherwise noted) 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.
- 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.
- Among all U.S. tax filers, 58 percent seek assistance from paid tax preparers. The rate is higher among EITC claimants, at 68 percent. Nationally, the average cost for tax preparation in this group is between \$90 and \$105.
- EITC claimants are particularly susceptible to exploitative refund anticipation loans (RALs), high-interest, short-term loans marketed to filers needing quick refund access. Nationwide, 43 percent of EITC claimants purchase RALs, compared to 6 percent of other tax filers. RALs are purchased by 43.7 percent of EITC filers in the Cleveland MSA, 46.9 percent in Cuyahoga County and 54.1 percent in Cleveland, according to the Internal Revenue Service. Nearly 60,000 taxpayers in the MSA purchased these loans, at an average of \$120 in addition to tax preparation fees. In the MSA, we estimate that more than \$7 million was siphoned away from poor taxpayers to paid preparers in 2002. The Brookings Institution calculated an annual interest rate of 250 percent or more for such loans nationally.

Many tax analysts view a strong volunteer income tax assistance system as key to boosting participation in the EITC and reducing 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.

Recommendations

◆ **The state of Ohio** should implement legislation to regulate RAL providers as four states and the city of New York have done. Reducing the use of RALs would keep more refund money in the hands of the low-income working families who've earned it. Another beneficial state action would be to put a state EITC in place, which would help compensate for recent state tax changes that shift the tax burden to lower-income families. Finally, the state can help inform citizens about the EITC, something that was recently recommended in an Ohio Jobs and Family Services memorandum.

◆ **Cuyahoga County** has shown leadership by soliciting grants and devoting resources to coordinating a VITA site and informing potentially eligible residents about the EITC. The county should build on its current efforts to promote awareness of VITA sites and EITC eligibility and to warn about RALs, beginning in the autumn before paid preparers start their advertising blitz.

◆ The **city of Cleveland and inner-ring suburbs** in the area should launch campaigns in the fall to promote awareness of VITA sites and of EITC eligibility. Mayors and city council leaders should join forces in various communities to ensure that people know about the credit and of the dangers of RALs.

◆ **Utility companies, schools, service providers, grocery stores and businesses** should be asked to inform their clients, customers, students and employees about the EITC, about free volunteer assistance, and about the high costs of RALs.

◆ **The media** should be brought into the coalition. EITC promoters should reach out with press events, guest editorials and letters to the editor in alternative and mainstream media.

◆ Special outreach should be conducted to **organizations that work with very low-wage workers** and to groups serving **minority language communities**.

Increasing claiming of the EITC will reduce poverty and increase income for poor workers in greater Cleveland. The whole community should be tapped to help make the effort successful.

INTRODUCTION

While some programs aiding low-income families have been curtailed in the last decade, the Earned Income Tax Credit (EITC) remains an extremely effective way to assist low and moderate-income working families. In tax year 2002, 726,000 working Ohio families claimed the EITC, bringing \$1,235,577,851 of federal refund money to the state. The credits can be as large as \$4204 for married couple families who earn between \$10,540 and \$14,760 and have two or more children. The average Ohio credit from the 2002 tax year was more than \$1,700. These refunds assist working families with their expenses and can be spent, like any tax refund, in any way that families choose.

Although the program is relatively easy to administer, discreet, and enjoys higher participation levels than other government programs, many eligible families never claim the credit. Estimates vary, but most experts believe that between 15 and 25 percent of those eligible never claim the credit. Comparison of poverty and income figures with number of claimants in northeast Ohio indicate that in some communities, the percentage of non-claimants may be much higher.¹ Of those who do claim the credit, a large percentage use paid tax preparers to assist with their claims, often at a high cost. Furthermore, a staggering 43.7 percent of claimants in the Cleveland-Lorain-Elyria Metropolitan Statistical Area² (Cleveland MSA) purchase refund anticipation loans (RALs) according to the Internal Revenue Service, which means that a large portion of their credit gets turned over to paid tax preparers. Some filers who lack bank accounts pay an additional fee once the refund is received to have it cashed.

This paper describes local levels of EITC participation in the Cleveland MSA, raises concerns about overuse of RALs, and makes suggestions for how local government leaders can assist their constituents in claiming the credit.

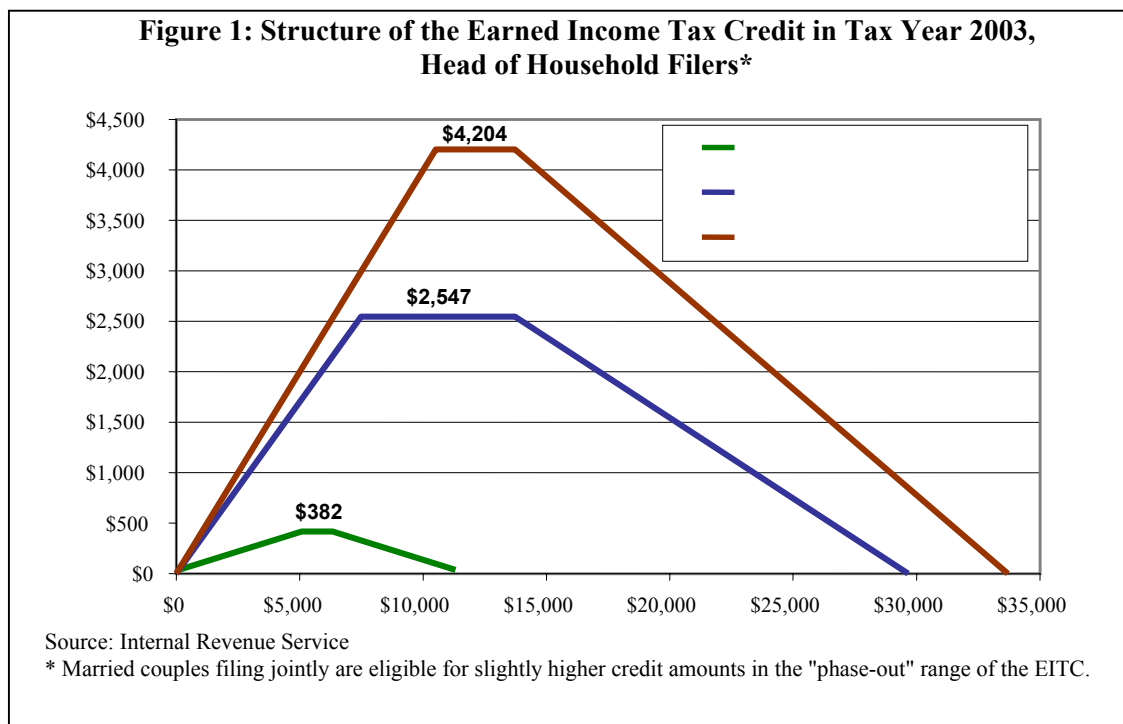
This report relies primarily on information from the 2002 tax year, the most recent available. Although the federal recession technically ended in November 2001, Ohio continued to lose jobs during 2003, so the number of eligible claimants may have changed since then. Eligibility is based on income levels: married two-parent families with two children are eligible up to \$34,780 in annual earnings. During recessions and weak recoveries, some families lose EITC eligibility because they lose their jobs, and only families with at least one working member can claim the credit. However, it is more common in a weak job climate to see increased eligibility because of family income declines due to loss of one job in a former two-earner household, reduction in hours of work, or actual wage reduction. Between tax year 2000 and 2002, there was an 8 percent increase in EITC claims nationwide.³ It is safe to assume that the estimated number of eligible non-claimants used here is a conservative one and that at least that many additional filers could be taking advantage of the credit.

BACKGROUND

The EITC, sometimes called the Earned Income Credit or EIC, is a tax credit targeted at low- and moderate-income working families and very low-income working adults. It is refundable, so that even those who don't earn enough to owe taxes can benefit. The credit phases in for very poor families, providing additional assistance with each additional

hour worked or dollar earned. For families with one child, the EITC keeps getting larger until earnings reach \$7,500. For those with two or more children, the credit increases until earnings reach \$10,540. The credit then remains the same size (\$4,204 for two or more children, \$2,547 for one child, and \$382 for single adults) until earnings reach \$13,760 for single parents or \$14,760 for married parents, at which point it begins phasing out. During the phase-out range, families always earn more by working more, but the size of the credit is slowly reduced. Marginal tax rates are quite high for families in the phase-out range, and some scholars have proposed changes to address this.⁴

At income about twice the poverty line (\$33,780 for single parents of two or more, \$34,780 for married parents or two or more), the credit phases out entirely. Figure 1 below illustrates the phase-in and phase-out levels of the program for three different family types.



Reprinted from Alan Berube presentation to funders' network June 2004, Brookings Institution, available at www.brookings.edu

The EITC has long enjoyed bipartisan support as a program that reduces poverty, encourages work, assists families and communities, and does not burden businesses. It lifts more families out of poverty than any other federal program.⁵ Introduced by Democratic Senator Russell Long, the credit was signed into law by Republican President Gerald Ford in 1975. Initially not indexed to inflation, the EITC eroded in value during the late 1970s. Under President Ronald Reagan, the EITC was restored to its initial real value, indexed to inflation, and expanded slightly. Under President George H.W. Bush, the credit was expanded further. Under President William Clinton, the EITC was again expanded and eligibility was widened to include some childless workers, and under George W. Bush benefits for married couples were increased.

BENEFITS TO FAMILIES AND INDIVIDUALS

In 2002, more than 21 million tax filers – nearly one out of every six households - claimed the EITC. The credit lifts 4.9 million people, including 2.7 million children, above the official poverty line⁶ each year. For lower-income working families the credit helps make work pay, reduces need, and provides income that can be used to help meet basic expenses. For some families – with two children and family earnings of just over \$10,000 – the \$4,200 maximum credit can provide a 40 percent boost in annual income. But even for higher-earning families receiving a smaller credit, the EITC provides a cash infusion. Most research on the topic finds that families spend the EITC on paying off bills or purchasing basic commodities, food, education, or transportation. For example, in a sample of 5,000 Chicago claimants who listed their top three priorities for spending their refund, 83 percent named bill-paying, 74 percent included purchasing food and basic commodities, 55 percent listed saving and 16 percent hoped to pay tuition with the refund.⁷ Because it is often provided in a lump sum, the credit can also help families build assets, providing a deposit for an apartment, a small part of a down payment, or an initial sum to start a savings account.

BENEFITS TO MUNICIPALITIES

In comparison to tax reductions to high-income families or businesses, which are often invested or spent elsewhere, tax credits to low- and moderate-income families are more likely to be spent in communities where those families live. EITC money refunded to northeast Ohio is likely to be spent here, providing stimulus to local economies. Since lower-income families receive the refunds, lower-income communities are likely to benefit to a greater degree.

Research finds that households usually spend the credit in their local communities.⁸ An analysis of data from the Bureau of Labor Statistics' Consumer Expenditure Survey sheds light on spending differences among different income groups. High-income subjects spend a larger share of their budget on transportation, entertainment, and personal pension and insurance. Low-income subjects spend larger shares on food, housing and health.⁹

Many cities, counties and states across the country have recognized the EITC as a resource that has not been fully tapped for their communities. Ohio's state budget promises to be tightly constrained in the next biennium, and there is already discussion of potential cuts to programs serving low-

Adding Credit

Many of those eligible for the Earned Income Tax Credit will also qualify for the Child Tax Credit. Low-wage workers who claim a child under age 17 as a dependent on their tax return may be eligible to claim the Child Tax Credit. The Child Tax Credit can mean as much as \$600 per child — on top of any EITC for which the household may qualify. Like the EITC, the CTC can be spent in any way a family wants to spend it. Eligibility for the two credits differs, so preparers must be ready to assist filers in figuring out whether they're eligible for one or both.

income workers. The EITC is not a substitute for crucial programs serving vital needs. But in many states and municipalities, elected officials have recognized that helping their constituents claim the EITC is a way to bring resources to their community and their constituents, without spending a significant amount of state money.

Some of the methods communities are using to promote EITC participation include: promoting awareness, providing free or inexpensive tax preparation assistance, and assisting families in using their refunds to build assets. In the conclusion of this report, we make recommendations for how Greater Cleveland can build on existing volunteer income tax assistance (VITA) efforts to increase participation in the EITC and reduce reliance on paid tax preparers who can siphon off large portions of the refund.

The Cleveland Campaign

National groups have made recommendations about how to create a strong EITC campaign in local communities. In Cleveland, many of the initial steps have already been taken, putting the city in a solid position to double IRS volunteer income tax assistance (VITA) site participation in the 2004 tax year, and double it again the following year.

In each of the last three tax seasons, Greater Cleveland has had a campaign to inform people about the EITC and to spark use of volunteer income tax assistance services. These campaigns were coordinated by the Cuyahoga County Department of Health and Nutrition for the 2001 tax year, by the IRS for 2002, and by the Center on Economic Opportunities in Greater Cleveland for 2003. This year it appears likely that the Enterprise Foundation will oversee the larger effort.

The campaigns have featured a “super Saturday” event early in the tax season in the city hall rotunda with dozens of volunteers, computers set up for e-filing, and much community fanfare. The year that the campaign was run by the county Health and Nutrition department, they devoted resources to promoting the credit, including purchasing radio advertisements, mailing to likely participants, providing community education, and using the United Way “First Call for Help” line. Although the grant that funded the county campaign expired, the county has continued to target mailings to 37,000 county residents who are likely to be eligible, to coordinate a VITA site, and to devote staff resources to boosting participation.

In addition to the super Saturday, each of the last three seasons has included a network of IRS-sponsored VITA sites around the city. The sites have varied in reliability and in quality of the returns they’ve prepared, according to many observers. A coalition of advocates, initially organized in the summer of 2003 to respond to concerns about pre-certification, now meets regularly to discuss how to strengthen the VITA system. Susan Morgenstern of the Legal Aid Society of Greater Cleveland spearheaded this group and leads most of the meetings, along with Ben Nichols of the Enterprise Foundation. Morgenstern is eager to see more VITA sites with more consistent hours. “My hope is that we can have a professional operation with predictable hours and quality returns, so that we can compete with the for-profit centers,” said Morgenstern. Other meeting attendees have included representatives from the Cleveland Mayor’s office, Cuyahoga County

government, Policy Matters Ohio, the Enterprise Foundation, the United Way, the IRS, and numerous community groups.

Two types of tax preparation training sessions have been organized in Cleveland – the IRS’s three-day trainings and a streamlined six-hour session for MBA and accounting students at Case Western Reserve University, organized by Nichols of the Enterprise Foundation. Nichols, whose session attracted more than 90 trainees last tax season, sends volunteers out to locations around the county and the IRS provides assistance in setting up VITA sites and connects their trainees with those sites.

The funding community in Cleveland has provided past grant support to boost EITC participation and is poised to provide more support. The Cleveland Foundation is funding this report and previously joined forces with the George Gund foundation to fund the county Health and Nutrition office’s outreach on this issue. “It was my sense that people weren’t receiving information necessary to access the EITC,” said Cleveland Foundation Senior Program Officer Goldie Alvis, who oversaw much of this grantmaking. “I thought it was important that policy makers know what it could mean for their cities.” A Saint Ann Foundation representative has attended local coalition meetings and has interest in assisting in marketing a local effort.

Elna Sullivan, the Public Information Officer at Cuyahoga County Employment and Family Services Agency has done much of the groundwork for the county’s efforts. Sullivan argues that the campaign should do more media outreach, and that efforts have to be ongoing, building on the previous years’ efforts. The site that she ran was repeatedly cited by other coalition members as one of the most effective, but Sullivan thinks that many more people could be served, particularly if the campaign carefully analyzes VITA site locations and tries to fill gaps.

Nichols agrees that a concerted effort could yield greater returns. “The new coalition wants to build on all the strengths of past EITC collaborations: marketing, awareness, volunteer recruitment, one-day events, all the players together in a collaborative atmosphere, then we could really help all the taxpayers,” Nichols said. “If we could do that and do it right, we could really help the community.”

BENEFITS TO BUSINESS

The EITC helps businesses by boosting the wages of their lower-paid workers and by providing some of their customers with income to be directed toward consumption. Employers should make sure that their eligible employees claim the EITC, because doing so can assist the employees in meeting basic expenses, paying for transportation, and staying employed. Both employers and employees can benefit by increasing rates of EITC participation. Some researchers argue that the EITC allows employers to keep wages low and constitutes a transfer of income from taxpayers to employers.¹⁰ Jared Bernstein of the Economic Policy Institute has said that the credit “probably lowers market wages slightly across the board.” While the credit improves the lives of workers by raising their wages, critics argue that higher-wage employers and middle-income taxpayers are helping to allow low-wage employers keep their wages low. Essentially, the credit makes some jobs that pay only \$10,000 into jobs that pay more than \$14,000.

While some employers likely would raise wages if the credit didn't exist, others would not. The credits indirectly subsidize employers, but they also directly subsidize workers and their families. Very low-wage worker wages can be increased by as much as \$2.00 an hour at the peak and can add as much as 40 percent to a family's income.

We may never be certain of the exact effect that the EITC has on wages. Many advocates for low-income families argue that the minimum wage should be increased and indexed to inflation or that other labor market reforms should take place. The minimum wage has not been increased in more than seven years, and has eroded substantially from its initial value.¹¹ Ohio's minimum wage is actually below the federal level, although the federal rate applies here. Given that federal and state policy have not been oriented toward increasing the minimum wage or expanding labor standards in recent years, the EITC is an existing way to provide assistance to some lower-wage workers.

Because of the benefits to their workers, some employers have tried to inform staff about the credit. In December 2003, an employer group called Corporate Voices distributed a "toolkit" for employers to use to promote employee participation in the EITC. The group has 45 member companies, and its president, a longtime Marriott Corporation human resources executive, argues that the EITC helps staff stay employed by allowing the purchase of more reliable transportation or child care, or by helping employees to begin saving for emergencies. Some member companies have established extensive programs. For example, the Washington Post reported that the TJX Corporation, which owns the TJ Maxx and Marshall's retail chains, has circulated EITC information to 90,000 workers at 1,700 work locations and informs all new hires about the program. It also posts information about IRS-sponsored VITA sites to help workers avoid high-priced tax-preparation services.¹² Interested companies can access the Corporate Voices website at <http://www.cvworkingfamilies.org/> and download the EITC toolkit.

The EITC can also result in benefits for retail establishments in low-income communities because it can provide families with the means to make purchases that they cannot otherwise afford. Since the credit usually comes in a large lump sum, furniture,

automobile and home supply stores have an incentive to ensure that their customers get the credit. This opens up some possibilities that may discourage filers from using the EITC to pay off debts or increase savings. The box on page 11 discusses some efforts by retail establishments to ensure that the credits are claimed – and spent quickly in certain stores.

Banks can also tap a new customer base through the EITC, in a way that is beneficial to both claimants and the bank. According to a paper published by the Minneapolis Federal Reserve Bank, three quarters of families earning less than \$25,000 lack a bank account, and less than half of Minnesota claimants had their EITC directly deposited.¹³ This is problematic because direct deposit ensures very streamlined access to the refund and can diminish the lure of exploitative refund anticipation loans, which charge high fees for a short reduction in the delay between filing and receiving the credit. Using banks also eliminates extra payments for check cashing. Banks who cater to EITC participants can find themselves tapping into a new client base, helping to meet some of their Community Reinvestment Act guidelines, and identifying low-income families who nonetheless have a large initial deposit that they can make to help them begin building assets. Shorebank in Chicago offers tax assistance at its locations and 60 percent of those who opened an account at the tax clinic continued to use that account with positive results for their own savings and asset-building.¹⁴

NOT TAKING CREDIT

Although eligible families are more likely to claim the EITC than they are to claim TANF, food stamps or Medicaid, many eligible families do not file for the credit. Studies have varied enormously in their estimates of how many eligible families do not claim the credit, in part because they were examining different populations. Certain types of eligible workers are less likely to claim the credit – lower income families, former welfare recipients, larger families, workers without children, and workers with limited English are all less likely to claim the credit than other eligible workers.¹⁵ When all filers are considered together, a reasonable estimate is that 15-25 percent of those eligible nationally are not claiming the credit.¹⁶

Extra Credits: State EITCs

In March 2003, Policy Matters Ohio released a report entitled *An Ohio Earned Income Tax Credit: Costs and Benefits*, which concluded that an Ohio EITC set at 20 percent of the federal benefit amount would provide an estimated 676,466 working families in Ohio with an average annual credit of \$328, costing the state an estimated \$222 million in Tax Year 2004. This policy would have likely raised more than 8,000 Ohio children above the federal policy line, while helping to counteract the increasing regressivity of Ohio's tax system. State Representative Dale Miller introduced a state EITC bill in 2003, but the legislation has been stuck in the unsympathetic Ways and Means Committee, where it is unlikely it will be acted upon further.

Eighteen other states and the District of Columbia have implemented state-level EITC programs or their equivalents, about half within the last five years. Like the federal EITC, many of these state programs offer refundable credits, but several do not. The range of commitment also varies greatly, from 4.92 percent of the federal amount credited in Maine to 32 percent in Vermont and 30 percent in New York.

Having a state EITC makes those eligible more likely to learn about the federal program, acting as an investment guaranteed to pay high dividends by increasing utilization of federal funds. A state EITC remains a sound idea to reduce inequality, relieve need, and make work pay. To learn more, see www.stateitc.org.

In Greater Cleveland, there is reason to think that the high end of this range is reasonable.¹⁷ In Cuyahoga County, it seems likely that somewhere between 15 and 35 percent of those eligible for the EITC fail to claim their refunds. For the purposes of this paper, we have assumed that 15 percent of those eligible fail to claim the credit, but we recognize that this estimate may understate the extent to which workers fail to participate.

Refunds being spent before they are issued

Stores are getting creative in trying to lure EITC recipients. Major retailers including Wal-Mart, Home Depot and Lowe's have created programs to entice consumers who get the EITC. Rent-to-own firms, such as Rent-A-Center, have established partnerships with H&R Block and Jackson Hewitt to sway consumers into buying refund anticipation loans (RALs) that will subsequently be spent on-site.

Big box stores have led the efforts: The Home Depot allows consumers to exchange their whole tax refund check for a Home Depot gift card and a coupon for a 5 percent discount on a single purchase.¹ Home Depot rival Lowe's has followed suit. Wal-Mart has begun to allow consumers to cash refund checks at service and layaway counters. While no purchase is necessary to cash the check, consumers can turn the cash into Wal-Mart prepaid gift cards or use it immediately to pay for purchases.² According to the Cincinnati Enquirer, Beechmont Ford has offered to reimburse consumers for tax preparation if they agree to apply the anticipated refund towards the purchase of a vehicle.³

Many businesses are partnering with tax preparers to ensure that customers have money to spend in their stores. Wal-Mart and Meijer grocery stores have allowed H&R Block to open tax preparation kiosks within the stores – there will soon be 900 H&R Block kiosks in Wal-Mart locations.⁴ Businesses hope this one stop approach will drive up sales. Rent-to-own giant, Rent-A-Center, now allows Jackson Hewitt to locate tax preparation offices within Rent-A-Center stores. Customers using the Hewitt service will receive two weeks of free rental on an item when they agree to use their refund to rent.⁵

Michael Lister, President and COO, of Hewitt is enthusiastic. "This new alliance allows both companies to promote our services to each other's employees and customers while providing exclusive savings on product rentals and tax preparation services. Rent-A-Center is a great match for our customer base, and we look forward to a mutually beneficial relationship."

Cleveland Legal Aid Society attorney Susan Morgenstern has a different opinion. "What I dislike about these directed refund programs, is it is yet another layer of expense for consumers. If filers go to a free preparation site and direct deposit the refund into a bank account, we can remove three potential costs – preparation costs, refund loan costs, and costs of making the purchase. This helps people maximize their refund."

¹<http://www.buildingonline.com/news/viewnews.pl?id=3040>, accessed July 2004

²http://www.nacsonline.com/NACS/News/Daily_News_Archives/July2003/nd0717036.htm, accessed July 2004

³http://www.enquirer.com/editions/2004/04/15/biz_taxrefunds15.html, accessed July 2004

⁴http://www.hrblock.com/about/investor/sh_2004.pdf, accessed September 2004

⁵http://www.rtoonline.com/Content/Article/Nov03/RAC_JacksonHewitt110503.asp accessed July 2004

SKIMMING CREDIT

Among all American tax filers, 58 percent use paid tax preparers to assist them in filling out their tax returns. Among EITC claimants, the rate is higher, at 68 percent. Payments for preparation for those filing for EITCs are typically between \$90 and \$105.¹⁸ Because EITC claimants are often low-income and are all receiving credits from the government, they are particularly vulnerable to a product sold by most commercial tax preparers called a refund anticipation loan (RAL). When a filer purchases this type of loan, the preparer subtracts fees for the loan and fees for the preparation from the amount of the refund, and then provides this sum to the filer within two days after submitting the EITC forms to the federal government. The filer then agrees that the refund sent by the IRS about ten days later will be deposited directly with the preparer. Nationwide, 43 percent of EITC claimants purchase RALs, compared to just 6 percent of other tax filers. Alan Berube of the Brookings Institution found that for this short-term loan, the average cost to a taxpayer was \$120, in addition to fees paid to have taxes prepared and filed. This equates to an annual interest rate (APR) on the loan of 250 percent or higher. For filers who purchase RALs, cost for preparation and the loan are usually around \$220.

Recent research has shown that low-income taxpayers who claim the EITC represent the majority of the marketplace for RALs. The product's popularity varies substantially across the U.S., but 43 percent of all U.S. refund recipients who claimed the EITC in TY 2001 purchased RALs.¹⁹ Because low-income families are less likely to have a bank account, many filers pay additional fees to have the IRS check or the loan check cashed.

The industry to supply RAL services continues to grow: in FY 2001, this industry had revenue of \$357 million, up 258 percent from \$138 million in FY 1998. The National Consumer Law Center reports that, including tax preparation fees, a total of \$1.2 billion was siphoned off of EITC payments in 2001.²⁰ In the Cleveland MSA, we identified more than 125 tax preparation assistance locations among the larger companies, such as H&R Block, Jackson-Hewitt, Liberty Tax, Ta-Check, Check 'n' Go, and Money Mart/Loan Mart. Many of the locations were concentrated in disadvantaged communities like East Cleveland.

CLAIMANTS IN GREATER CLEVELAND

For each county in the Cleveland MSA,²¹ Table 1 below lists information on tax filing, use of the EITC, and use of refund anticipation loans. The final column estimates the number of additional eligible filers, by assuming that the current number of claimants could be increased by 15 percent. A more detailed table is in the appendix, listing this information for every zip code in the MSA.

County	Total Number of Returns	Number of EITC Claims	Total EITC refunds paid in county	Number using RALs*	Percent of EITC claimants using RALs	Average amount of EITC	Percent of tax returns claiming EITC	Estimated number of eligible non-claimants
Ashtabula	47,961	7,494	\$12,486,542	3,153	42.1%	\$1,666	15.6%	1,124
Cuyahoga	666,797	97,925	\$165,964,532	45,883	46.9%	\$1,694	14.7%	14,689
Lorain	134,471	15,958	\$26,469,230	6,827	42.8%	\$1,658	11.9%	2,394
Lake	118,693	8,813	\$12,996,303	2,628	29.8%	\$1,474	7.4%	1,322
Medina	78,288	4,839	\$7,170,102	1,130	23.4%	\$1,481	6.2%	726
Geauga	41,574	2,208	\$3,070,078	320	14.5%	\$1,390	5.3%	331
Total	1,087,784	137,237	\$228,156,787	59,941	43.7%	\$1,662	12.6%	20,586

*Refund anticipation loans

Source: Brookings Institution, Policy Matters Ohio

As Table 1 above shows, the EITC has provided substantial assistance to low- and moderate-income families in every county in the Cleveland MSA. In the MSA as a whole, more than \$228 million in federal money was claimed and more than 137,000 families were assisted. This is more than 12 percent of the tax returns in the MSA.

Assuming a 15 percent rate of eligible non-claimants, getting every eligible family in the MSA to claim the credit could bring an estimated additional \$34 million in federal money to more than 20,500 families in this MSA. At a time when Ohio and the nation are struggling through a very weak job recovery from the 2001 recession, this revenue can assist low- to moderate-income working families and help stimulate the economy.

Lower-income communities are assisted most by the credit and claimants are concentrated in lower-income communities. However, every county in the region had a substantial number of beneficiaries. Ashtabula County, which has been removed from the MSA since this data was collected, had the highest percentage of filers claiming the credit, with more than 15 percent of tax returns including an EITC. In Cuyahoga County, nearly 98,000 families claimed the credit, bringing nearly \$166 million in federal money to Cuyahoga taxpayers. In Lorain County, nearly 16,000 families claimed the credit, bringing in more than \$26 million to the county. But even in the much less populated Geauga County, which had the fewest and lowest percentage of claimants, more than 2000 families still claimed the EITC, bringing in more than three million dollars to the county.

The EITC helps claimants in urban, suburban and rural Ohio. Nationally, in fact, suburbs have emerged as the type of community in which the largest number of EITC claimants live. However, urban centers still contain the highest percentage of those eligible. Table 2 below portrays the number of tax returns, the number and percent of EITC claimants

and the amount of EITC dollars refunded to the zip codes in ten of the eleven largest cities in Ohio.²²

Table 2				
EITC Claims, Large Ohio Cities, Tax Year 2002 *				
	Number of tax returns	Number of EITC claimants	Percent of filers claiming EITC	Amount of EITC dollars refunded
Cleveland	164,647	54,397	33.0%	\$102,252,325
Youngstown	28,052	8,258	29.4%	\$15,202,890
Dayton	60,496	16,397	27.1%	\$29,210,586
Lorain	30,818	7,341	23.8%	\$13,494,419
Cincinnati	124,829	29,397	23.5%	\$53,807,792
Akron	80,435	18,695	23.2%	\$32,815,419
Toledo	124,486	26,841	21.6%	\$47,423,950
Columbus	271,496	52,506	19.3%	\$91,179,461
Elyria	30,213	5,028	16.6%	\$8,581,511
Canton	89,529	13,684	15.3%	\$23,455,761

Source: Brookings Institution, U.S. Census Bureau

* The Cleveland suburb of Parma has a larger population than some of the cities listed here. However, the IRS zip code data did not allow an accurate count of Parma returns, because Parma's zip codes are shared with other communities, such as Cleveland.

As Table 2 above shows, zip codes in the city of Cleveland accounted for the highest percentage and the highest number of EITC claims of any large Ohio city, with one third of Cleveland filers claiming the EITC. Youngstown and Dayton also had more than one-fourth of their residents claiming the credit. But even in cities like Canton, with lower poverty levels, nearly one in six residents claimed the EITC.

Below we provide greater detail on applications for the EITC in zip codes that are in the city of Cleveland. Table 3 provides, information by zip code on EITC claiming, refund anticipation loan usage, and credit amounts. The final column estimates the number of eligible non-claimants, based on the assumption that fifteen percent of those eligible do not file for the credit.²³

Zip Code	Number of returns	Number of EITC claimants	Amount Paid	Number using RALs	Percent of EITC claimants using RALs	Average credit amount	Percent of all tax returns claiming the EITC	Estimated number of eligible non-claimants
44101	860	111	\$187,742	49	44.1%	\$1,691.37	12.9%	17
44102	19,916	6,905	\$12,542,304	3,608	52.3%	\$1,816.41	34.7%	1,036
44103	8,500	3,987	\$7,634,086	2,282	57.2%	\$1,914.74	46.9%	598
44104	9,113	4,952	\$9,676,092	3,160	63.8%	\$1,953.98	54.3%	743
44105	21,528	7,874	\$14,309,592	4,595	58.4%	\$1,817.32	36.6%	1,181
44106	10,977	2,730	\$4,944,702	1,505	55.1%	\$1,811.25	24.9%	410
44108	14,066	5,811	\$11,274,713	3,421	58.9%	\$1,940.24	41.3%	872
44109	19,801	4,708	\$8,209,171	2,097	44.5%	\$1,743.66	23.8%	706
44110	10,177	4,035	\$7,574,539	2,304	57.1%	\$1,877.21	39.6%	605
44111	20,955	3,260	\$5,174,394	1,249	38.3%	\$1,587.24	15.6%	489
44113	6,756	2,030	\$3,494,731	1,059	52.2%	\$1,721.54	30.0%	305
44114	2,718	420	\$525,181	125	29.8%	\$1,250.43	15.5%	63
44115	2,236	962	\$1,720,488	591	61.4%	\$1,788.45	43.0%	144
44119	6,730	798	\$1,241,411	323	40.5%	\$1,555.65	11.9%	120
44127	2,957	1,383	\$2,603,464	877	63.4%	\$1,882.48	46.8%	207
44135	13,474	2,087	\$3,450,782	912	43.7%	\$1,653.47	15.5%	313
44181	131	14	\$15,395	0	0.0%	\$1,099.64	10.7%	2
44199	276	36	\$49,704	14	38.9%	\$1,380.67	13.0%	5
Total	171,171	52,103	\$94,628,491	28,171	54.1%	\$1,816.18	30.4%	7,815

Source: Brookings Institution, Policy Matters Ohio

As Table 3 shows, zip codes that are primarily within the city of Cleveland contained 52,000 households that filed for the EITC, bringing in nearly \$95 million to the city. This constituted more than thirty percent of all of the taxpayers in these zip codes. Clearly the EITC has been extremely beneficial to the city of Cleveland.

NOT TAKING CREDIT IN NORTHEAST OHIO

While the EITC has helped many families in the MSA, in Cuyahoga County and in the city of Cleveland, not all of those eligible take advantage of the EITC. Based on the assumption that about 15 percent of those eligible fail to claim the credit, we have calculated the estimated number of eligible non-claimants in the final column of Tables 1 and 3 above. We estimate that more than 20,500 tax filers in the MSA, more than 14,600 in Cuyahoga County and more than 7,800 in the city of Cleveland are potentially eligible for the credit and failing to file for it. Up to \$34 million in federal funds could be coming into this region annually if those filers all received the average credit. This paper makes recommendations to increase the number of filers in northeast Ohio communities.

EXPLOITATIVE LOANS IN NORTHEAST OHIO

Even among those who file for the credit in northeast Ohio, 44 percent do so in a way that substantially reduces their refund. Table 4 provides the number, percent, and estimated total amount of refund anticipation loan (RAL) payments in the Cleveland MSA, Cuyahoga County and the city of Cleveland.

	Number claiming EITC	Number Using RAL	Percent of EITC Claimants Using RAL	Estimated total amount being charged for RAL at average cost of \$120
Cleveland-Lorain Elyria MSA	137,237	59,941	43.7%	\$7,192,920
Cuyahoga County	97,925	45,883	46.9%	\$5,505,960
City of Cleveland	52,103	28,171	54.1%	\$3,380,520

Source: Brookings Institution, Policy Matters Ohio

Forty-four percent of claimants in the MSA, 47 percent of Cuyahoga County claimants and an astonishing 54 percent of Cleveland claimants purchase a RAL, foregoing an average \$120 (in addition to preparation and possible check cashing fees) in order to get their refund about two weeks earlier than they otherwise would. If the average RAL costs \$120, more than \$7 million in the MSA, more than \$5.5 million in Cuyahoga County, and nearly \$3.4 million in the city of Cleveland is siphoned away from poor families to paid tax preparers like H&R Block. Table 3 on the previous page shows that in three Cleveland zip codes – 44104, 44115, and 44127 – more than 60 percent of EITC claimants purchase a RAL.

TOWARD A SOLUTION

Wisconsin, Illinois, Minnesota and North Carolina regulate RAL providers, as does the city of New York.²⁴ The California legislature also passed a bill to regulate RAL providers, which currently awaits action by the Governor. The National Consumer Law Center has called for states to better regulate RAL providers. Their model legislation,²⁵ would limit fees, prohibit debt collection abuses, prevent referrals to check cashers, require disclosures to consumers in wall postings and distributions, ensure state oversight of RAL providers, and grant consumers the right to recover damages.

While regulatory reform would clearly be the most comprehensive way to reduce RAL usage, other efforts could also be helpful. One approach is to educate consumers about the true costs of the loans and the quick turnaround time available with regular filing. Another is to increasing claimants' use of volunteer income tax assistance (VITA) services. A coalition of advocates has emerged in Cleveland to try to increase VITA site usage and better inform residents of the costs of RALs (see box on page 6-7). The group includes IRS officials, foundation staff, advocates for poor families, community groups,

labor representatives, city and county officials and students. If the Cleveland VITA coordinators succeed, the proportion of filers using RALs should eventually begin to decline.

Pre-Certification

One factor that could reduce participation in the Earned Income Tax Credit is a new pre-certification program, adopted by the IRS in 2003. Pre-certification requires some claimants to establish residency status for the child in question before receiving their EITC.* The procedure complicates efforts to increase participation through free tax preparation, because pre-certification forms are due back to the IRS by December of the tax year in question and most free tax assistance occurs between January and March, when most people are doing their returns, which are due April 15. By increasing the paperwork that low-income families have to complete and forcing families to complete that paperwork months before tax returns are normally due, pre-certification is likely to suppress participation among some families.** Many eligible families will not have to go through pre-certification, but there may be confusion among families as to whether or not they do. For a group that may already be intimidated by the paperwork, and inclined to rely on exploitative paid preparers to assist, pre-certification is likely to increase that reliance. Since paid preparers often charge by the form, having additional forms will also increase the cost for assistance.

The low-income advocacy community reacted with alarm to news of the pre-certification program. Since no other group of tax filers is subjected to this sort of scrutiny, it raised questions of unfairness. Many observers feel that the IRS responded well to those concerns and that pre-certification will not be enforced as harshly as initially feared.

* Internal Revenue Service. “Administration of the Earned Income Credit.” April 2004. Retrieved June 2004. <http://www.irs.gov/newsroom/article/0,,id=110298,00.html>

** Center on Budget and Policy Priorities. “Pre-certification May Deny the EITC to Many Eligible Workers.” July 2003. Retrieved June 2004. <http://www.cbpp.org/7-16-03eitc.pdf>

BOOSTING PARTICIPATION

The Cleveland MSA can do more to ensure that eligible households get the EITC. Some comparable communities have served a greater number of filers through their VITA systems, in some cases because they’ve been able to tap outside resources to do so. Approximately three out of four large American cities now have a program to try to increase EITC participation, often including assistance from the IRS (which also provides assistance here). In Chicago, perhaps the nation’s most extensive program, EITC claims grew five times faster than in other large cities in the first year of the campaign.²⁶

Compared to other large cities nationwide, Cleveland has a low median income, the highest rate of poverty, and a high rate of households earning twice the poverty line. Table 5 displays income, poverty, and EITC information for high-poverty (above 15 percent) cities with populations similar to Cleveland's (ranging from 350,000 to 500,000). Although Cleveland had a higher poverty rate and a lower income than any of the other cities in the table, the city ranked a fairly distant third in the percentage of filers claiming the EITC. New Orleans had a substantially higher percentage of EITC claimants. Still, Cleveland's rate of EITC claiming exceeds that of Atlanta, Fresno, Long Beach, Kansas City, Tulsa and Minneapolis, other high poverty cities of comparable size.

	Population estimate 2003	Median HH income 2003	Percentage under poverty 2003	Percentage under 200% poverty, 2000	Percentage of filers claiming EITC	Number of EITC claims 2002
New Orleans	469,032	\$28,645	20.8%	49.9%	41.1%	70,718
Miami	376,815	\$23,774	27.9%	56.6%	37.6%	48,334
Cleveland	461,324	\$22,978	31.3%	50.4%	33.0%	54,397
Atlanta	423,019	\$32,635	23.5%	43.9%	28.7%	41,752
Fresno	451,455	\$36,537	28.4%	51.0%	28.2%	32,336
Long Beach	475,460	\$36,652	24.1%	45.6%	22.0%	35,635
Kansas City	442,768	\$38,639	16.4%	32.5%	19.9%	37,855
Tulsa	387,807	\$36,581	15.2%	34.0%	19.8%	27,999
Minneapolis	373,188	\$42,010	17.6%	35.8%	15.8%	24,853

Spotlight on a Campaign Site

Chicago's effort provides a model for greater Cleveland. In its first year, Chicago's overall EITC claims increased five times faster than any other large American city. Many residents used paid preparers or did their own returns, but the VITA system also played a prominent role. In the second year of Mayor Richard Daley's citywide EITC promotion effort, 19 VITA sites helped city residents claim \$16 million in EITC refunds, a \$4 million jump over the previous year. The Mayor provided leadership in volunteer recruitment and business involvement, used city resources, and allowed use of the United Way's "First Call for Help" line. More than 48,000 businesses took part, with supermarkets putting messages on 50 million grocery bags, fast food restaurants lining trays with EITC messages, utility companies stuffing 4.2 million bills with information, schools putting the message in 400,000 report cards and city agency operators informing callers about VITA sites. The IRS, local government, schools, business, foundations, community groups and other nonprofits all can share credit. For more on the Chicago campaign, go to www.chicago-etc.org.

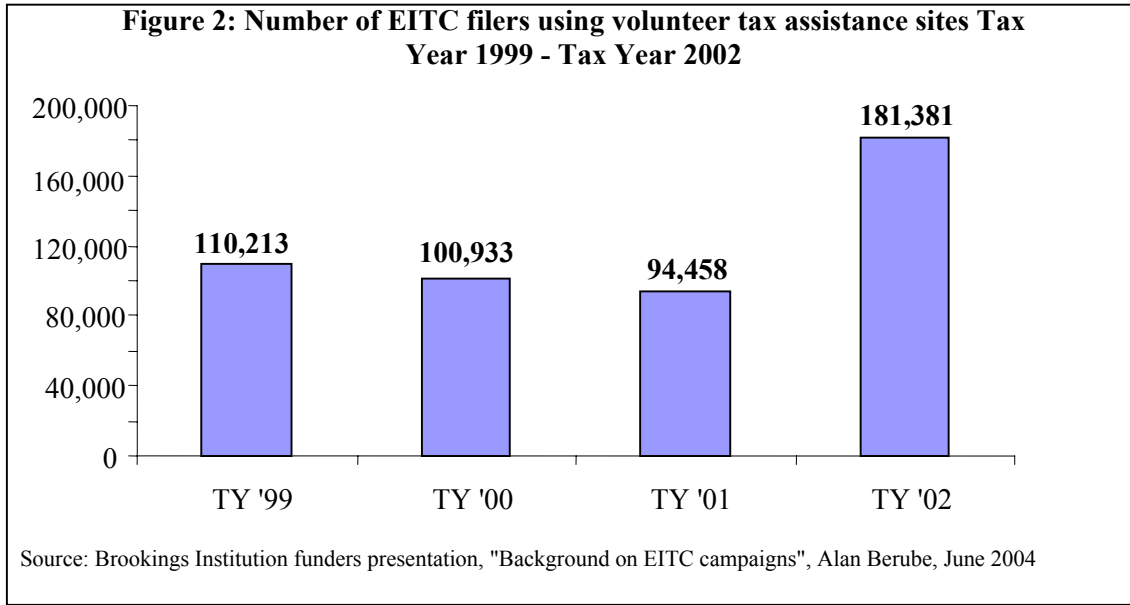
Sources: "Helping Workers Boost Their Paychecks" at www.cbpp.org, and "Building an EITC Awareness Campaign: the Chicago Example" at www.tax-coalition.org, both accessed July 2004.

Part of the reason that some communities are realizing greater levels of participation in the EITC is that other states and municipalities have gotten more foundation or municipal support for active campaigns to promote the credit, provide access to volunteer assistance, and inform filers about the high costs of refund loans. Cleveland has also made some strong efforts (see Box on pages 6 and 7), but these attempts do not appear, so far, to have been as successful as the leading communities nationwide. Twenty-seven municipalities and rural areas are part of the National Tax Assistance for Working Families Campaign, established in October 2002 to inform people of EITC eligibility, provide volunteer tax assistance, and help

participants avoid RALs. Several states and some other municipalities have launched campaigns even though they're not part of the tax assistance coalition.²⁷

Elected officials in some locations have been particularly strong champions. The state of Michigan has created and distributed materials, encouraged VITA sites, and will hold a statewide conference to increase awareness of the credit. The city of Chicago has established dozens of VITA sites, held a press conference with the Mayor, held conferences and trainings, and distributed materials in bills, school packets, and other correspondence (see box).

The efforts to boost participation have paid off. Nationwide, as Figure 2 below shows, use of VITA sites nearly doubled between tax year 2001 and tax year 2002, from 94,458 to 181,381 clients. States with strong campaigns to inform families about the credits saw greater-than-average growth in their EITC filing over the last two years.²⁸



IRS territories vary greatly in their size, so it is difficult to make comparisons of effectiveness. As Table 6 below shows, territories also vary tremendously in how many filers they assist. The IRS was not able to provide information on the population in each of the territories. The Cleveland territory, for example, includes all of Cuyahoga County and includes the city of Akron, which is not in the Cleveland MSA. That said, in a sample of territories requested from the IRS, including several cities with lower populations than that of Cleveland, Cleveland hovered near the bottom in the number of EITC claims that were completed at VITA sites in the territory.²⁹ In the 2003 tax year, VITA sites in the Cleveland territory processed 6,965 tax returns, 1,973 of which were eligible for the EITC. With an estimated 7,815 eligible non-claimants in the city alone, and with perhaps 34,000³⁰ using paid tax preparers, it is clear that more people could be benefiting from the VITA site with improved coordination and marketing.

Table 6
**Tax Returns Completed at Volunteer Income Tax Assistance Sites,
 2003 Tax Year, various territories**

City	Total Returns	EITC claims	Percentage of claims getting EITC	Number of claims getting Child Tax Credit
Kansas City Territory	16,990	4,441	26.1%	3,234
New Orleans Territory	10,159	4,387	43.2%	2,782
Boston Territory	12,161	3,942	32.4%	1,917
Detroit Territory	9,482	3,859	40.7%	1,034
Buffalo Territory	8,549	3,530	41.3%	1,479
Milwaukee Territory	10,768	3,514	32.6%	2,040
St. Louis Territory	11,221	3,217	28.7%	2,490
St. Paul Territory	7,265	2,828	38.9%	1,480
Atlanta Territory	11,429	2,529	22.1%	3,194
Los Angeles Territory	8,262	2,439	29.5%	1,622
Pittsburgh Territory	11,930	2,025	17.0%	779
Cleveland Territory	6,965	1,973	28.3%	921
Cincinnati Territory	8,028	1,838	22.9%	1,591
Columbus Territory	3,777	917	24.3%	420

Source: IRS

Note: territory boundaries do not conform to city boundaries and population in different territories may vary tremendously.

Most of those assisted in the Cleveland territory lived outside the boundaries of the city of Cleveland. Of the 1,973 assisted in the large Cleveland territory, 687 or about one third were helped at sites within the city or inner suburbs of Cleveland. While this assistance was valuable to those who took part, coordinators of the Cleveland VITA sites are eager to dramatically 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 first two years of the campaign. This a realistic goal – Berube at Brookings estimates that a serious campaign can net an overall 6 percent increase in EITC filings in a city by the second year of its existence. For the city of Cleveland, which had 52,103 claimants in 2002, a six percent increase within two years would mean 3,126 more claimants by tax year 2005. Advocates within the greater Cleveland campaign have set a goal of doubling the 687 filers they aided, helping 1,400 in tax year 2004, and 2,800 by tax year 2005, slightly below what Berube predicts is possible. If each of those aided obtained the average size credit (\$1,816), this would result in \$5,084,800, slightly less than the \$5,678,000 that Berube predicts could be garnered in increased returns to the city.

We interviewed many of those who have been involved in the Cleveland program, including the Enterprise Foundation’s Ben Nichols, Elna Sullivan who has coordinated EITC outreach for Cuyahoga County, Legal Aid Society Attorney Susan Morgenstern,

United Way First Call for Help Director Steve Wertheim, and IRS employees Gloria McGhee and Nichelle Gray. We also participated in meetings that included additional participants discussing ways to boost participation. These interviews and meetings yielded a good picture of the strengths and weaknesses of the Cleveland efforts. One of the stronger parts of the Cleveland campaign has been a large ‘Super Saturday’ event in which dozens of taxpayers are helped in a massive one-day effort, usually held in the city hall rotunda. Most observers felt that this event was quite successful. However, observers felt that comparable efforts should be made to ensure that the daily appointment-based assistance at dispersed VITA sites is more accessible. There should be a sufficient number of VITA sites, distributed throughout the city and inner suburbs, with reliable hours, a solid staff of volunteers, and the ability to serve clients with high-quality returns. Elected officials should get involved as champions of the EITC, participating in press conferences and guaranteeing promoters access to public lists for marketing programs. When other materials are distributed to residents, such as public assistance checks, school information, or food stamp information, materials promoting the VITA sites, informing about the EITC and warning about RALs should be included. Finally, the local campaign should include a strong marketing effort, with use of the United Way First Call for Help (2-1-1) line as one continued component. More suggestions are made in the recommendations section at the end of this paper.

Having a strong VITA system benefits communities in many ways. It increases claiming of the EITC, increases the value of those refunds by reducing use of paid preparers and refund loans, provides other information to filers, and may eventually help filers invest some of their return in a savings program.

CONCLUSION AND RECOMMENDATIONS

The recent announcement that Cleveland’s poverty rate is highest of the nation’s large cities³¹ has galvanized the community. Greater Cleveland is fortunate to have a strong, committed group of advocates eager to promote the EITC as one way to help increase the income of poor and low-income working families. Many of these suggestions come directly from those advocates. This list of recommendations should not be interpreted as a critique of the valuable work that has already occurred. Rather, it is designed to consolidate the many strong recommendations that have worked elsewhere and been suggested here. Below we suggest actions that different parts of the community could implement to boost EITC participation.

1. **The state of Ohio** should implement legislation to regulate RAL providers as four states and the city of New York have done. Reducing the use of RALs would keep more refund money in the hands of the low-income working families who have earned it. Another beneficial state action would be to put a state EITC in place, which would help compensate for recent state tax changes that shift the tax burden to lower-income families. Finally, the state can help inform citizens about the EITC, something that was recently recommended in an Ohio Jobs and Family Services memorandum.

2. **Cuyahoga County** has shown leadership by soliciting grants and devoting resources to coordinating a VITA site and informing potentially eligible residents about the EITC. The county should build on its current efforts to promote awareness of VITA sites and EITC eligibility and to warn about RALs, beginning in the autumn before paid preparers start their advertising blitz.
3. The **city of Cleveland and inner-ring suburbs** in the area should launch campaigns in the fall to promote awareness of VITA sites and of EITC eligibility. Mayors and city council leaders should join forces in various communities to ensure that people know about the credit and of the dangers of RALs.
4. **Utility companies** should be asked to assist, by inserting EITC and VITA site information into utility bills. **Schools** should be tapped to send the information home in children’s school packets. **Service providers** are a natural part of the distribution effort. United Way’s First Call for Help has informed clients about the EITC and steered them to VITA sites, and should continue to do so. EITC information can be enclosed whenever correspondence is sent regarding Medicaid, Food Stamps, Women Infants and Children (WIC), housing and child care assistance, or Temporary Assistance to Needy Families. Some of this is being done, but efforts can be made more comprehensive. **Grocery stores** can be brought into the coalition, asked to insert fliers into grocery bags at the start of tax filing season. Area **businesses** should insert EITC and VITA information into potentially eligible employees’ pay stub envelopes. Workers could get a big credit, allowing them to invest in better transportation, childcare or housing – all of which could make them more reliable employees.
5. **The media** should be brought into the coalition, as EITC promoters begin outreach to the press in late December, before paid preparers begin marketing; in January when workers begin receiving their tax information and again in March, before late filers submit their taxes. The press outreach should target daily papers, weekly papers, ethnic publications, radio and television. In addition to press releases, campaign coordinators should draft guest editorials for publication. As with all components of the campaign, the press effort should inform people about the EITC and the free tax preparation assistance, and should warn about the cost of RALs.
6. To ensure that eligible childless workers claim the credit, the campaign should reach out to homeless shelters, soup kitchens, the Day Laborer’s Hiring Hall, the East Side Organizing Project and other **organizations that work with the very low-wage** or sporadic workers who are likely to have earnings low enough to qualify. Groups serving **minority language communities** should also receive special outreach as non-native speakers are among the most likely to forego the credit.

APPENDIX

EITC Claiming and RAL usage Cleveland Metropolitan Statistical Area, 2002									
Zip Code	"City"	Number of Returns	Number of EITC Claimants	Amount Paid	Number purchasing RALs	Percentage of EITC claimants using RALs	Average EITC	Percentage of all filers getting EITC	Estimated number of eligible non-claimants
Ashtabula County									
44003	Andover	2,008	333	\$531,304	105	31.5%	\$1,596	16.6%	50
44004	Ashtabula	15,639	2,803	\$4,849,611	1,424	50.8%	\$1,730	17.9%	420
44005	Ashtabula	602	137	\$227,576	63	46.0%	\$1,661	22.8%	21
44010	Austinburg	907	79	\$117,087	15	19.0%	\$1,482	8.7%	12
44030	Conneaut	7,330	1,179	\$1,945,698	518	43.9%	\$1,650	16.1%	177
44032	Dorset	771	129	\$218,462	31	24.0%	\$1,694	16.7%	19
44041	Geneva	7,392	1,127	\$1,893,315	499	44.3%	\$1,680	15.3%	169
44047	Jefferson	4,405	570	\$901,458	201	35.3%	\$1,582	12.9%	86
44048	Kingsville	1,172	154	\$255,310	44	28.6%	\$1,658	13.1%	23
44068	North Kingsville	438	58	\$82,529	11	19.0%	\$1,423	13.2%	9
44076	Orwell	2,063	303	\$465,590	75	24.8%	\$1,537	14.7%	45
44082	Pierpont	661	124	\$185,439	29	23.4%	\$1,495	18.8%	19
44084	Rock Creek	1,649	170	\$290,840	62	36.5%	\$1,711	10.3%	26
44085	Rome	1,393	165	\$259,768	38	23.0%	\$1,574	11.8%	25
44088	Unionville	110	15	\$24,638	0	0.0%	\$1,643	13.6%	2
44093	Williamsfield	660	82	\$131,445	25	30.5%	\$1,603	12.4%	12
44099	Windsor	761	66	\$106,472	13	19.7%	\$1,613	8.7%	10
Ashtabula Total		47,961	7,494	\$12,486,542	3,153	42.1%	\$1,666	15.6%	1124
Cuyahoga County									
44017	Berea	8,781	631	\$884,579	177	28.1%	\$1,402	7.2%	95
44022	Chagrin Falls, South Russell, Bentleyville, Moreland Hills, Hunting Valley	9,493	185	\$183,858	17	9.2%	\$994	2.0%	28
44040	Gates Mills	1,983	24	\$14,752	0	0.0%	\$615	1.2%	4
44070	North Olmsted	18,148	968	\$1,378,551	149	15.4%	\$1,424	5.3%	145
44101	CLEVELAND	860	111	\$187,742	49	44.1%	\$1,691	12.9%	17

Zip Code	"City"	Number of Returns	Number of EITC Claimants	Amount Paid	Number purchasing RALs	Percentage of EITC claimants using RALs	Average EITC	Percentage of all filers getting EITC	Estimated number of eligible non-claimants
44102	CLEVELAND	19,916	6,905	\$12,542,304	3,608	52.3%	\$1,816	34.7%	1036
44103	CLEVELAND	8,500	3,987	\$7,634,086	2,282	57.2%	\$1,915	46.9%	598
44104	CLEVELAND	9,113	4,952	\$9,676,092	3,160	63.8%	\$1,954	54.3%	743
44105	CLEVELAND	21,528	7,874	\$14,309,592	4,595	58.4%	\$1,817	36.6%	1181
44106	CLEVELAND	10,977	2,730	\$4,944,702	1,505	55.1%	\$1,811	24.9%	410
44107	Lakewood	28,864	2,968	\$4,319,846	805	27.1%	\$1,455	10.3%	445
44108	CLEVELAND	14,066	5,811	\$11,274,713	3,421	58.9%	\$1,940	41.3%	872
44109	CLEVELAND	19,801	4,708	\$8,209,171	2,097	44.5%	\$1,744	23.8%	706
44110	CLEVELAND	10,177	4,035	\$7,574,539	2,304	57.1%	\$1,877	39.7%	605
44111	CLEVELAND	20,955	3,260	\$5,174,394	1,249	38.3%	\$1,587	15.6%	489
44112	East Cleveland	12,270	4,657	\$8,702,704	2,803	60.2%	\$1,869	38.0%	699
44113	CLEVELAND	6,756	2,030	\$3,494,731	1,059	52.2%	\$1,722	30.1%	305
44114	CLEVELAND	2,718	420	\$525,181	125	29.8%	\$1,250	15.5%	63
44115	CLEVELAND	2,236	962	\$1,720,488	591	61.4%	\$1,788	43.0%	144
44116	Rocky River	11,482	439	\$526,807	64	14.6%	\$1,200	3.8%	66
44117	Euclid	5,277	961	\$1,598,793	493	51.3%	\$1,664	18.2%	144
44118	Cleveland Heights, University Heights	19,938	2,249	\$3,722,609	1,019	45.3%	\$1,655	11.3%	337
44119	CLEVELAND	6,730	798	\$1,241,411	323	40.5%	\$1,556	11.9%	120
44120	Cleveland, Shaker Heights	20,323	5,680	\$10,098,233	3,263	57.5%	\$1,778	28.0%	852
44121	South Euclid	17,631	1,913	\$2,965,229	709	37.1%	\$1,550	10.9%	287
44122	Beachwood	18,207	1,038	\$1,617,747	384	37.0%	\$1,559	5.7%	156
44123	Euclid	9,264	1,189	\$1,864,870	493	41.5%	\$1,568	12.8%	178
44124	Pepper Pike, Lyndhurst, Mayfield Heights	21,985	988	\$1,277,474	115	11.6%	\$1,293	4.5%	148
44125	Garfield Heights, Valley View	15,044	1,474	\$2,236,112	521	35.4%	\$1,517	9.8%	221

Taking Credit: Boosting Participation in the Earned Income Tax Credit

Zip Code	"City"	Number of Returns	Number of EITC Claimants	Amount Paid	Number purchasing RALs	Percentage of EITC claimants using RALs	Average EITC	Percentage of all filers getting EITC	Estimated number of eligible non-claimants
44126	Fairview Park	9,694	495	\$645,090	86	17.4%	\$1,303	5.1%	74
44127	CLEVELAND	2,957	1,383	\$2,603,464	877	63.4%	\$1,882	46.8%	207
44128	Cleveland	15,691	3,977	\$6,736,383	2,125	53.4%	\$1,694	25.4%	597
44129	Parma	15,474	1,126	\$1,649,423	301	26.7%	\$1,465	7.3%	169
44130	Parma Heights, Middleburg Heights	28,095	1,868	\$2,523,569	415	22.2%	\$1,351	6.7%	280
44131	Independence	11,489	337	\$401,966	28	8.3%	\$1,193	2.9%	51
44132	Euclid	7,680	1,148	\$1,873,845	592	51.6%	\$1,632	15.0%	172
44133	North Royalton	16,098	698	\$774,168	93	13.3%	\$1,109	4.3%	105
44134	Parma, Seven Hills	20,737	1,377	\$1,947,225	284	20.6%	\$1,414	6.6%	207
44135	CLEVELAND	13,474	2,087	\$3,450,782	912	43.7%	\$1,653	15.5%	313
44136	Strongsville	15,848	621	\$793,923	111	17.9%	\$1,278	3.9%	93
44137	Maple Heights	12,407	1,750	\$2,809,054	752	43.0%	\$1,605	14.1%	263
44138	Olmsted Falls	10,185	411	\$574,546	62	15.1%	\$1,398	4.0%	62
44139	Solon, Glenwillow	12,085	424	\$555,872	56	13.2%	\$1,311	3.5%	64
44140	Bay Village	8,552	213	\$266,473	22	10.3%	\$1,251	2.5%	32
44141	Brecksville	7,572	169	\$180,498	20	11.8%	\$1,068	2.2%	25
44142	Brookpark	11,077	880	\$1,311,659	219	24.9%	\$1,491	7.9%	132
44143	Richmond Heights, Highland Heights, Mayfield	12,862	756	\$954,105	189	25.0%	\$1,262	5.9%	113
44144	Brooklyn	11,393	1,160	\$1,574,754	324	27.9%	\$1,358	10.2%	174
44145	Westlake	17,489	534	\$686,998	67	12.6%	\$1,287	3.1%	80

Zip Code	"City"	Number of Returns	Number of EITC Claimants	Amount Paid	Number purchasing RALs	Percentage of EITC claimants using RALs	Average EITC	Percentage of all filers getting EITC	Estimated number of eligible non-claimants
44146	Bedford, Bedford Heights, Oakwood	15,987	1,952	\$2,931,062	863	44.2%	\$1,502	12.2%	293
44147	Broadview Heights	8,674	352	\$499,413	64	18.2%	\$1,419	4.1%	53
44149	Strongsville	7,847	210	\$253,851	27	12.9%	\$1,209	2.7%	32
44181	CLEVELAND	131	14	\$15,395	0	0.0%	\$1,100	10.7%	2
44199	CLEVELAND	276	36	\$49,704	14	38.9%	\$1,381	13.0%	5
Cuyahoga Total		666,797	97,925	\$165,964,532	45,883	46.9%	\$1,695	14.7%	14,689
Geauga County									0
44021	Burton	3,225	194	\$258,109	31	16.0%	\$1,330	6.0%	29
44023	Chagrin Falls	7,489	255	\$373,588	42	16.5%	\$1,465	3.4%	38
44024	Chardon	11,691	618	\$847,276	122	19.7%	\$1,371	5.3%	93
44026	Chesterland	6,388	257	\$309,398	23	9.0%	\$1,204	4.0%	39
44033	East Claridon	86	15	\$22,473	0	0.0%	\$1,498	17.4%	2
44046	Huntsburg	923	53	\$83,681	0	0.0%	\$1,579	5.7%	8
44062	Middlefield	4,616	413	\$601,313	70	17.0%	\$1,456	9.0%	62
44064	Montville	888	51	\$63,667	0	0.0%	\$1,248	5.7%	8
44065	Newbury	2,283	167	\$270,256	32	19.2%	\$1,618	7.3%	25
44072	Novelty	2,547	69	\$80,497	0	0.0%	\$1,167	2.7%	10
44080	Parkman	225	19	\$30,227	0	0.0%	\$1,591	8.4%	3
44086	Thompson	1,213	97	\$129,593	0	0.0%	\$1,336	8.0%	15
Geauga Total		41,574	2,208	\$3,070,078	320	14.5%	\$1,390	5.3%	331
Lake County									0
44045	Grand River	274	25	\$49,148	11	44.0%	\$1,966	9.1%	4
44057	Madison	9,477	1,069	\$1,475,029	300	28.1%	\$1,380	11.3%	160
44060	Mentor, Kirtland Hills	33,431	1,859	\$2,577,582	484	26.0%	\$1,387	5.6%	279
44061	Mentor	215	29	\$35,856	0	0.0%	\$1,236	13.5%	4
44077	Painesville	24,833	2,448	\$4,076,220	979	40.0%	\$1,665	9.9%	367

Taking Credit: Boosting Participation in the Earned Income Tax Credit

Zip Code	"City"	Number of Returns	Number of EITC Claimants	Amount Paid	Number purchasing RALs	Percentage of EITC claimants using RALs	Average EITC	Percentage of all filers getting EITC	Estimated number of eligible non-claimants
44081	Perry	3,392	236	\$345,053	66	28.0%	\$1,462	7.0%	35
44092	Wickliffe	9,403	628	\$874,537	163	26.0%	\$1,393	6.7%	94
44094	Willoughby, Waite Hill, Kirtland	18,837	1,144	\$1,618,474	301	26.3%	\$1,415	6.1%	172
44095	Eastlake	18,652	1,347	\$1,917,648	324	24.1%	\$1,424	7.2%	202
44096	Willoughby	179	28	\$26,756	0	0.0%	\$956	15.6%	4
Lake Total		118,693	8,813	\$12,996,303	2,628	29.8%	\$1,475	7.4%	1,322
Lorain County									0
44001	Amherst	10,797	731	\$1,035,849	187	25.6%	\$1,417	6.8%	110
44011	Avon	6,911	309	\$457,351	95	30.7%	\$1,480	4.5%	46
44012	Avon Lake	9,782	322	\$479,781	61	18.9%	\$1,490	3.3%	48
44028	Columbia Station	4,391	273	\$378,919	44	16.1%	\$1,388	6.2%	41
44035	Elyria	31,707	4,472	\$7,417,695	2,081	46.5%	\$1,659	14.1%	671
44036	Elyria	448	83	\$138,259	28	33.7%	\$1,666	18.5%	12
44039	North Ridgeville	12,030	733	\$1,028,734	174	23.7%	\$1,403	6.1%	110
44044	Grafton	6,099	469	\$691,684	87	18.6%	\$1,475	7.7%	70
44049	Kipton	141	15	\$26,944	0	0.0%	\$1,796	10.6%	2
44050	Lagrange	2,756	220	\$351,811	76	34.6%	\$1,599	8.0%	33
44052	Lorain	14,839	3,376	\$6,101,993	1,804	53.4%	\$1,807	22.8%	506
44053	Lorain	8,469	1,027	\$1,604,806	464	45.2%	\$1,563	12.1%	154
44054	Sheffield Lake	6,275	480	\$766,737	135	28.1%	\$1,597	7.7%	72
44055	Lorain	9,493	2,476	\$4,537,062	1,290	52.1%	\$1,832	26.1%	371
44074	Oberlin, Kipton	4,865	488	\$729,876	174	35.7%	\$1,496	10.0%	73
44090	Wellington	5,468	484	\$721,729	127	26.2%	\$1,491	8.9%	73
Lorain Total		134,471	15,958	\$26,469,230	6,827	42.8%	\$1,659	11.9%	2,394
Medina County									0
44212	Brunswick	20,251	1,247	\$1,879,555	231	18.5%	\$1,507	6.2%	187
44215	Chippewa Lake	1,093	147	\$219,801	45	30.6%	\$1,495	13.5%	22
44233	Hinckley	3,691	145	\$176,094	13	9.0%	\$1,214	3.9%	22
44235	Homerville	634	44	\$79,181	0	0.0%	\$1,800	6.9%	7
44251	Westfield Center	608	14	\$15,157	0	0.0%	\$1,083	2.3%	2
44253	Litchfield	1,745	101	\$152,713	12	11.9%	\$1,512	5.8%	15
44254	Lodi	2,593	265	\$404,442	77	29.1%	\$1,526	10.2%	40

Zip Code	"City"	Number of Returns	Number of EITC Claimants	Amount Paid	Number purchasing RALs	Percentage of EITC claimants using RALs	Average EITC	Percentage of all filers getting EITC	Estimated number of eligible non-claimants
44256	Medina	26,704	1,487	\$2,264,647	404	27.2%	\$1,523	5.6%	223
44258	Medina	253	27	\$38,574	10	37.0%	\$1,429	10.7%	4
44273	Seville	3,336	271	\$303,836	51	18.8%	\$1,121	8.1%	41
44274	Sharon Center	229	18	\$27,384	0	0.0%	\$1,521	7.9%	3
44275	Spencer	1,554	99	\$148,413	16	16.2%	\$1,499	6.4%	15
44280	Valley City	2,392	115	\$159,494	18	15.7%	\$1,387	4.8%	17
44281	Wadsworth	13,034	836	\$1,270,255	253	30.3%	\$1,519	6.4%	125
44282	Wadsworth	171	23	\$30,556	0	0.0%	\$1,329	13.5%	3
	Medina Total	78,288	4,839	\$7,170,102	1,130	23.4%	\$1,482	6.2%	726
Grand Total		1,087,784	137,237	\$228,156,787	59,941	43.7%	\$1,663	12.6%	20,586

ADDITIONAL RESOURCES

[Annie E. Casey Foundation](#)
[Brookings Institution Center on Urban and Metropolitan Policy](#)
[Center for Economic Progress, Chicago](#)
[Center of Budget and Policy Priorities](#)
[Charles Stewart Mott Foundation](#)
[Children’s Defense Fund of Ohio \(CK\)](#)
[EITC.Info](#)
[Enterprise Foundation](#)
[First Call for Help - Cleveland](#)
[Joint Center for Poverty Research](#)
[Legal Aid Society of Greater Cleveland](#)
[National League of Cities](#)
[U.S. Department of Health and Human Services](#)

¹ It is complicated to calculate the number of eligible non-claimants in the city of Cleveland because the IRS tallies claimants by zip code, while income and poverty data are collected by city boundaries, and the two differ. See footnote in body of report for more details.

² The boundaries of the Cleveland-Lorain-Elyria MSA were altered in 2003, removing Ashtabula County. The MSA is now named the Cleveland-Elyria-Mentor MSA. Because data in this paper is from tax year 2002, we use the old name and boundaries.

³ Alan Berube, “Rewarding Work through the Tax Code: The Power and Potential of the Earned Income Tax Credit in 27 cities and rural areas” (Washington: The Brookings Institution, 2003).

⁴ Gene Steurle “Combining Child Credits, the EITC, and the Dependent Exemption,” (Washington: The Urban Institute, May 2000) www.urban.org.

- ⁵ Amy Hanauer and Rohit Reddy “An Ohio Earned Income Tax Credit: Costs and Benefits”, May 2003.
- ⁶ The poverty line for a family of three in 2003 was \$15,260.
- ⁷ Smeeding, T. M., Phillips, K. R., & O'Connor, M. “The EITC: Expectation, knowledge, use and economic and social mobility.” June 2000. Retrieved June 2004.
<http://www.cpr.maxwell.syr.edu/faculty/smeeding/classes/ppa781/ntj.pdf>
- ⁸ Smeeding, T. M., Phillips, K. R., & O'Connor, M. “The EITC: Expectation, knowledge, use and economic and social mobility.” June 2000. Retrieved June 2004.
<http://www.cpr.maxwell.syr.edu/faculty/smeeding/classes/ppa781/ntj.pdf>
- ⁹ Liao, Yihua. “Expenditure Patterns of High and Low Income Households.” Fall 2004. Retrieved June 2004. http://condor.utc.uic.edu/~fta/Information%20Briefs/analysis%20of%20expenditure2_3.pdf
(<http://www.prospect.org/print/V11/15/bernstein-j.html>)
- ¹⁰ See for example: http://www.epinet.org/content.cfm/issueguides_minwage_minwage
- ¹¹ Kirsten Downey, “Tax credit used more in suburbs than in cities, study finds”, (Washington Post, February 4, 2004) <http://www.washingtonpost.com/ac2/wp-dyn?pagename=article&contentId=A10311-2004Feb3¬Found=true> accessed August 2004.
- ¹² Beth Haney, "Earned Income Tax Credits: Helping Low-Income Families Build Lives and Assets," (Minneapolis: Federal Reserve Bank of Minneapolis, March 2004) p. 2.
- ¹³ Press release available at: http://www.centerforprogress.org/press_chicagonumbers_6.03.04.pdf.
- ¹⁴ Various studies done in the 1990s found between 42 percent and 88 percent of eligible families claiming the credit. See for example, Alan Berube, “Rewarding Work through the Tax Code: The Power and Potential of the Earned Income Tax Credit in 27 cities and rural areas” (Washington: The Brookings Institution, 2003). p. 3.
- ¹⁵ Feather Houstoun, "Philadelphia's Campaign for Working Families" (Washington: The Brookings Institution, 2004). p.3.
- ¹⁶ It is complicated to calculate the number of eligible non-claimants in the city of Cleveland because the IRS tallies claimants by zip code, while income and poverty data are collected by city boundaries, and the two differ. However, for Cuyahoga County, there are 66,506 households that earned less than \$10,000 in 1999, meaning that they would have been eligible for the EITC regardless of whether they had young children in the home. Then there are 73,645 families earning between \$10,000 and \$30,000. Assuming that only two-thirds (49,096) of these families have at least one qualifying child, there are at least 115,602 families in Cuyahoga County who should be eligible for the EITC. This excludes families earning between \$30,000 and \$34,000, even though they would also be eligible if they had two children. Only 97,925 families filed for the EITC in 2002 in Cuyahoga County. So using these very conservative assumption on eligibility, only 97,925 of at least 115,602 eligible households filed. At least 17,677 eligible households did not, meaning at least 18 percent of those eligible are not filing in Cuyahoga County. To be more conservative still, we have estimated that just 15 percent of those eligible are not claiming the credit. The high rates of RAL reliance in some areas (above 60 percent in four Cleveland zip codes: 44104, 44112, 44115, and 44127) further suggests that residents could benefit from education about the credit and how best to claim it.
- ¹⁷ Alan Berube, Anne Kim, Benjamin Forman and Megan Burns, “The Price of Paying Taxes: How Tax Preparation and Refund Loan Fees Erode the Benefits of the EITC” (Washington: The Brookings Institution, May 2002)
<http://www.brookings.edu/es/urban/publications/berubekimeitcxsum.htm>)
- ¹⁸ http://www.consumerlaw.org/initiatives/refund_anticipation/content/2003_RAL_report.pdf
- ¹⁹ Since this information was gathered, the Cleveland MSA boundaries have been altered. It is now the Cleveland-Elyria-Mentor MSA.
- ²⁰ Note that because the IRS gathers data by zip code, some tax returns attributed to certain cities in this table may actually have been filed from an adjacent suburb that shares a zip code with the city. For analyses later in this paper, we examined Cleveland area zip code data more closely and removed some of the returns attributed in this table to Cleveland, but because we were not able to do the same parsing for other Ohio cities, Table 2 defines Cleveland city returns more broadly.
- ²¹ Readers should be aware that some zip codes listed may not be entirely within the borders of the city of Cleveland, but all filers with those zip codes were attributed to Cleveland. For example, the zip code 44109 can be used for some addresses in Cleveland, Newburgh Heights, and Cuyahoga Heights. Other zip codes listed below may also encompass homes in inner suburban communities. However, in contrast to Table 2

above, this table does remove certain zip codes that the IRS attributed to Cleveland, but that our analysis found were more properly assigned to neighboring communities like Parma, Shaker Heights or Rocky River.

²⁴ National Consumer Law Center Spring 2004 newsletter “NCLC Model Laws are Legislative Template”, p. 4, downloaded September 2004 from: <http://www.consumerlaw.org/publications/outlook/Spring04.pdf>.

²⁵ Available at www.consumerlaw.org/initiatives/refund_anticipation/content/RALwithCommentary.pdf

²⁶ Berube http://www.brookings.edu/dybdocroot/metro/speeches/20040621_EITC.pdf, accessed July 2004.

²⁷ Atlanta, Baltimore, Boston, Camden (NJ), Chicago, Denver, Des Moines, Hartford, Indianapolis, Louisville, Miami, Milwaukee, New Orleans, New York, Oakland, Philadelphia, Providence, San Antonio, San Diego, Savannah, Seattle, Tulsa, Washington D.C., Allegany County (MD), rural North and South Carolina, rural Georgia, and rural Northern New England are in the 27-area campaign. Other campaigns are active in Los Angeles, Pinellas County (FL), St. Louis, and statewide in Illinois, Maryland, Minnesota, New Jersey, New York, Oregon, Texas and Washington State.

²⁸ Alan Berube and Thacher Tiffany, "The State of Low-Wage Workers: How the EITC Benefits Urban and Rural Communities in the 50 States" (Washington: The Brookings Institution, 2004), p. 1.

²⁹ The cities were selected because they were comparable to Cleveland either in size, in levels of disadvantage, or in region. Pittsburgh and Detroit were chosen, for instance, because they are so frequently compared to Cleveland, although the IRS Pittsburgh region is quite a bit larger and has much lower poverty levels. The IRS was not able to provide information for all cities requested.

³⁰ Calculated by multiplying the number of Cleveland EITC claimants (54,399) by the proportion of EITC claimants nationwide who use paid preparers (68 percent)

³¹ While Cleveland’s poverty rate was ranked worst in the nation, the difference between Cleveland, Newark and Detroit was not statistically significant.



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