

WHO TAKES CREDIT: THE EARNED INCOME TAX CREDIT IN FRANKLIN COUNTY 2008

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**United Way
of Central Ohio**



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SEPTEMBER, 2008

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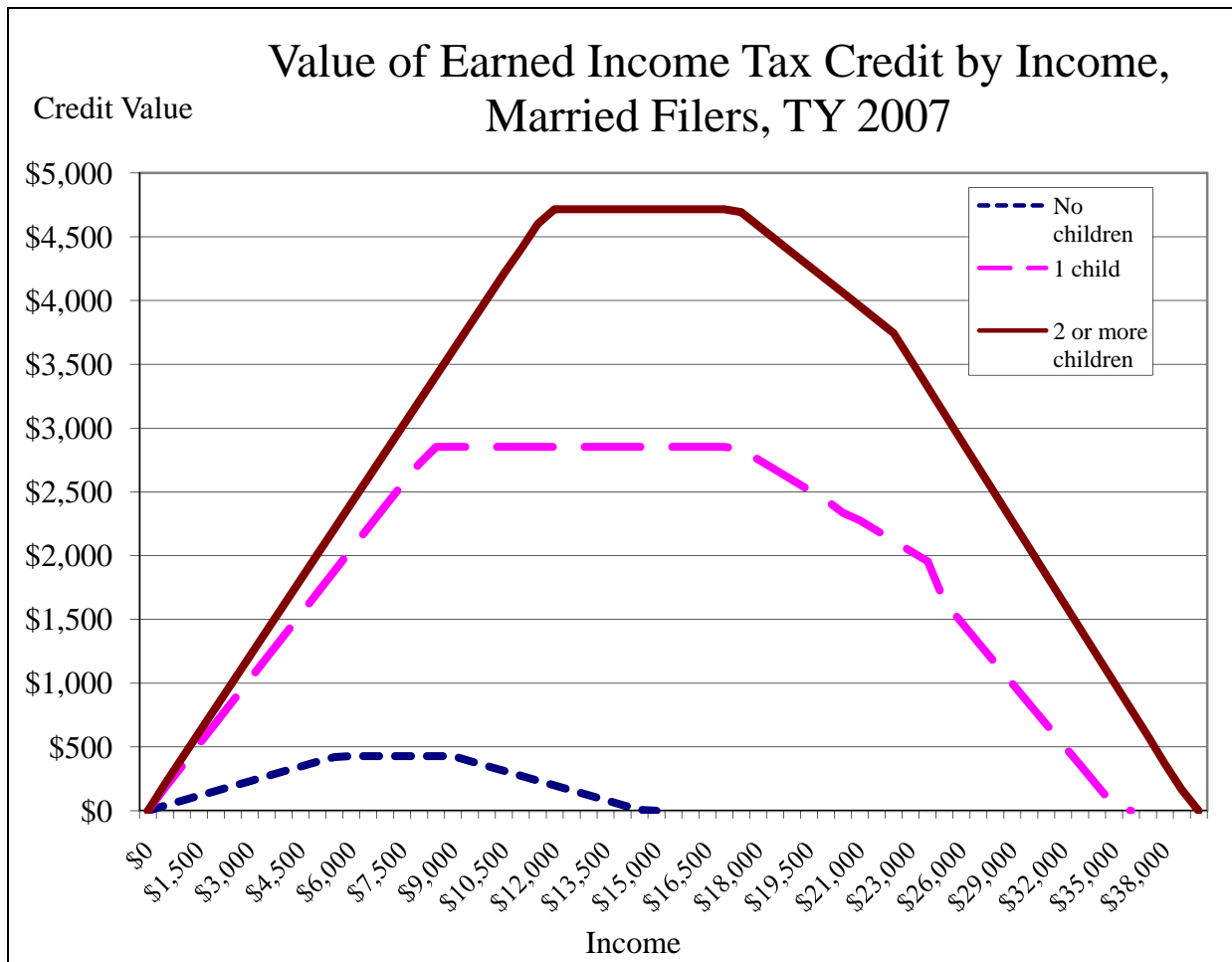
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ACKNOWLEDGEMENTS

The author is grateful to April Hirsh, Laura Wichman, Obed Eugene, Mike Stanek and Brandon Henneman for diligent data entry assistance and to Matt Kosanovich for his data coordination assistance.

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The Franklin County EITC Coalition is a growing partnership of more than 31 groups that assist low and moderate-income families in receiving free tax preparation. Led by the United Way of Central Ohio, Columbus City Council, and the Franklin County Commissioners' Office, the coalition specifically targets families and individuals that are eligible for the Earned Income Tax Credit (EITC). The EITC is the nation's largest antipoverty tax program, lifting more than 5 million children above the poverty line each year. Based on a family's income and size, the credit maxes out at \$4,200 with an average in Ohio of \$1,800. The chart below displays how the credit varies based on marital status, income, and number of children. The credit is primarily aimed at workers with children, but very low-income workers without children are eligible for a small credit of less than \$500, as the figure below shows.



Free tax coalitions, like the Franklin County group, address several issues. First, many families are not aware that they are eligible for the EITC and other tax credits. The Internal Revenue Service and Government Accountability Office estimate that up to 25 percent of eligible families in certain areas do not claim the EITC. Second, even if they are aware of the EITC, some families file incorrectly and end up losing portions of their refunds. Third, many families pay for tax preparation, audit insurance, tax refund loans, and filing fees that drain money from their returns. Finally, many coalitions provide asset-building and financial counseling services such as offering split refunds, bank accounts, certificates of deposit, bonds, and credit report reviews.¹

Coalition Successes

In 2008, the Franklin County Coalition completed 3,152 free tax returns, a 78 percent increase from the previous year. The coalition added four new sites and closed three previously existing sites, with all of the new sites producing more returns in 2008 than the closed sites did in 2007. Overall, only one site did fewer returns in 2008 than the previous year. Slightly more than 33 percent of all returns had EITC claims, roughly the same percentage as the previous year. However, as with total claims, the total aggregate number of EITC claims grew dramatically in 2008. A substantial number of free tax site clients filed solely to claim the federal economic stimulus payment and were not EITC-eligible. These clients, many of whom were seniors or veterans who did not meet the EITC work and income requirements, increased the volume at sites around the country but did not claim the EITC.

The coalition had a major economic impact on the community, returning nearly \$3 million to the Franklin County area, roughly half of which was from the EITC.² This represents a 40 percent increase in returns from the previous year. The average EITC claim was slightly more than \$1,400 and the average refund amount for all clients was \$950. The amount of direct deposits of refunds into bank accounts increased from 631 to 934 clients. Direct depositing refunds allows clients to receive their refund in approximately seven to 10 days. Paper checks usually take about two weeks.

¹ Splitting a refund is a new IRS initiative that allows a tax filer to divide the return into several bank accounts, which encourages savings. The process is also referred to as Form 8888.

² The total net refund amount is slightly less than \$3 million once debts owed to the IRS or other entities are considered.

The chart below displays the coalition results for the 2008 filing season.

Table 1: 2008 Franklin County EITC Coalition Results						
Site Name	Total Returns	Growth in Total Returns	EITC Returns	Percentage EITC Returns	Total EITC Amount	Total Refund Amount
AAAS Community Extension Center	165	20%	97	59%	\$ 163,946	\$ 301,383
ACORN ³	529	47%	212	40%	\$ 240,251	\$ 418,624
FIRSTLINK	169	17%	77	46%	\$ 114,573	\$ 239,533
Godman Guild	298	33%	144	48%	\$ 251,217	\$ 487,548
Livingston Branch, CML	414	73%	13	3%	\$ 8,202	N.A.
Northern Lights Branch, CML	463	-3%	113	24%	\$ 161,391	\$ 354,567
Northland High School	76	21%	33	43%	\$ 56,318	\$ 123,987
Ohio Dominican University	161	53%	45	28%	\$ 52,885	\$ 132,394
West High School	152	68%	60	39%	\$ 114,660	\$ 232,175
New Sites						
Central Community House	214	N.A.	80	37%	\$ 67,630	\$ 148,536
Karl Road Branch, CML	260	N.A.	83	32%	\$ 96,012	\$ 227,314
South Side Settlement House	141	N.A.	57	40%	\$ 77,589	\$ 173,558
Southwest Community Center	110	N.A.	45	41%	\$ 79,328	\$ 153,993
Total	3,152	44%	1,059	34%	\$1,484,002	\$2,993,612

Demographic Details

FIRSTLINK is a nonprofit agency that refers individuals and families to community resources in Columbus. It also serves as a direct referral system through dialing the phone number 2-1-1 for

³ ACORN had filing information but not EITC information, so their EITC information is an estimate based on their total returns and last year's EITC returns.

free tax preparation. In a unique capacity for a direct referral service, FIRSTLINK also offers free tax preparation “in-house.” The statistics below provide a demographic summary of those referred to Franklin County EITC Coalition free tax sites.⁴

As Table 2 displays, nearly 90 percent of referrals were women and an overwhelming majority (98 percent) were English-speaking. About a third of clients (36 percent) were white, a third were black (33 percent), one quarter did not answer and just 2 percent were Hispanic.

Most of the referred clients were not married (85 percent) and did not have children (67 percent). As noted above, filers who are married and have children receive a larger EITC credit than those who are unmarried and without children. Thus, many coalitions focus on helping families with children claim the credit.

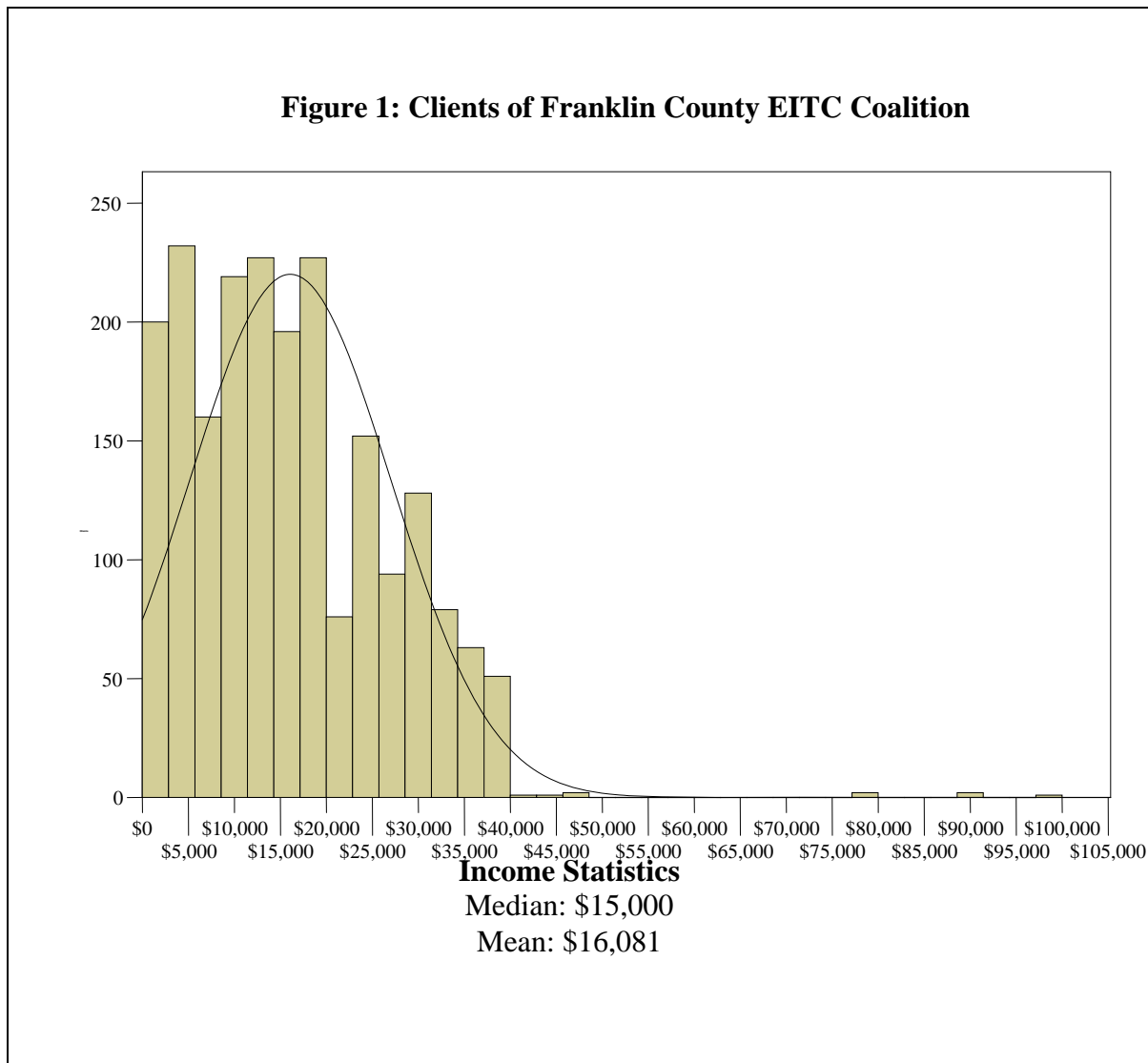
	Clients	Percentage
Race		
• White/Caucasian	908	36%
• African American	831	33%
• Hispanic	54	2%
• Asian	26	1%
• Other/Mixed	84	3%
• Declined to answer	637	25%
Gender		
• Female	2,260	89%
• Male	282	11%
Marital Status		
• Not Married	2,171	85%
• Married	371	15%
Children		
• No Children	1,696	67%
• Children	846	33%
Language		
• English	2,508	98%
• Spanish	33	2%

The demographic information leads to some natural recommendations. The Franklin County coalition is doing a good job of reaching black and white families and those with no children. The coalition should increase its outreach to married families and to families with children, whether headed by men or women. The coalition should also consider ways of reaching out to non-English speaking families and to Hispanic and Asian filers.

The median or middle income of referred clients was \$15,000, ranging from those claiming to make \$1 to \$98,000 per year. However, most clients were between \$5,000 and \$20,000 in

⁴ It is important to note that not all referrals translate into clients and not all clients are referred by FIRSTLINK.

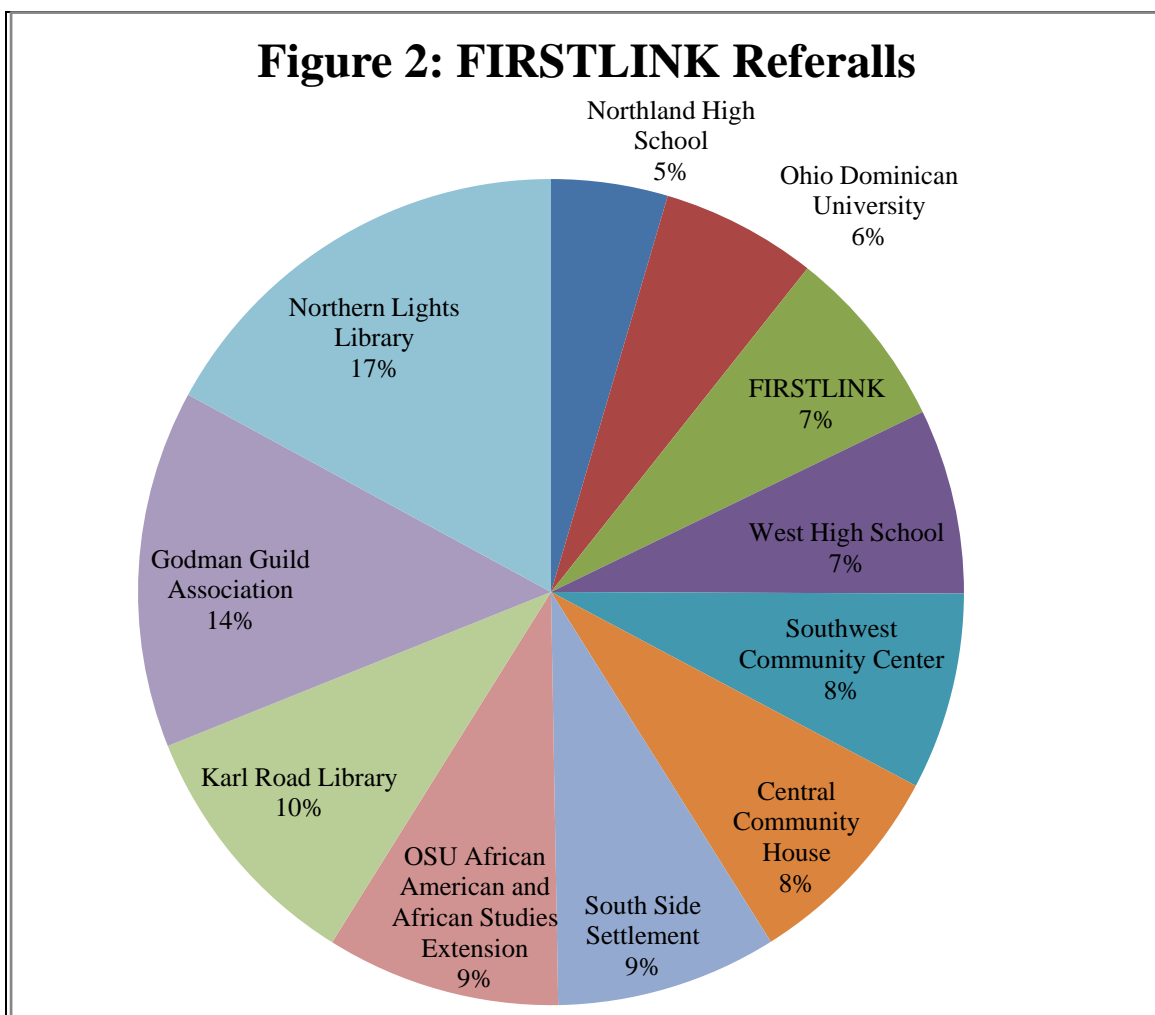
reported annual income. Figure 1, below, displays the client’s income as they reported it to FIRSTLINK.⁵



FIRSTLINK referrals

Referrals from FIRSTLINK were roughly equally distributed among free tax preparation sites with no site receiving more than 17 percent or less than 5 percent of incoming clients. The Northern Lights Library received 17 percent of referrals, followed by the Godman Guild Association with 14 percent.

⁵ Clients that reported \$0 income were removed from this chart because it was difficult to determine whether they had no income or were just declining to report income. It is a common problem in survey research that clients are sensitive about reporting income and race/ethnicity.



Filer Feedback

Clients receiving free tax preparation were asked to fill out an anonymous survey at most sites to help assess their needs and to develop goals for the Franklin Coalition. The free tax preparation and other services were not contingent on filling out the survey. This section analyzes those survey results.

As Figure 3 shows, the majority of clients did not receive free tax preparation last year. Only 30 percent reported getting free tax preparation in 2007. Slightly less than one-quarter of clients paid for tax preparation. Sixteen percent of clients did not file returns in the previous year.⁶

⁶ Filing year refers to the year that the return is filed with the IRS as opposed to the tax year, which is the year the income is earned. For this report, the filing year is 2008 and the tax year is 2007.

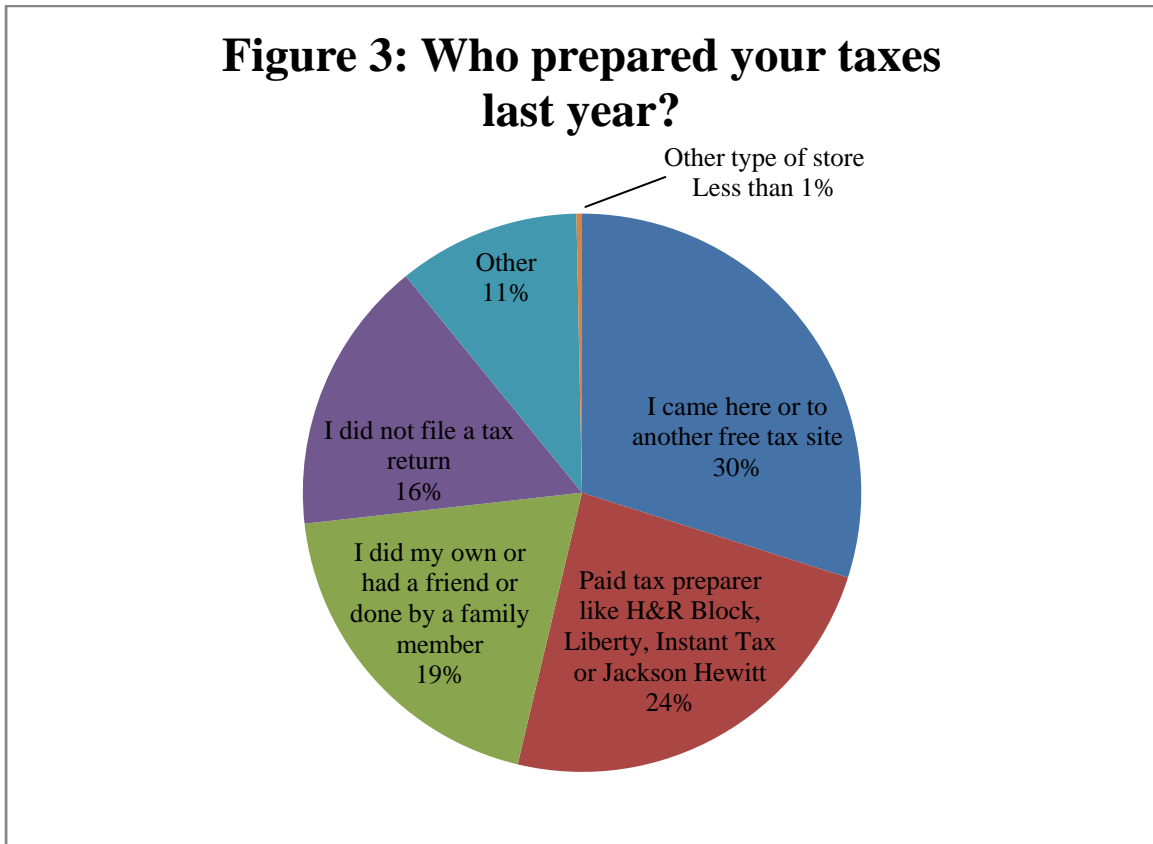
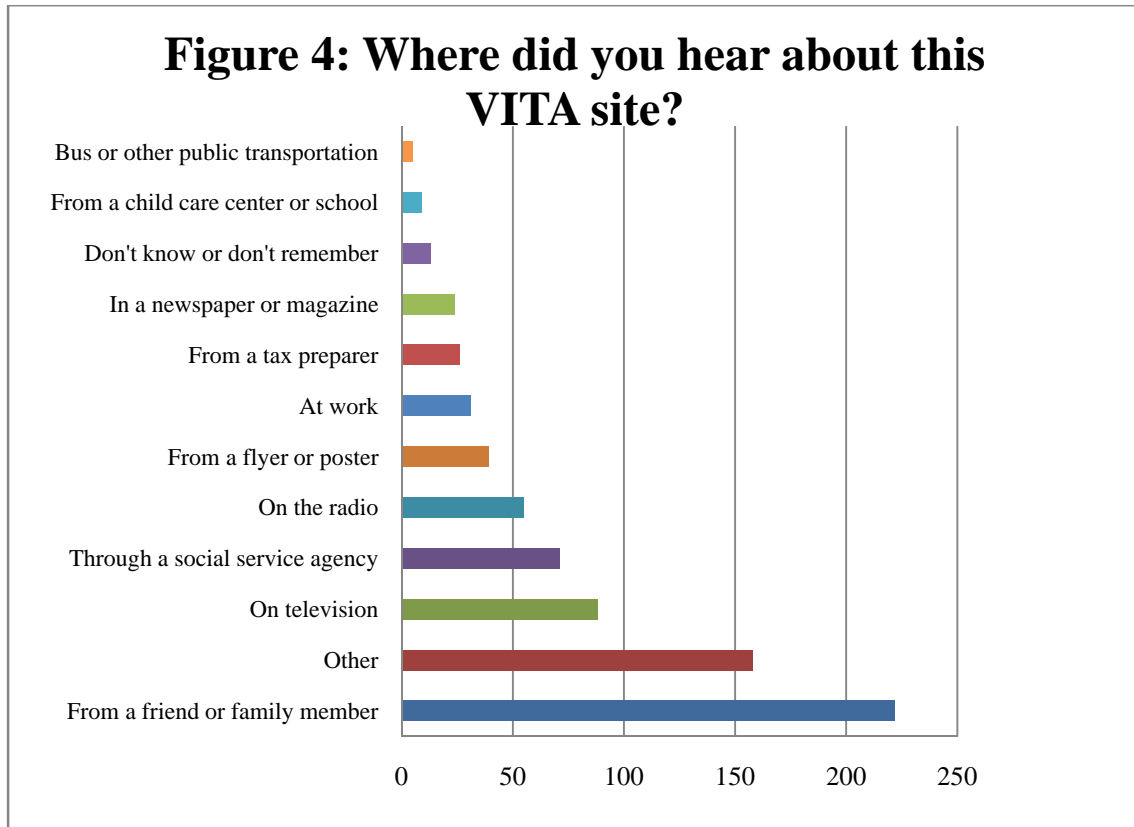
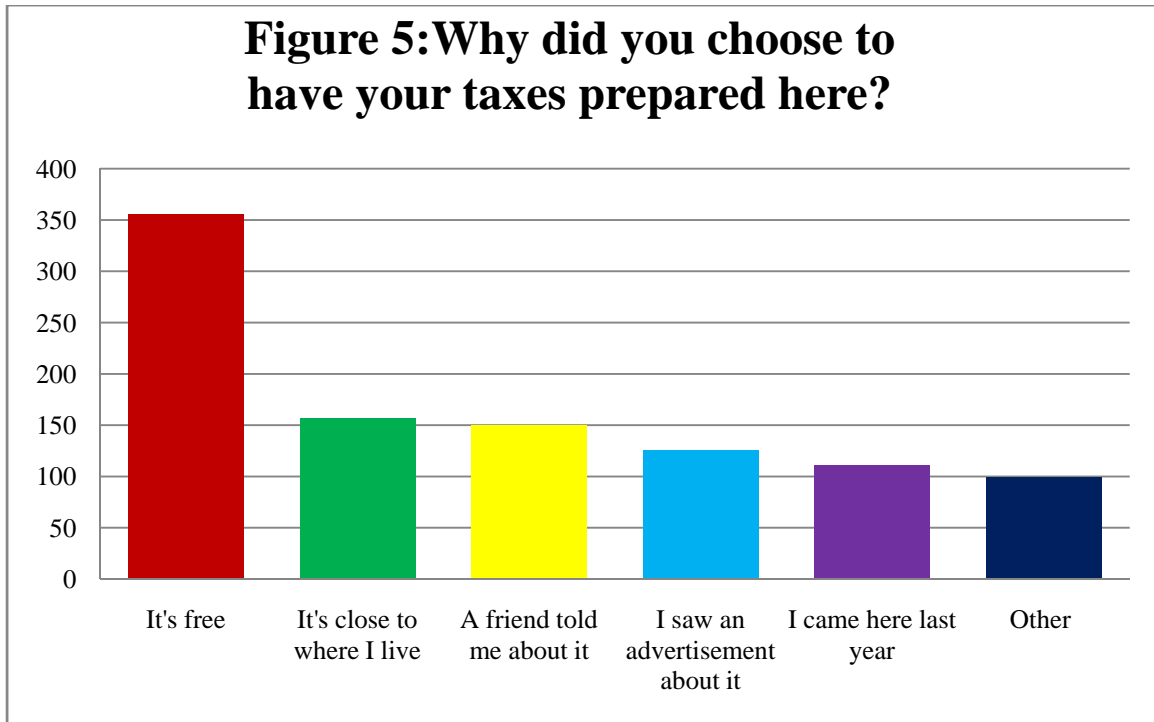


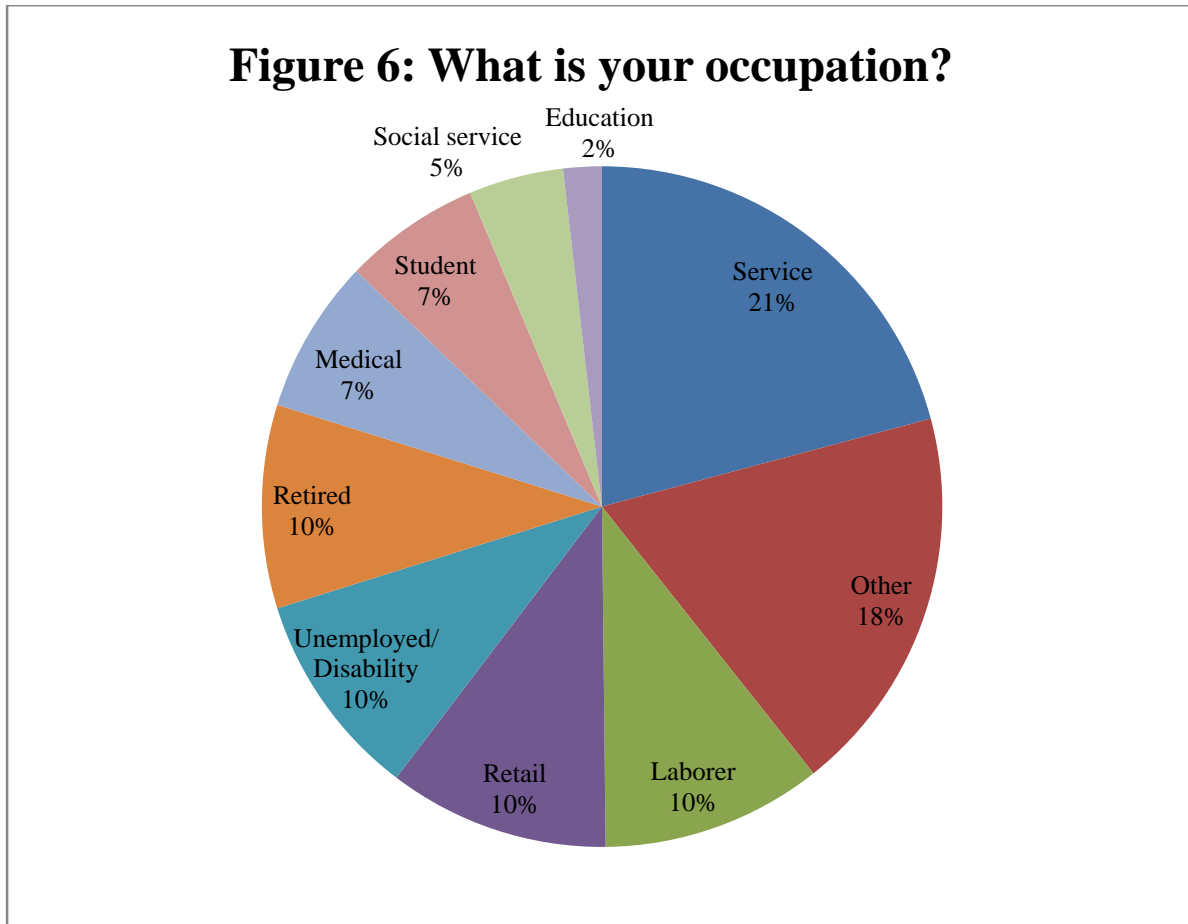
Figure 4 shows that the vast majority of clients, 222, reported hearing about the VITA program and site through family members or friends. Other successful ways of letting people know about the program included television (88 clients), radio (51 clients), and social service agencies (71 clients).



The majority of clients, 355, reported that preparation being free was the main factor in choosing a VITA site. Figure 5 displays that other clients indicated the location, personal recommendations, advertising, and past positive experiences were reasons for going to the free tax site.

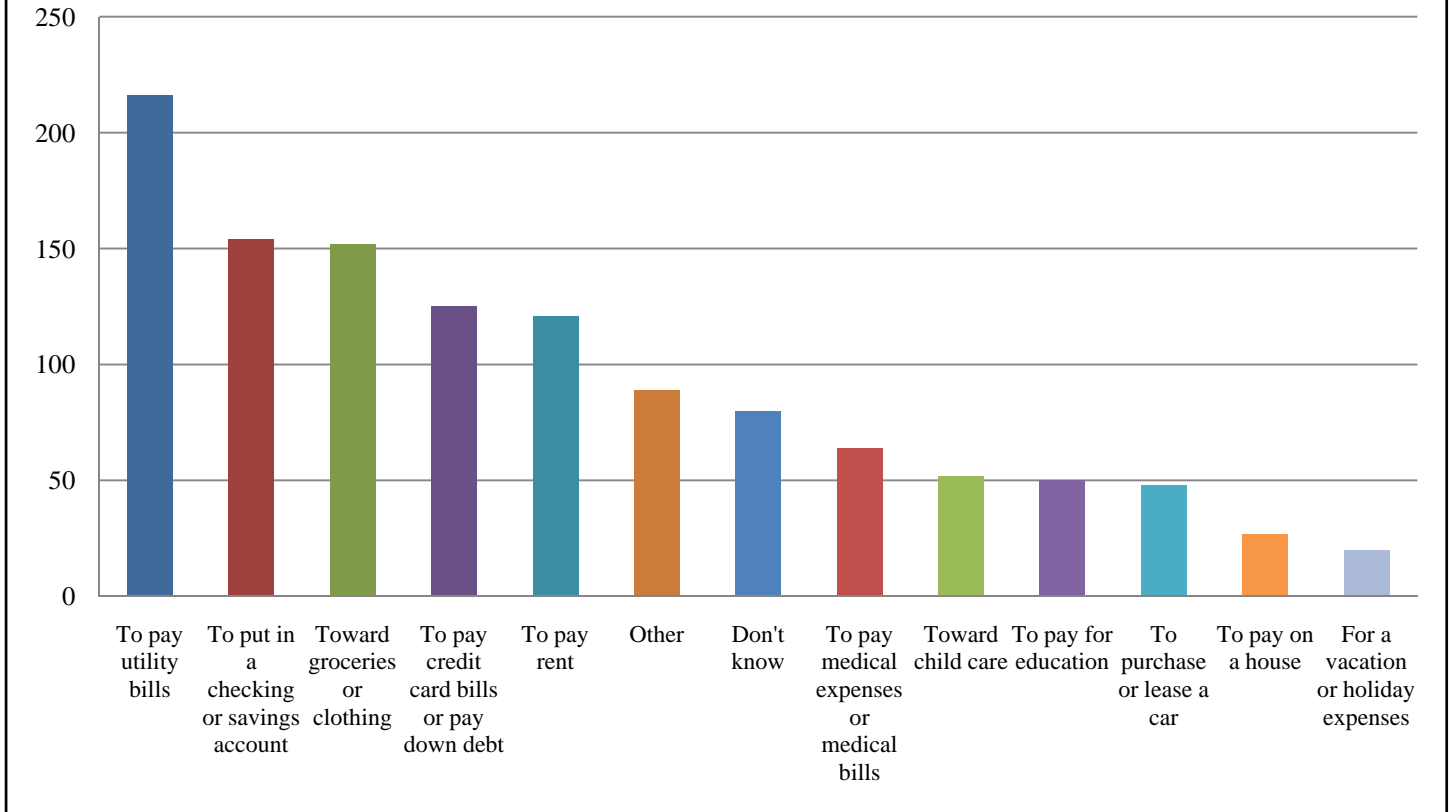


According to Figure 6, clients held a variety of jobs. The majority of clients, 125, worked in the service sector (21 percent). The “other” category comprised a wide-range of administrative positions and represented 18 percent of clients. Retail workers and laborers each made up 10 percent of clients with free tax sites serving 63 clients in each of those sectors. Other clients reported being unemployed or disabled (59) or retired (58). Additional clients worked in the medical, social service, and educational fields.

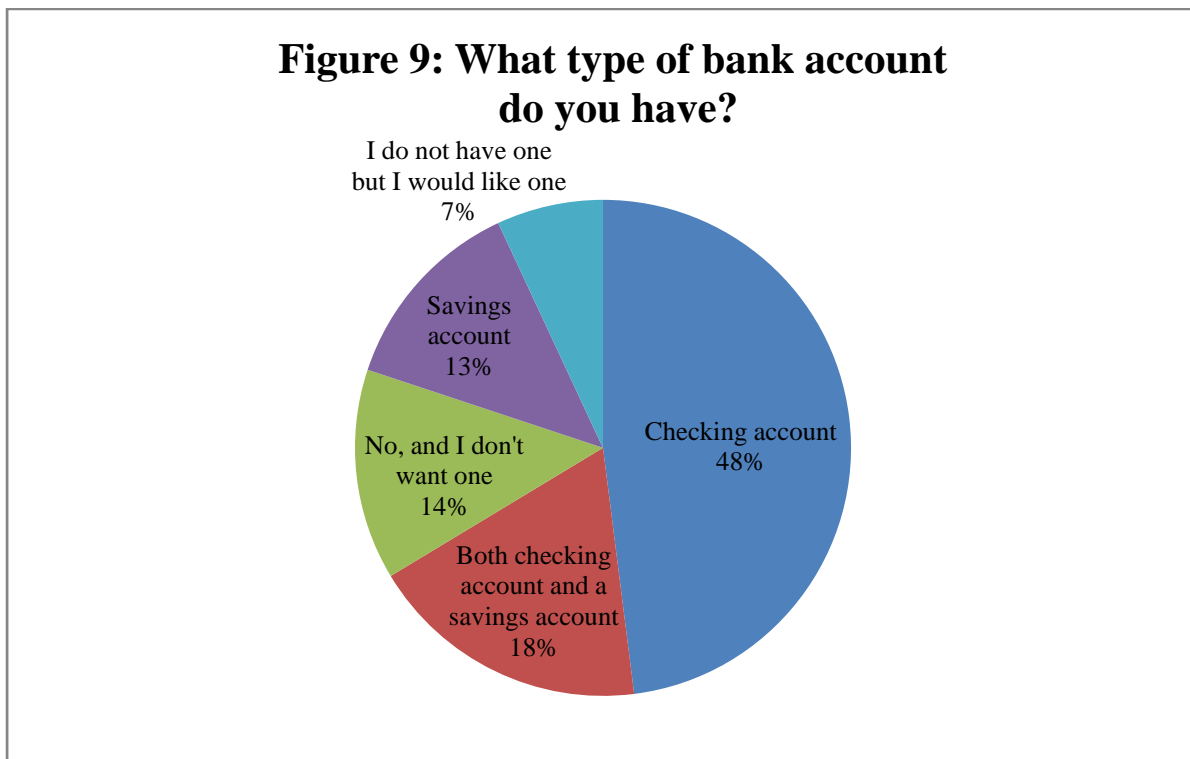
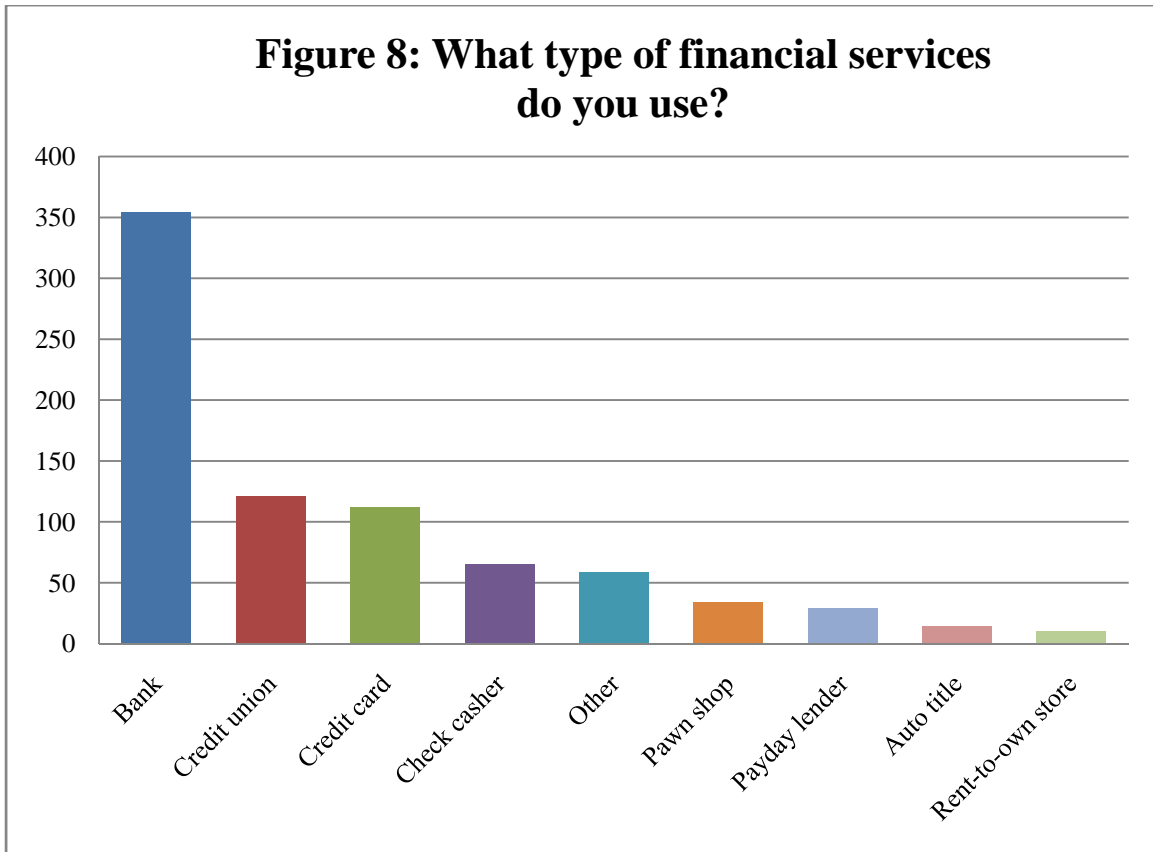


The survey also asked clients how they were planning on using their prospective refunds as shown in Figure 7. Clients were allotted up to three responses. The largest response, more than 200 clients, indicated they would use their refund to pay utility bills. The second largest response, 154 clients, said that they would save their return. This is an unusually high and encouraging response, as many free tax preparation customers indicate that their refund is already spent and they cannot save it. Other popular client responses included basic needs such as groceries and clothing (152) or paying rent (121). Figure 7 illustrates that many respondents use their refund on basic needs.

Figure 7: How do you plan to use your tax refund?

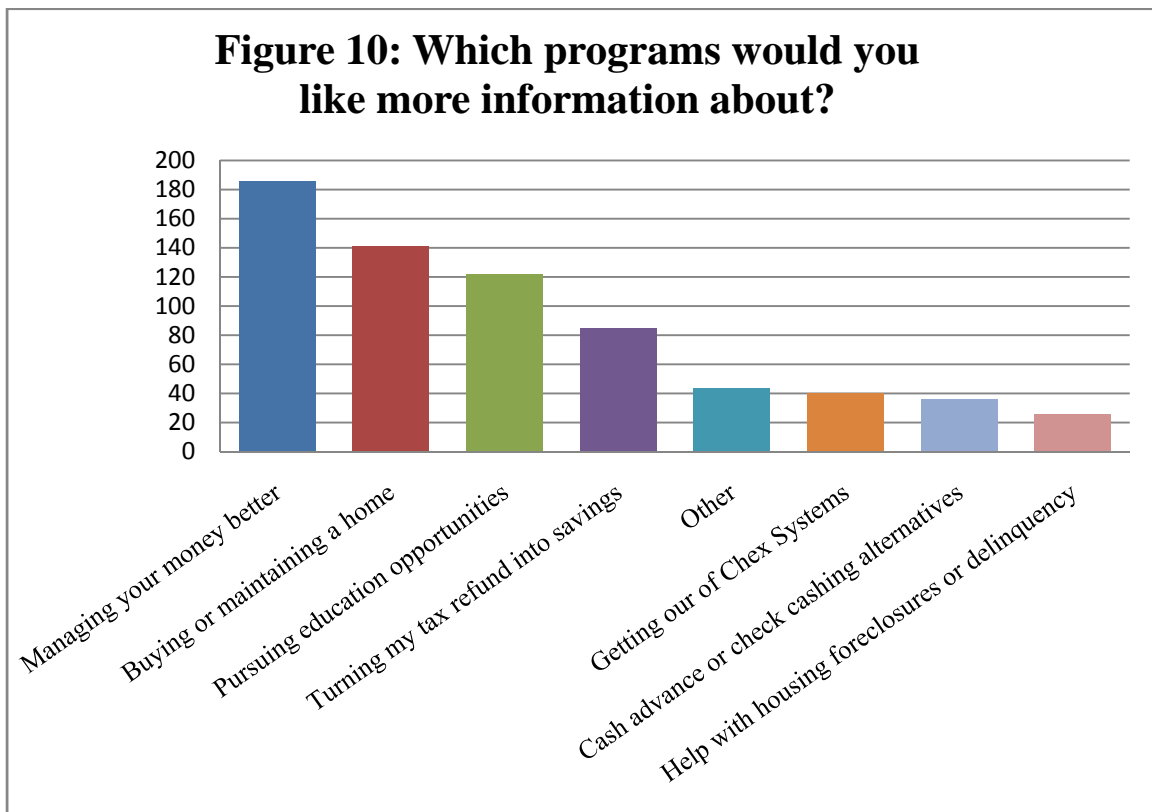


The survey also asked clients about their financial practices as indicated in Figures 8 and 9. The majority of clients (352) use banks while others use credit unions (121). More than 40 percent of clients reported having a checking account and 18 percent of clients reported having both checking and savings accounts. Some clients indicated a desire to open a bank account, with seven percent reporting they had no bank account. More than 20 percent of clients reported being “unbanked” or “underbanked” in some fashion. This is also evident in the use of more fringe financial services such as check cashers, pawn shops, payday lenders, and rent-to-own stores.



During the intake process, clients completed a separate self-selection survey about services and programs that they would find helpful. The options are listed in Figure 10 below. More than 180 clients wanted information about better managing their money and finances. There was significant interest from clients in buying and maintaining a home, as 140 indicated they wanted more information. More than 80 clients wanted to turn their refunds into savings. Form 8888 is a response to this preference - it allows filers to split refunds among several accounts, which lets families allocate some of their refund into a bank account or receive it in conventional fashion. Other clients indicated they needed help with alternatives to check cashing, Chex systems, and subprime lending home mortgages.

This self-selection survey reveals the potential of using free tax preparation as a place not just for taxes but also as a stepping stone toward better economic conditions for families and communities. Several clients wrote in that they wanted help with starting their own business, finding grants for new and emerging businesses, and filling out the Free Application for Federal Student Aid (FAFSA).



Follow-up

In order to assess clients' experiences at VITA sites, the Franklin Coalition made follow-up calls to clients. In total, 315 clients answered and responded to the follow-up survey. The vast majority of the contacted clients were very satisfied with their service and experience at VITA sites. Most clients, 70 percent, were confident in the tax preparers' ability to help them and prepare their taxes. More than 85 percent of clients felt that the length of time to prepare their return was "about right," however, 10 percent felt it was "too long." More than 80 percent of clients felt that volunteers were helpful and that the process was clear and simple to register and receive free tax preparation. Overall, more than 90 percent of clients stated they would "absolutely" recommend the VITA site to their friends or family members.

The only negative comments were in regard to wait time at the site or difficulty booking an appointment. Several clients wanted more locations, more convenient to where they live. No clients complained about the volunteer tax preparers or the provided service overall.

Recommendations

The Franklin County EITC Coalition continues to grow by expanding locations and serving more clients. The majority of clients are very satisfied with the services the coalition provides, as evident by both the survey results and number of repeat clients.

We recommend that the coalition:

- Increase target marketing to families with children, who are currently underserved in Franklin County. This is an on-going challenge for most free tax coalitions as paid preparation chains spend millions of dollars in marketing to target this group early and often.
- Provide more up-front information during the FIRSTLINK referral process about possible wait times and what information a client should bring to the site. Sites run more smoothly when clients and volunteers know what to expect during the process. Being highly prepared also opens up the opportunity to provide other financial services to a client.
- Decrease wait times during busy weeks and at busy sites by streamlining clients into simpler and more difficult return lines or locations. Often a volunteer preparer can do four or more 1040 EZ returns while another volunteer does a more complicated 1040 with itemized deductions and the like.
- Develop the ability to be a mobile free tax site in order to prepare more returns in areas where there are no established sites. If there is limited space or capacity for a site but a substantial need for the service, many coalitions now offer preparation at a library, school, or donated office space one time during the tax season.

- Continue to use social service agencies and universities for volunteer recruitment and tax return preparation. These groups continue to be well-equipped to provide space, materials, and capacity for free tax efforts.
- Increase direct deposit abilities before tax season. There are substantial benefits for clients in having direct deposit abilities such as a quicker refund, splitting a refund, and helping the free tax site ensure the client receives the refund.
- Increase outreach to the Latino and Asian communities and to those for whom English is not a first language.

The Franklin County Coalition helped 3,152 tax filers to file their tax returns at no financial cost. This represented a 78 percent increase over the previous year, and ensured that \$3 million in federal funds were brought into modest-income households in Franklin County. Outreach to both black and white families was strong, and the coalition earned solid praise from participants. With continued recruitment, organization and support, the coalition is likely to continue to grow, to reach more families in Franklin County, and to become an ever-more essential service to working families in greater Columbus.

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