

## 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.