

WHO TAKES CREDIT?:
THE EARNED INCOME TAX
CREDIT IN CUYAHOGA
COUNTY, 2009

A REPORT FROM
POLICY MATTERS OHIO

DAVID ROTHSTEIN

FEBRUARY, 2010

AUTHOR

David Rothstein is a researcher at Policy Matters Ohio. Rothstein studies tax, asset building and protection, wage and consumer policy and serves on the Executive Committee for the National Community Tax Coalition and is their Advocacy Chair. He has a B.A. from John Carroll University in Cleveland and a Master's in Political Science from Kent State University.

ACKNOWLEDGEMENTS

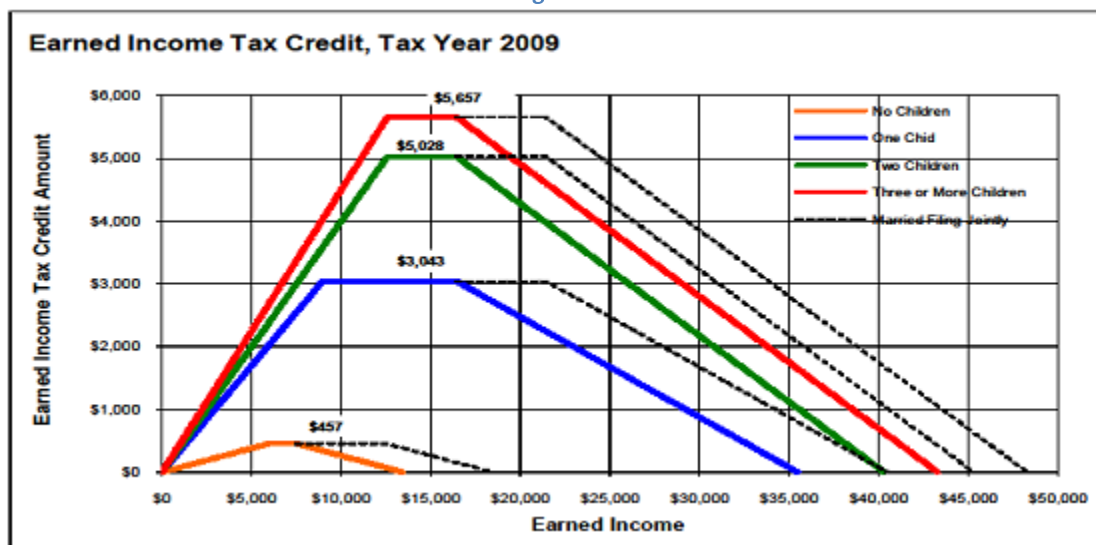
Policy Matters' research director Zach Schiller provided guidance and editing. I am grateful to the interns at Policy Matters Ohio who entered in survey data and Kahlil Huff who coordinated the data entry. Any errors or omissions in the report are the sole responsibility of the author.

This report was commissioned by the Cuyahoga EITC Coalition. As always, we appreciate support for our asset building and protection work from the Cleveland Foundation.

POLICY MATTERS OHIO, the publisher of this study, is a nonprofit, nonpartisan policy institute dedicated to researching an economy that works for Ohio. Policy Matters seeks to broaden debate about economic policy by doing research on issues that matter to working people and their families. With better information, we can achieve more just and efficient economic policy. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development.

The Cuyahoga EITC Coalition is a group of social service agencies, community groups, and government entities that provides free tax preparation for low- and middle-income families. During last year's tax season, the Coalition prepared nearly 8,000 tax returns and returned more than \$10 million back to Cuyahoga County residents. A substantial portion of clients (33 percent) received the Earned Income Tax Credit (EITC), which is a refundable federal tax credit that varies based on marital status, children, and income level. The EITC, targeted at families with children, can provide more than \$4,800 to a family. In this year and next tax year, the credit can be worth as much as \$5,657 due to changes made by the American Recovery and Reinvestment Act (see Figure 1).¹ As Figure 1 illustrates, married couples are eligible for higher EITC claims as the income limits increase. The revised EITC schedule includes coverage of a third child. In Tax Year 2007, more than 800,000 Ohioans claimed \$1.6 billion of EITC for an average claim of \$1,921.² The EITC is the largest anti-poverty tax program in the nation, lifting an estimated 5 million children above the federal poverty line.

Figure 1



In Cuyahoga County, the EITC provides significant assistance to working families (see Table 1). More than 109,000 families claim the EITC, bringing nearly \$218 million to the county. The average EITC in Cuyahoga County was \$1,991, however, many eligible families do not get the credit or do not receive all that they might. Families are often unaware of the EITC, claim it incorrectly, or pay to have their taxes filed diluting portions of their refund. The IRS and Government Accountability Office estimate that up to 25 percent of eligible EITC filers do not claim the credit.³ The Cuyahoga EITC Coalition provides free tax assistance to help families claim all of their EITC and e-file their

¹ "How Will Changes to the EITC in the American Recovery and Reinvestment Act Affect Working Families?" *Center for Economic Progress* (March 13, 2009): http://www.tax-coalition.org/materials/2009/Economic_Stimulus_EITC%20Summary_03.12.09.pdf

² This is the most recent year for which data is available.

³ John Wanchek, "The Earned Income Tax Credit: A Fact Sheet," *Center on Budget and Policy Priorities* : (2009) <http://www.cbpp.org/eitc-partnership/eitcfactsheet.htm>.

return. With an e-filed return, a client with direct deposit will likely receive their return in seven to 10 days.

Table 1: The federal EITC in Cuyahoga County

Total Returns	EITC Returns	Percentage EITC Returns	Total EITC Amount	Average EITC Amount	Total EITC Returns Filed with Paid Preparers	Percentage of EITC Returns Prepared by Paid Preparers	Total EITC Returns Purchasing Loans or Refund Checks
626,199	109,441	17%	\$217,950,371	\$1,991	71,177	65%	57,181

Many EITC claimants use paid tax preparation, which can cost them anywhere from \$150 to \$300 per refund. In Cuyahoga County, 65 percent of EITC filers paid for tax preparation. Additional costs to families who use paid tax preparation are tax refund anticipation loans (RALs), which are brokered loans from a third party lender to the filer through the paid tax preparer. These are short-term, high-interest loans that provide quick payment of the anticipated refund to the client. Most RALs or loan checks expedite the return process by several days, often getting filers a portion of their refund in a few days, but come at an additional price of \$60 to \$130. Many filers use the loan to pay for the cost of their tax preparation.⁴ New trends in the RAL market suggest that banks are making fewer loans and taking longer to get them to clients.⁵ More than 57,000 EITC filers (52 percent of all EITC filers) in Cuyahoga County purchased tax loans or checks from paid preparers. Tax loans extract an estimated \$1.5 million from EITC claimants in Cuyahoga County. Paid tax preparation costs EITC claimants at least \$10 million.

Coalition overview

The Cuyahoga EITC Coalition, in a five-year time span, has produced impressive results (see Table 2). Sites that prepare taxes do so under the federal Volunteer Income Tax Assistance (VITA) program. IRS trained and tested volunteers prepare federal, state, and local taxes.⁶ The Coalition increased client returns by nearly 300 percent since 2005. In 2009, the Coalition served 7,948 clients, bringing more than \$10.5 million (\$3.8 million in EITC) back to Cuyahoga County. There was virtually no change in the total number of clients served from the previous year because many elderly filers used

⁴ Chi Chi Wu and Jean Ann Fox. "Beginning of the End?: Major Changes to Quick Tax Refund Loan Industry," *National Consumer Law Center* (January 19, 2010):

http://www.consumerlaw.org/issues/refund_anticipation/content/2010-RAL-earlyPR.pdf.

⁵ Maria Aspan. "Tightening Screws on Refund Anticipation Loans," *American Banker* (January 12, 2010):

http://www.americanbanker.com/issues/175_7/tightening-screws-on-tax-loans-1005978-1.html.

⁶ For more on the IRS VITA program, visit the IRS free services website at:

<http://www.irs.gov/individuals/article/0,,id=107626,00.html>.

the Coalition to prepare returns for Economic Stimulus Payments (ESP). The one-time ESP required a return for many people who normally do not file a tax return and the Coalition prepared at least 1,500 of these returns in 2008. When the ESP returns are discounted from the 2009 total, the Coalition continued to grow in preparing returns. More than one-third of clients claimed the EITC, accounting for \$3.8 million of those refunds. The average client's total refund was \$1,321 with the average return containing an EITC being \$95 more or \$1,416.

Table 2: 2009 Cuyahoga EITC Coalition Results

Total Returns	5 Year Growth in Total Returns	EITC Returns	5 Year Growth in EITC Returns	Percentage EITC Returns	Total EITC Amount	5 Year Growth in Total EITC Amount	Total Refund Amount	5 Year Growth in Total Refund Amount
7,948	295%	2,682	225%	34%	\$3,800,000	245%	\$10,500,000	275%

Table 2: 2009 Cuyahoga EITC Coalition Results (continued)

Average Return with an EITC	Average Return
\$1,416	\$1,321

The overall share of EITC returns prepared by the Coalition grew significantly over the last five years but remains a very small percentage (three) of all Cuyahoga County EITC returns. Nationally, around one percent of all EITC returns are prepared by free tax coalitions. Some EITC filers use paid preparation early in January before free tax sites are ready to assist them. However, our previous studies using focus groups suggest that the main reason for not using free tax preparation is the lack of knowledge and awareness of these services by clients.⁷

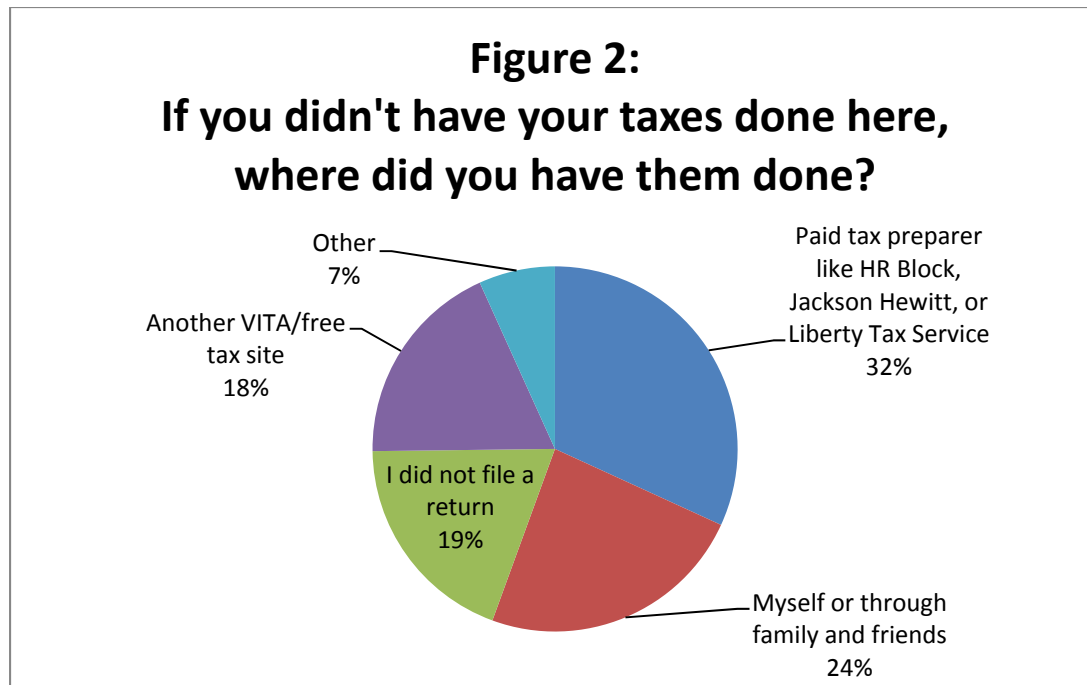
⁷ See David Rothstein and Piet van Lier "Connecting Free Tax Preparation and Asset Building: Cuyahoga EITC Coalition Study," *Policy Matters Ohio* (January, 2009): http://www.policymattersohio.org/pdf/FreeTaxPrep2009_0120.pdf.

Quantitative survey methodology

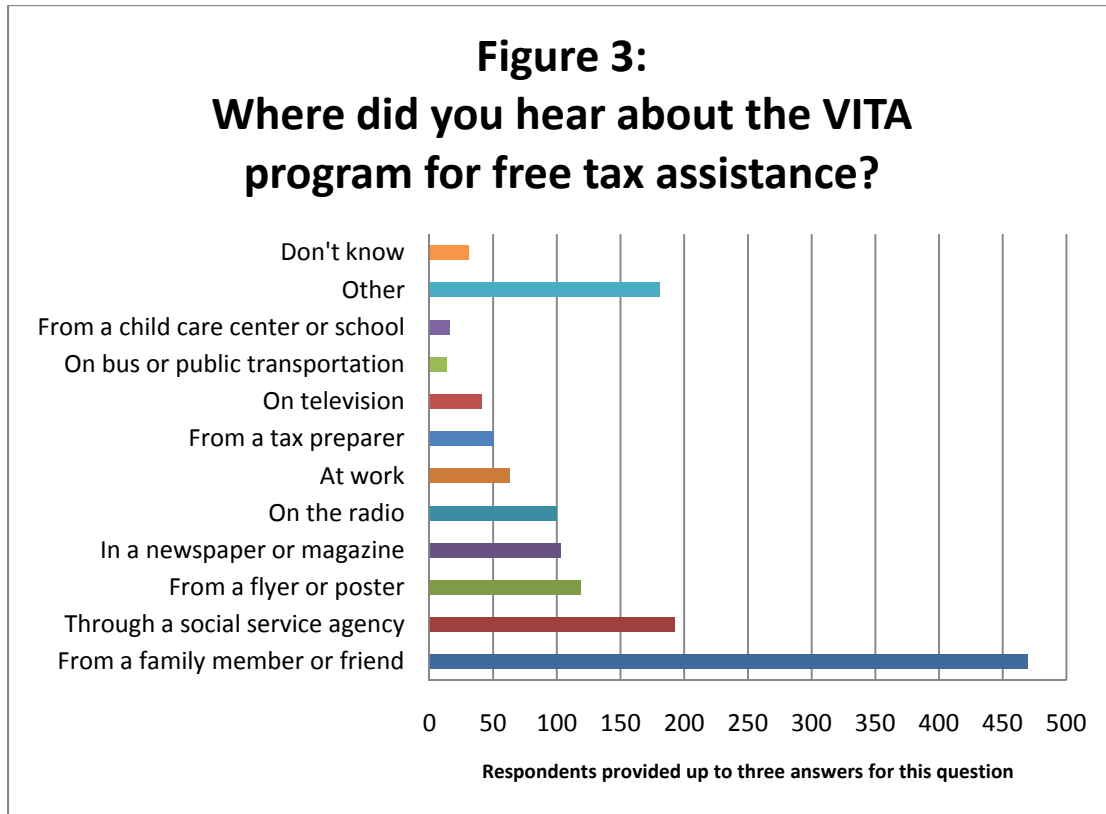
The Cuyahoga EITC Coalition commissioned Policy Matters Ohio to evaluate clients and the overall efforts of the Coalition. Twelve VITA sites distributed the survey and 1,270 clients participated. Clients were not required to fill out the survey to receive free tax preparation nor did they have to answer every question on the survey. About 25 percent of all clients decided to participate in the survey. The goals of the survey were to understand what marketing efforts resonate with clients, how free tax services impact their lives, and how clients make financial choices. In past year surveys and focus groups, similar questions were asked but focused more on demographic characteristics and spending behavior of clients. This survey included more targeted questions and also asked about public assistance programs and barriers to saving.

Survey Results

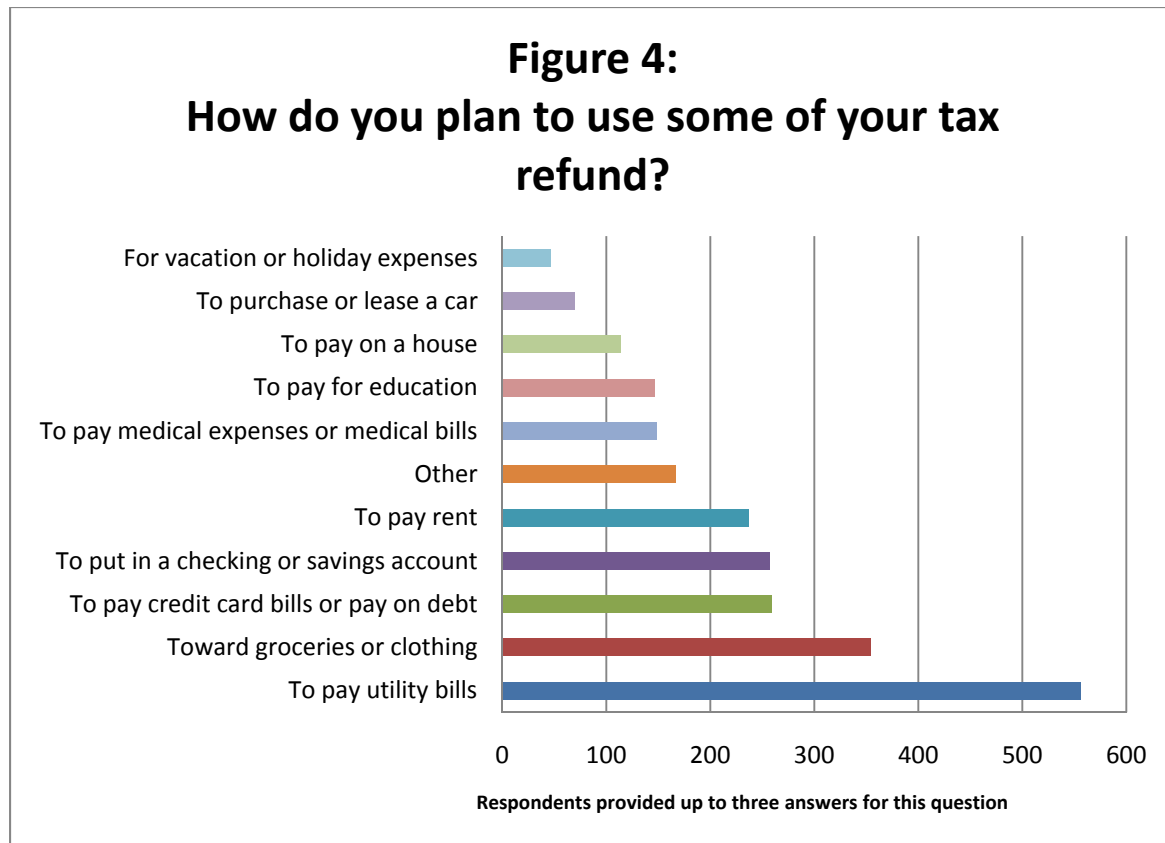
Of the 1270 survey participants, 60 percent had not used free tax services before this tax season. Figure 2, below, displays how clients prepared their taxes the previous year. Nearly one-third of participants paid to have their taxes done. Other clients used family and friends (24 percent), or another free site (18 percent) to complete their returns. Nineteen percent did not file a return in the previous year and many were able to utilize the VITA program to prepare prior year returns. Under the VITA program, sites can prepare returns for the past three tax years. Based on Coalition intake sheets, most sites have repeat customers who file early in the tax season.



While clients heard about the Coalition from a variety of marketing efforts (see Figure 3), word of mouth continues to be the way most clients hear about free tax preparation. More than 450 clients heard about the Coalition's services from friends and families, which is consistent with previous surveys. Clients continue to respond to social service agencies that offer free tax services and contact them directly through flyers or posters. Advertisements on the radio and in print also impacted how clients heard about the Coalition. Nationwide, radio has become a popular medium to reach working women. Most clients use the direct referral line of 2-1-1, First Call for Help, which is printed or mentioned on the majority of marketing material. In the current tax season, 2-1-1 will provide not only referrals but also make appointments for certain Super Saturday events and sites. The majority of clients reported at least three ways that they heard about the Coalition and its services, which exemplifies the Coalition's ability to get its message into multiple markets.

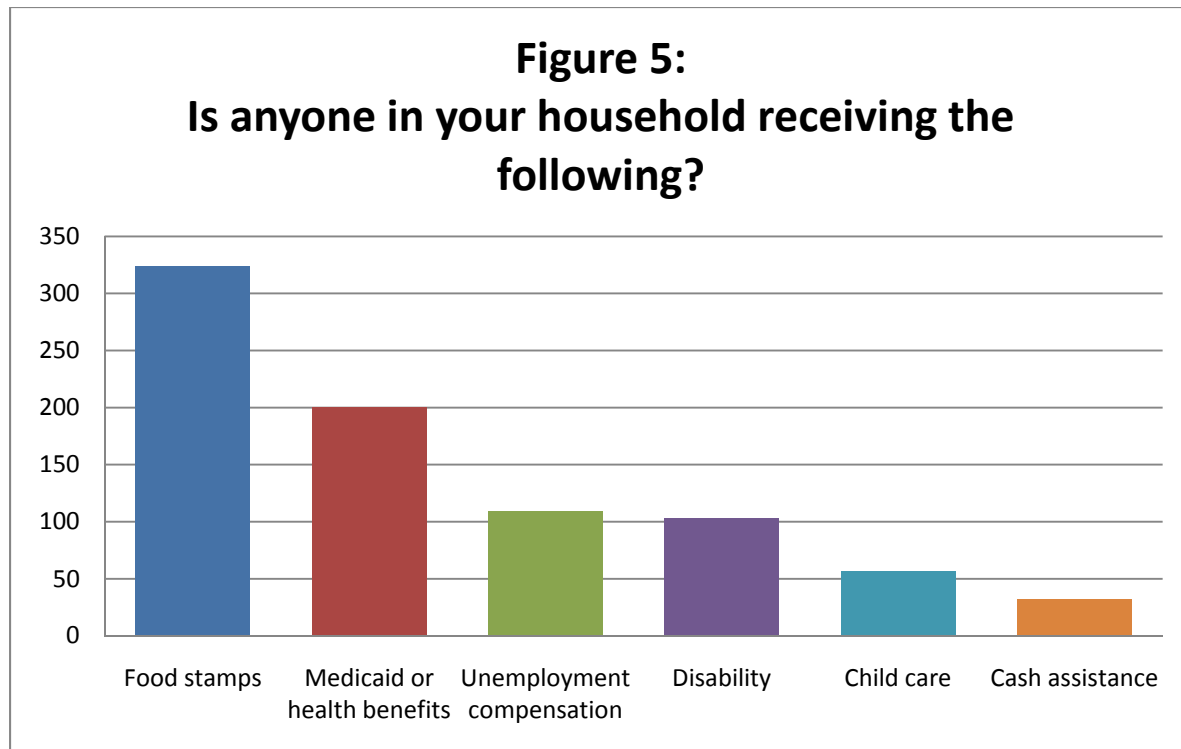


Clients indicated that they use their refunds for a variety of goods and services, often purchased in the local community. Data from the survey, displayed in Figure 4, indicates that refunds were used for basic living expenses such as utility bills, food and clothing, housing, and transportation expenses. Many who answered “other” indicated their refunds would be spent on their children, for child support, or back taxes. Nearly 250 clients indicated that they would save a portion of their refund, the fourth most popular response.



The survey also asked about client participation in other public assistance and government programs (see Figure 5).⁸ More than 325 clients answered they received food stamps or assistance while nearly 200 indicated they received a form of health assistance. Some clients also indicated they received unemployment compensation or disability assistance. The number of clients claiming public assistance is significantly higher than two years ago when the survey question was asked. When asked two years ago about public assistance, few answered any type other than food stamps. This increase in assistance claims could represent more clients being eligible for programs than before due to reductions in their income or in awareness of the programs. The continued recession also is a likely contributor to the number of unemployment compensation claims. Unemployment compensation and disability payments do not count as “earned income” and cannot be used to claim the EITC.

⁸ As opposed to other survey questions, less than 500 clients answered this question about public assistance programs. Policy Matters Ohio’s earlier focus group study (Rothstein and Van Lier, 2009), found that clients were often nervous that claiming public assistance would negatively affect their tax refund.



Most clients reported difficulties in earning enough money to meet their basic needs, making saving money difficult (see Figure 6). More than 775 clients indicated they did not earn enough money to save. Other clients expressed that they had too many bills and too much debt to save. Contrary to previous reports on low-income families and asset building, few clients felt that they did not know the best ways to save or that they lacked the financial products to do so. In a separate survey question on savings goals, less than 50 clients reported they had emergency savings accounts and only 100 clients had savings goals.

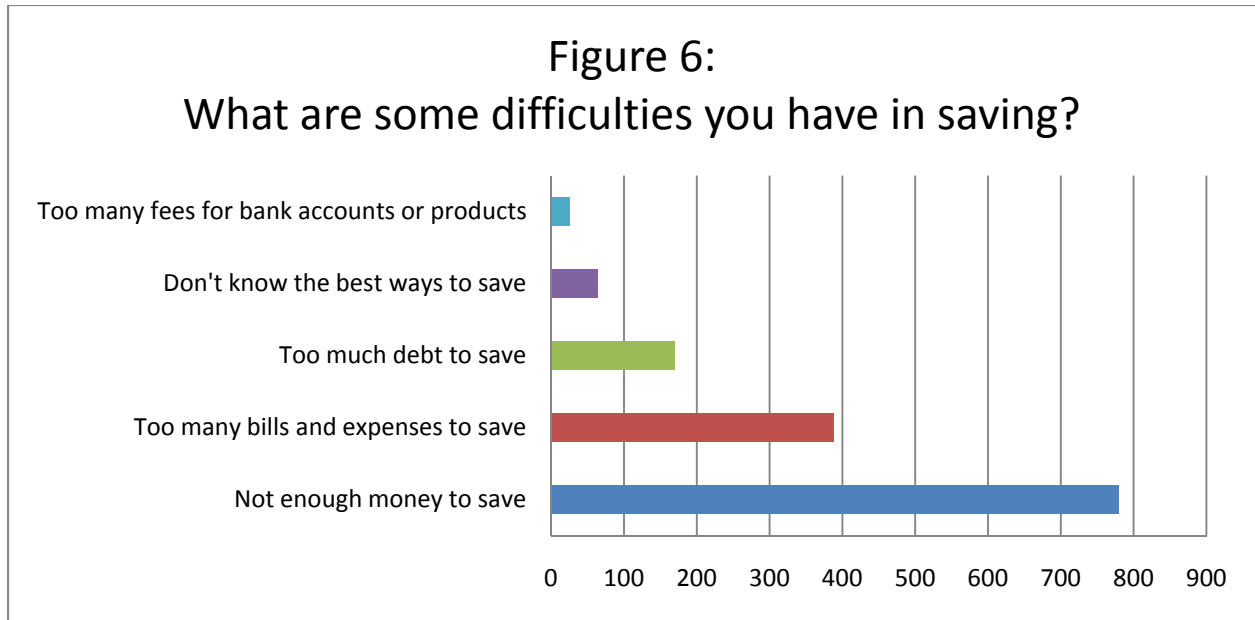
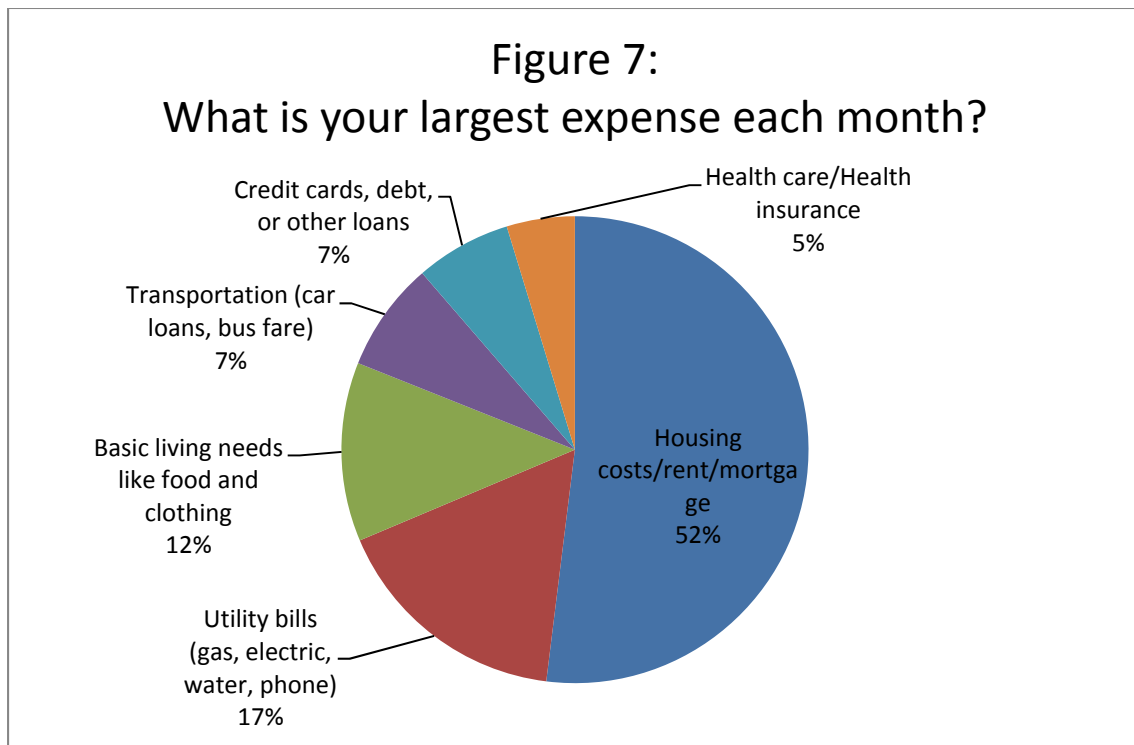
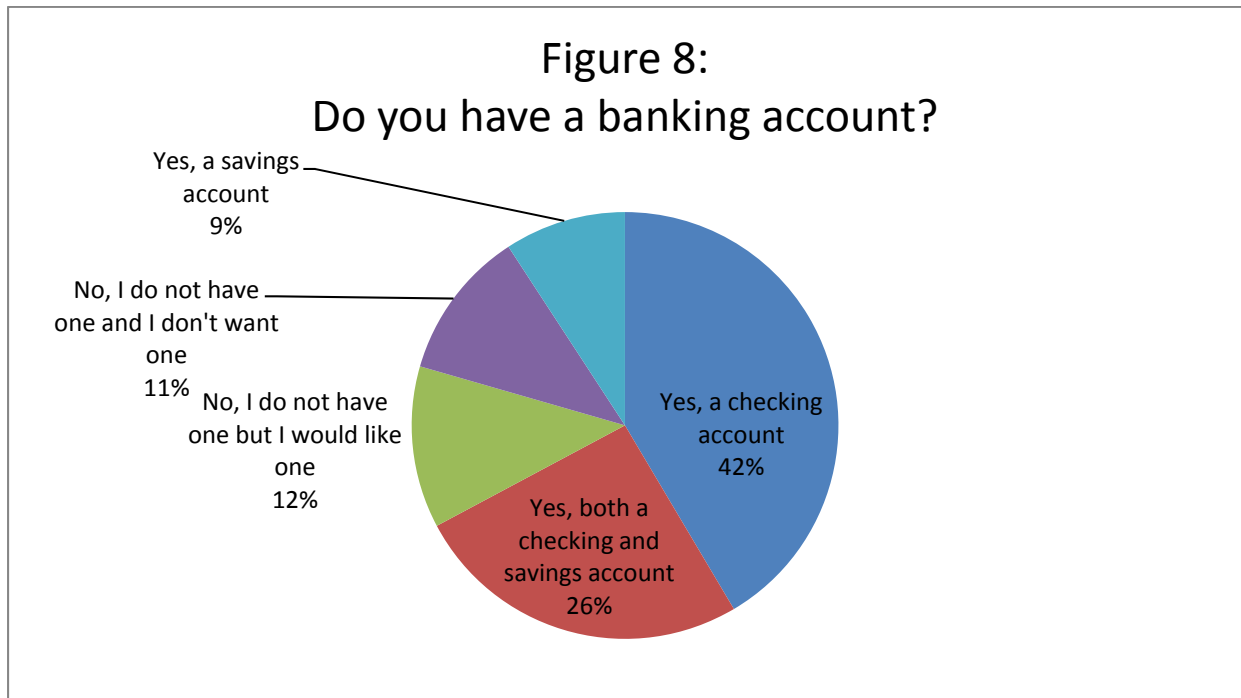


Figure 7 displays the largest expenses each month for clients. As past surveys found, housing costs (52 percent) are the largest expense each month for clients. Utility bills (17 percent) and basic needs expenses (12 percent) remain a high cost for clients but are less of a large expense this year than in years past.

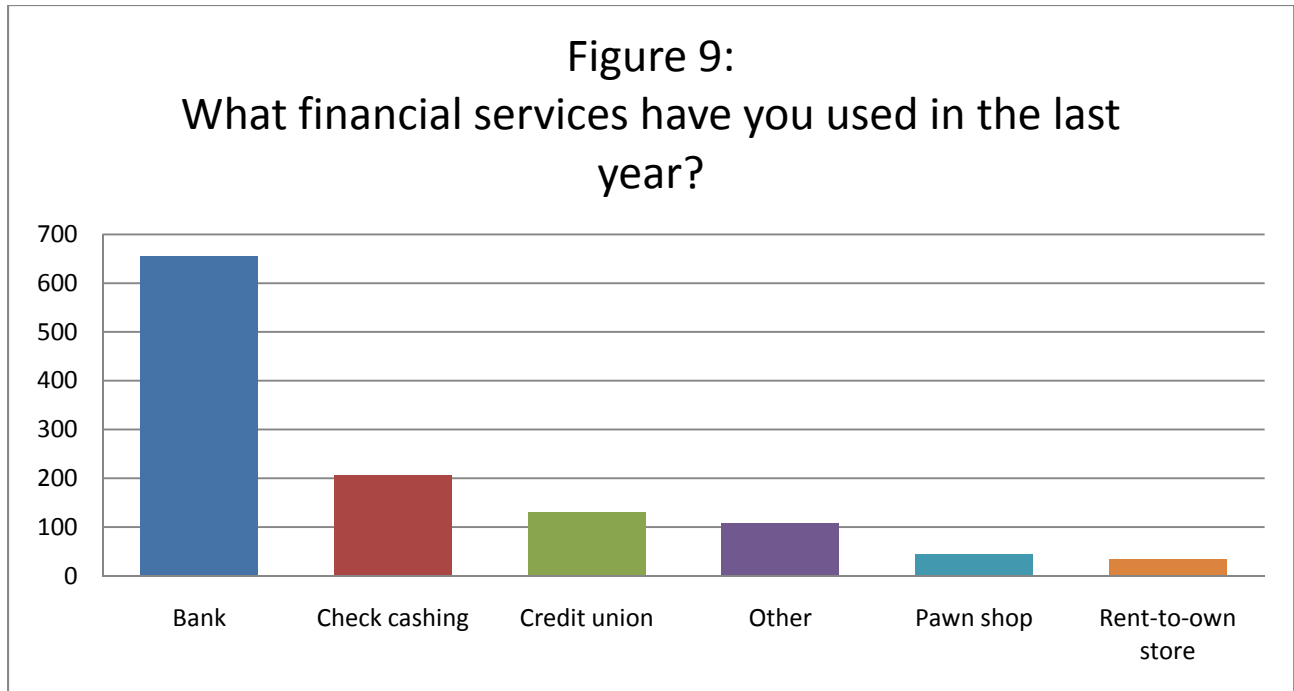


As in previous years, most clients are banked in some fashion (see Figure 8). At least 68 percent report having a checking account, while 35 percent have at least a savings account. More than one-

quarter have both types of bank accounts. Of the 23 percent who did not have a bank account, half would like to become banked. This is particularly important for clients who want their refund quickly as an e-filed return can be directly deposited into a bank account quicker than the IRS will issue a paper check. With no bank account, a client would also presumably pay to have their refund check cashed. The survey found that more than 650 clients have direct deposit capabilities.



According to the survey, most clients who have accounts with banks use their services (see Figure 9). The majority of clients reported using a bank for financial services but some indicated they also use check cashers (210 clients). More than 100 clients indicated they used a credit union while others indicated they used payday lenders, pawn shops, and rent-to-own stores.



Recommendations

There are a variety of ways that the Coalition and overall VITA efforts can be strengthened.

Funding

The Cuyahoga Coalition is primarily funded by the Board of Cuyahoga County Commissioners through a federal re-grant of the Temporary Aid to Needy Families program (TANF). This allocation makes sense given the focus of the EITC is to provide assistance to families with children. Recently, the United Way of Greater Cleveland provided financial support to the Coalition, as well as marketing and outreach services. Under a new IRS grant program, the Coalition receives support for technology and site management. However, much of the money is designated for expanding the Coalition's operations into "hard-to-reach" areas, additional counties, and suburbs. More funding is needed for basic operations including site managers, outreach, marketing materials, and staff. Some funding suggestions include:

- The federal government should increase its allocation to the IRS VITA grant program, which is currently at \$12 million for all the free tax coalitions in the country. The grant process could also be improved, as grantees do not know their status until very close to the beginning of tax season.
- While the State of Ohio provides support for the Ohio Benefit Bank, which offers free tax preparation with a volunteer or coach, there is no state-level support for Ohio's VITA programs. Only funding the OBB is insufficient to help the thousands of Ohioans who need tax assistance and qualify for the EITC. The OBB is also not funded at a high level and requires private donations and foundation support. Currently, 27 other states provide fiscal support through grants and discretionary funding for asset building, EITC, and free tax programs.

Increases to federal and state funding would help bring more EITC dollars to families and communities while increasing the number of properly prepared and filed tax returns to the IRS and Ohio Department of Taxation.

Outreach/Marketing

The Coalition's marketing efforts remain strong but more can be done to reach filers who use paid tax preparation or do not file. Beginning in the fall, families should hear about free tax services and be encouraged to not take out costly loans from paid preparers. Schools, religious institutions, libraries, and labor unions can play a pivotal role in this outreach to their membership. Many of these groups work with the Coalition but more can be done such as speaking events, mailers, newsletter inserts, pay-stub inserts, robo-calling, and inserts with W-2 forms. Some other specific marketing suggestions include:

- The radio is still a popular way to reach low-income families. Specifically, working women tend to prefer the radio as a medium for information and entertainment. Over the last two years, clients increasingly reported hearing radio ads about free tax preparation and the EITC.
- Increasing outreach to the Latino and Asian communities is an important part of growing as a Coalition. There are a substantial number of low- and moderate-income families who are Hispanic and could utilize this service. Developing materials in Spanish, which the Coalition has done, is a good first step. Also, making particular outreach efforts through city council representation, libraries, and ward clubs in those areas would be a logical and easy outreach step.
- Using “tear-off” sheets for potential clients so they have the ability to call 2-1-1 at their leisure and pass a tangible piece of marketing material to others. The paid preparation chains use this as an effective recruitment method.

Services

- While most clients are banked, a small portion would like to open bank accounts. Having a bank presence at larger sites, offering first accounts and short-term, safe savings products, would allow clients to get more from their tax preparation experience.
- Many clients use alternative or “fringe banking” services that drain money from their paychecks and the local economy. The Coalition should develop or work with other groups to hand out information about the large fees and interest from check cashers, pawn shops, payday lenders, and rent-to-own stores.
- The largest use of refunds is to pay utility bills. There are several utility assistance programs, specifically around gas and electric bills, that could help many clients in the low-income range.
- The Ohio Benefit Bank provides a unique analysis of government benefit eligibility that could provide referrals to the Coalition (or vice versa) to strengthen the financial stability of families. Some VITA sites use OBB software but many are not set-up to do so. The Coalition should ask about clients’ benefit eligibility, current claims, and interest in learning more. This is particularly critical given the rise in public assistance claims by clients who use the Coalition for free tax preparation.
- Cleveland Saves⁹, certified housing and income counselors, and community credit counseling services should play a larger role in helping clients who want to save but need some products, plans, or goal-setting assistance. Some sites have more participation in this area than others but each site could offer a call-back or follow-up option for these services.

⁹ Cleveland Saves is a broad-based coalition of nonprofit, financial, corporate and government groups, which encourages individuals and families to save money so that they can build wealth. The mission of Cleveland Saves is to convince all greater Clevelanders that they can build wealth, reduce debt, and create lifelong financial security and provide support services to assist them in doing so with savings plans and goals.

POLICY MATTERS OHIO IS A NON-PROFIT, NON-PARTISAN RESEARCH INSTITUTE DEDICATED TO RESEARCHING AN ECONOMY THAT WORKS FOR ALL IN OHIO. POLICY MATTERS SEEKS TO BROADEN DEBATE ABOUT ECONOMIC POLICY BY PROVIDING RESEARCH ON ISSUES THAT MATTER TO OHIO'S WORKING PEOPLE AND THEIR FAMILIES. AREAS OF INQUIRY FOR POLICY MATTERS INCLUDE WORK, WAGES, AND BENEFITS; EDUCATION; ECONOMIC DEVELOPMENT; ENERGY POLICY; AND TAX POLICY. GENEROUS FUNDING COMES FROM THE JOYCE, GUND, CLEVELAND, PUBLIC WELFARE, KNOWLEDGEWORKS, NEW WORLD, ANNIE E. CASEY, SISTERS OF CHARITY AND W.K. KELLOGG FOUNDATIONS, THE ECONOMIC POLICY INSTITUTE, AND GREATER CLEVELAND COMMUNITY SHARES. TO THOSE WHO WANT A MORE FAIR AND PROSPEROUS ECONOMY... **POLICY MATTERS.**

3631 PERKINS AVENUE, SUITE 4C - EAST • CLEVELAND, OHIO 44114 • 216/361-9801

COLUMBUS: 300 E. BROAD STREET, SUITE 490 • COLUMBUS, OHIO 43215 • 614/221-4505

[HTTP://WWW.POLICYMATTERSOHIO.ORG/](http://www.policymattersohio.org/)



© 2010 Policy Matters Ohio. Permission to reproduce this report is granted provided that credit is given to Policy Matters Ohio. All rights reserved.