ON THE EFFICACY OF THE EARNED INCOME TAX CREDIT: A PRELIMINARY REPORT FOR THE NASHVILLE WEALTH BUILDING ALLIANCE

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PART I

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to "do the right thing" by connecting resources in the form of volunteers and staff to the real need they see in their neighborhoods.

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Finally, but of considerable note, we would not be where we are without the tireless work of Sam antha Hamernik, the EITC Campaign Coordinator, who has served as a mission volunteer this year from Second Presbyterian Church. Her work has served to align resources around this work that benefits both Nashville's working families and the community as a whole.

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Executive Summary

The Nashville Wealth Building Alliance * (NWBA) is pleased to partner with Vanderbilt University to produce a preliminary analysis of the economic impact of the Earned Income Tax Credit on Nashville's economy. The Earned Income Tax Credit (EITC) is the largest federal aid program targeting the working poor. Not only has the EITC been shown to lift millions of families out of poverty, it also has been shown to stimulate local economies through increased consumption, increased labor force participation, and reductions in the number of individuals and families on welfare – all at a significantly lower cost than other comparable policies like Temporary Assistance for Needy Families (TANF) or the minimum wage. The study's import is to continue building the "business case" to the public sector and community decision makers, in order to attract funding from government and foundational sources. Anecdotal stories abound across the different tax sites of how lump sum payments were to be used by taxpayers to purchase needed consumer goods for families or to help a family towards with the down payment needed to realize their dream of owning a home. This preliminary report clearly documents the benefit to individual families.

An economic impact assessment's purpose is to evaluate, both quantitatively and qualitatively, the benefits to industry that are associated with eonomic development projects. A primary purpose for this assessment is to determine whether public awareness campaigns such as that recently undertaked by the NWBA to promote the free tax assistance and the EITC is not merely justified as socially responsible, but actually could more than pay for itself when considering the economic impact to the community and the fiscal impact to Nashville. The reality is that $15 - $21 million dollars in federal EITC dollars is left unclaimed by eligible working taxpayers in Davidson County. With a modest budget of only $80,000 to continue the EITC campaign and financial literacy effort in 2005-2006, the study projects Metro could realize a revenue increase of $270,000 to $378,000. The State of Tennessee also benefits with additional revenue of $1,050,000 to $1,470,000. These increases would be driven by increased sales tax revenue generated by increased consumption in Davidson County if all EITC eligible taxpayers claim the credit. These findings clearly show that the total economic impact associated with increasing the utilization of the EITC will more than cover the costs of this campaign.

The preliminary report is presented in four sections:

Background and Literature Review:
This section provides background and history of the EITC as it relates to the United States government policies. It begins with a description of political history in the 1960's leading to the creation of EITC policy. The discussion moves to significant changes and growth in the EITC policy from 1970 through 2004. Important statistics and information regarding the federal EITC program are next discussed, followed by an in-depth discussion of different state EITC policies including Illinois, Ohio, Minnesota and Colorado. The section concludes with a strong discussion of the EITC and its relation to Middle Tennessee, specifically Nashville (Davidson County). The discussion of previous literature on the subject will set up the remainder of the project, which focuses specifically on Nashville's efforts to bring the needed EITC money into the local economy.

An Equity Analysis on the Principles of Taxation:
The analysis describes various definitions of equity; specifically, it examines horizontal and vertical equity and how these concepts apply to the Earned Income Tax Credit. The section briefly addresses the tax policies of the State of Tennessee, and its effects upon the EITC benefit, although analysis is not intended to assess the tax structure of

Tennessee or make any recommendations altering the structure. The intent is to highlight certain equity trends in the State of Tennessee as it might apply to implementing an aid system for those eligible to receive Earned Income Tax Credits. The analysis then runs a brief series of evaluations to indicate whether concepts of equity are key drivers in evaluating such a program. The determination is that the EITC is an equitable policy and that the outreach program more than covers the costs through increased sales tax revenue to both the city and state.

Developing a Cost Benefit Analysis Framework for the EITC in Nashville:
This section attempts to evaluate the costs and benefits of the EITC in order to discern whether or not it is in Nashville's best interest to expand its current EITC publicity initiative. In addition to increasing recipients' income, a review of the existing empirical research reveals that the EITC confers other substantial socioeconomic benefits on the communities in which recipients live including an increase in labor force participation among single taxpayers and decrease dependence on welfare, all at a lower cost than other federal aid programs.

Recommendation: An Economic Impact Assessment of the EITC in Nashville:
This section builds the analytical framework for economic impact analysis of 2004 data in Phase II of the study. The direct and indirect economic impact of the EITC will be measured to demonstrate benefits realized by individuals and community at large.

While time and funding constrictions prevent a more complete study of the broader impact on the Nashville economy, we believe that this preliminary research – and the recommendations contained within – provides convincing evidence for funding commitments from government and foundational sources to be made to sustain and deepen the impressive coordinated effort of community-based organizations, governmental, corporate and faith-based organizations. Indeed, what we have witnessed in Nashville/Davidson County with the recently completed tax year is impressive: *With a small number of tax forms still to be tallied, we have seen a 64% increase in tax assistance provided this year over and an increase of 75% in EITC benefits over what was completed in all of 2004 in the inaugural year of the Nashville Wealth Building Alliance's "Earn It! Keep It! Save It! Campaign.*"

BACKGROUD AND LITERATURE REVIEW

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President Lyndon Johnson's vision identified poverty as one of the main social problems of the 1960s (Ventry, 2001). However, President Johnson opposed several proposals aimed at reducing the poverty gap. For instance, he opposed the negative income tax and the leading alternative proposal at the time "a guaranteed annual income" on the grounds that they undermined work effort. Nevertheless, in the late 1960s and early 1970s, the government launched a variety of social experiments, in Gary, Indiana; New Jersey, Iowa and Seattle-Denver Income Maintenance Experiments, to examine the effects of a negative income tax (Hotz, 2001). The conclusions from these experiments remain slightly unclear; however, the conclusions provide a base for the debate over policy aimed at reducing poverty.

While policymakers in the 1960s talked of guaranteed annual incomes, those in the 1970s debated work-oriented programs, as welfare dependency became an increasing problem. The debates surrounding President Nixon's Family Assistance Plan (FAP) illuminate this change. They represent a transitional period between the perceived social ills of poverty on one hand and welfare dependency on the other. Plus, the political discussions of Nixon's welfare initiative highlight trade-offs in tax-transfer programs that not only doomed FAP, but also engaged policymakers for the next thirty years (Ventry, 2001). The fight over FAP alerted politicians to how the tax policy could alleviate or perpetuate social problems. It also spawned alternative tax-transfer proposals, including the Earned Income Tax Credit (Ventry, 2001).

"Enacted in 1975 as a refundable tax offset for low-income workers, the EITC appeared to politicians an attractive, work-oriented alternative to existing welfare programs. It was both an anti-poverty and anti-welfare instrument. It complemented national concerns over welfare caseloads, unemployment rates, and the working poor" (Ventry, 2001, p. 983). The most important characteristic of the EITC is that it provides moderate and lower-income working families and individuals' tax relief and an incentive to work. The EITC provides a cash refund to families whose incomes are low enough that they may not even owe Federal taxes (Cronin, 2005).

The credit began as part of Senator Russell Long's (D-LA) effort to derail Congressional and Presidential interest in a negative income tax (NIT). The attraction of the NIT was that it would provide a guaranteed minimal standard of living to all in an administratively efficient way (through the tax system) without having the notches and high cumulative marginal tax rates that characterize a patchwork system of narrower programs (Hotz, 2002). Senator Long opposed the NIT because it provided its largest benefits to those without any earnings. The EITC would then emerge from the welfare reform discussions at the end of the 1970s forever transformed. It was no longer a mere work subsidy; rather it represented an anti-poverty device that could potentially raise the income of all working Americans above the poverty line (Hotz, 2002).

Growth of the Earned Income Tax Credit

After the 1975 introduction, it was 1978 when the "new" EITC was enacted as a permanent provision of the IRS. Even though it was not recognized as an official Act, it was the largest welfare-related provision made that year. Subsequent to 1975, the federal EITC was expanded in 1986, 1990, and 1993. It was in 1984 that the Deficient Reduction Act was enacted to reverse the provisions of 1979. It allowed states to count the EITC when calculating the Aid to Families with Dependent Children (AFDC) benefits only when they could verify that the individual actually received the EITC payment. (Edwards, 2004) This policy change meant that people who were benefiting from the

EITC could further get support. The 1984 Act also raised the maximum benefit to $550 (Ventry, 2000). In 1987, the credit was indexed to account for inflation.

Significant EITC Policy Changes

The Omnibus Budget Reconciliation Act (OBRA) of 1990 made the distinction, for the first time between families with one and two or more children, while OBRA of 1993 extended credit to childless, low-income families. Between the OBRA of 1990 and of 1993, the cost of the EITC went from $7.5 billion in 1990 to $21.1 billion in 1994 (Ventry, 2000). The repercussions of the dramatic increase in the cost caused opponents of the EITC to criticize it as acting more like a welfare policy and less like a tax policy.

While alterations to the EITC in 1986 reduced taxes for low-income families, changes made in the early 1990s made some believe that the program was headed in the direction of welfare (Relave, 2003). However, what distinguishes the EITC program from other welfare programs is its requirement that at least some income be earned in order to receive the credit. Basically, the phase-in range for the credit is nothing more than a rough work test. “Relative to welfare that pays the highest benefits to those with no earnings or income, the phase- in of the credit as income increases has been designed to provide a maximum benefit at income levels approximating a full-time, minimum- wage job” (Steurle, 1995).

President Clinton’s goal in 1993 was to create a system where full time work at minimum wage added with the EITC and other governmental support programs would provide a family of four with enough after-tax income to live above the poverty line. That goal was achieved temporarily after the minimum wage was increased in 1996-1997. In 2002, the EITC provided over $34 billion worth of assistance to 18.6 million low-income working families, 29% of the families receiving the EITC had incomes below $10,000 and 61% had incomes below $20,000 (Relave, 2003). In 1999, the EITC lifted some 4.8 million individuals -- including 2.6 million children -- out of poverty (Relave, 2003). Additionally, the EITC helped low-skilled welfare recipients escape welfare dependency and move toward self-sufficiency through paid employment.

Current EITC provisions

In 1997 the Taxpayer Relief Act gave the IRS the ability to disqualify abusive filers from receiving EITC benefits for various lengths of time depending on the infraction. It also gave the IRS authority to recover excess refund payments to unpaid taxes by doing away with a percentage of unemployment and means-tested benefits. To combat the error rate issue, the EITC joined with state and local government agencies, service agencies, and social welfare groups to train volunteers on how the EITC works and how they can help people who are eligible find out about their benefit options and how they can safely apply for the credit.

According to Ventry (2001), for much of the EITC’s history, political rhetoric – not economic research – dominated the debate over tax-transfers. However, history indicates the vital role that economic research has played in the EITC’s success. For instance, in the 1990s, it depoliticized the political battle over the EITC. It responded quickly to credible counter-voices with even more credible empirical research (using tax return microdata); it explained the complexities of tax-transfer policymaking to a non-expert audience; research generated consensus about the EITC as a policy solution among various policy communities; and it spoke to national problems and the political environment (Ventry, 2001). In a sense, economic analysts finally learned to appreciate the politics of welfare reform; they saved the EITC from defeat by helping merge the three policy streams. However, it is important to note the necessity of having a receptive political environment. Only in this environment, could economic research overcome traditional political barriers. The EITC represented "the perfect policy solution" to a set of social problems, and a welfare reform consensus that favored pro-work, pro-growth, low-cost alternatives (Ventry, 2001).

In the spring of 2001, Congress gave the EITC good news and passed the Economic Growth and Tax Relief Reconciliation Act of 2001. This legislation increased the amount of income that married couples with children can earn before the credit begins to phase out, that is, more people were getting more benefits. In 2002, married couples could make an additional $1,000 before the EITC began to phase out. This amount increased to $2,000 for 2005 and will increase to $3,000 by 2008, when it will be indexed with the rate of inflation (Relave 2003).

Currently, the earned income tax credit is the largest, and arguably the most effective, poverty reduction program in the country. It is a special tax benefit designed to improve the financial situation of people who work but earn low wages. Almost 21 million families received more than $36 billion in refunds through the EITC in 2004. These EITC dollars had a significant impact on the lives and communities of the nations lowest paid working people, lifting more than 5 million of these families above the federal poverty line.

Unfortunately, millions of families who are eligible for the tax credit still do not receive it, leaving billions of additional tax credit dollars uncollected. Research by the General Accounting Office (GAO) and the Internal Revenue Service (IRS) indicates that between 15% and 25% of households who have qualified for the EITC do not claim their credit (Wikipedia, 2005) According to Cronin (2005), "by not claiming a tax credit they have earned, eligible taxpayers are missing out on dollars that could help them meet basic needs or even get ahead." This situation is happening all over and many communities are missing out on the money that it necessary to bring them out of poverty.

A National View of the EITC

Since its inception in 1975, there has been scattered research at the national level evaluating the development and effectiveness of the EITC. This research provides information on topics such as the economic and social impact of the EITC on receiving families; reasons for implementation on the state level; and, the issue of costly tax preparation services and their impact on the receipt of EITC money. It is important to note that in the 30 years since the EITC came onto the public policy stage; it has not received the same amount of attention as other direct government aid programs such as

Temporary Assistance for Needy Families (TANF) and Aid to Families with Dependent Children (AFDC).

The EITC program has grown consistently in both the number of participants and the allotted amount of refund money that each receives. As of April 2000, federal EITC participation was reported at above 80% of those who qualify to receive the bonus (Friedman, 2000). Comparatively, of those eligible to receive food stamps, only 60% claim them (Smeeding, 1999). With the increase in state support of EITC programs, through the provision of additional funds to further encourage workforce entry, the participation rate is likely to have increased significantly since 2000. Participation in the EITC program is generally divided among two main groups: a) 70% are single parents, many of whom are cycling off of welfare or are filing single person returns; and, b) 30% are low-income earning two parent households (Smeeding, 1999).

Nationally Important EITC Program Statistics
According to the IRS in the 2004 EITC report, in order to qualify for the EITC, the worker's income must be less than $11,490 if the worker has no children ($12,490 if married and filing jointly); less than $30,338 if the worker has one qualifying child (less than $31,338 if married filing jointly); and less than $34,458 if the worker has more than one qualifying child (and less than $35,458 if married and filing jointly). The National Tax Assistance for Working Families Campaign reported that in 2004, the total federal EITC claimed was $98,285,876, with $1,257 being the median amount received by participants. In order to account for inflation, the EITC is appropriately adjusted every three to five years (Annie E. Casey Foundation, 2004).

The EITC lifts more families out of poverty than any other government program (Romich & Weisner, 2000). In fact, the earnings subsidy that the EITC represents for families doubled from 1993 to 1996, from 19.5% to 40% of yearly earnings (Annie E. Casey Foundation, 2003). Furthermore, the National Center for Children in Poverty (NCCP) calculates that another 1.1 million children could be lifted out of poverty if all states adopted a supplementary EITC program in addition to the federal EITC program. Unlike other federal income-transfer programs, such as TANF, "the EITC is received by almost all families as an annual, lump-sum, tax refund check paid sometime in the spring of the year after earnings are received" (Smeeding, 1999). The single lump sum is often used to improve family well being through tuition payments or moving into a better neighborhood.

The federal EITC, combined with similar state programs, had lifted over 4.5 million people in the United States above the poverty line by 1999, which doubled from 2.3 million in 1993 (Berube & Forman, 2001). Research has revealed that the magnitude of the EITC program is only going to continue to grow as more people move from welfare to work in anticipation of the lump-sum refund payment.

Scope and Magnitude of the Federal EITC Program
Beyond encouraging low to moderate income families, state EITC programs help support local development efforts. In 1990, The Brookings Institution found that over $1,000,000

EITC dollars per square mile flowed through urban communities. Also, with the expansion of the EITC, more and more single mothers are going to work to help support their children, increasing the number of children that are being lifted out of poverty. Research completed by the Annie E. Casey Foundation in 2003 states that 73% of single mothers worked sometime in the year 1984.

After the EITC had been increased, the percentage of single mothers in the workforce jumped up to 81%. Lastly, Smeeding concludes that most participants claiming the EITC receive it as a lump-sum payment which they use differently than they would if received on a monthly basis in smaller amounts. Smeeding also found that those interviewed planned to use the funds to 'make ends meet' with some sort of savings, the later of which indicates EITC recipients understand the need for self-sufficiency.

Beyond poverty reduction and 'making ends meet' the EITC has other highly important uses according to its recipients. Bill paying is one of the single most important uses of the EITC, with purchases coming in second in the list of priority usage (Smeeding, 1999). As previously stated, the recipients also planned to save some of their tax refund. In anticipation of the lump-sum payment, many participants use the refund to enhance their social mobility. They purchase a car, pay tuition, even move to a 'better' neighborhood. Moving to a 'better' neighborhood was based on two factors: a) Increasing their child's/children's chance of improved education; and, b) Generally improved social status (Romich & Weisner, 2000).

Costly Tax Preparation Services and their effect on the EITC Program
Though the EITC appears to be the ends all answer to eliminating poverty in the United States workforce, there are many eligible who are not claiming their refund for different reasons. First, many who would be considered eligible to receive the EITC are evading other costs that would be covered with this additional lump-sum income, for example, those who owe child support. Others have immigrant status and are afraid to file their income tax forms. Still others have not yet been informed of the EITC and as such are unaware of their eligibility. Some of whom are aware of their eligibility lack the language skills to complete their own tax forms.

The Brookings Institution reports that some people are fearful of filing for their EITC because they do not trust the information provided to them by their employer. Regardless of the reason for not claiming the credit, each year several millions of dollars go unclaimed. National research fully supports the increase in EITC claims to decrease poverty, increase social mobility, and increase economic opportunities in the locations where it is needed the most. If EITC claims were increased, more federal dollars could find their way to the families and communities that need the money most.

There is still one seemingly insurmountable obstacle for the EITC program. The government, many states and specifically advocates for EITC programs struggle with this obstacle on a daily basis; tax preparation services and “fast cash” refund loans. These companies take people’s hard earned cash costing both the taxpayers and the government. The Brookings Institution has conducted numerous studies about the problems with tax preparation services and has repeatedly found that they erode the benefits of the EITC. More than 60 percent of taxpayers who claim the EITC use a commercial tax preparation agency, specifically H&R Block and Jackson Hewitt.

Tax preparation agencies have flooded America's cities and cost citizens a significant amount of their earnings. A study conducted by the Brookings Institution found that 46 percent of EITC eligible taxpayers in the South and 43 percent in the Midwest accessed their tax refunds through these services in 1999.

In the Washington, D.C. area, another Brookings study conducted in 2002 found that a typical recipient of the EITC pays about $200 for the commercial tax preparation service, electronic filing, and "rapid refund" loan. The authors of the study estimate that $2 billion in EITC refunds were diverted from individuals to pay for these services in 1999 (Berube and Kim, 2002). The same study found that a typical taxpayer in Washington, DC claiming a federal EITC of $1500 spent 10% of this amount on tax preparation services and "rapid refund" programs. The typical prices for a commercial service include $60 for preparation of federal return with the EITC, $34 for a state return, $20 for electronic filing, and up to $90 for a refund loan, for a total of $204 (Berube & Kim, 2002).

The nation's largest commercial tax preparation service, H&R Block and other smaller tax refund companies earned $357 million from granting "fast cash" loans to unsuspecting low-income wage earners in fiscal 2001. This more then doubled the approximately $138 million these same tax preparation companies earned on similar scams in fiscal 1998. Companies such as H&R Block and Jackson Hewitt cluster in neighborhoods where large numbers of families claim the EITC. Zip codes with high concentrations of EITC filers have up to 50% more tax preparation services per low-income wage earner than zip codes with lower concentrations of the EITC participants. Cities in the South and West have the highest concentration of tax preparers in their low-income neighborhoods (Berube & Kim, 2002).

There is no doubt a problem with high-cost tax preparation services interfering with workers receiving their full benefits. However, the existence of these abusive services should serve as an opportunity for local EITC campaigns to expand and rally against the problem. With programs popping up around the nation to help low-wage earners file their taxes for free, the money pouring into companies like H&R Block will inevitably decrease every year. National and state research has supported the EITC program and now this free government service must be accessible to those who need it most.

An Overview of EITC Programs on the State Level

State programs work toward the same goals as the federal EITC program. The impact that a state enacted EITC program could have is dependent on two very important factors. First, the number of families that currently claim federal EITC credit greatly determines how much influence an additional state EITC program might have with aiding the working poor. Even if a state has many working poor who are not claiming their EITC money, there is no guarantee that a state program will increase participation and could in fact, result in improperly allotted funds. Those eligible to receive the EITC need to be properly informed through appropriate venues about the benefits of the EITC program. Such venues are places of employment, the local welfare office, and informational flyers. Second, the state will need to decide what percentage of federal EITC credit they will supplement to those qualified.

The first state EITC program was enacted by Rhode Island in 1986 (State EITC Online Resource Center). Currently there are seventeen states (State EITC Online Resource Center), as well as Washington D.C., Montgomery County (Maryland) and the city of Denver who have passed their own versions (Johnson, Llobrera, & Zahradnik, March 2003). States with refundable EITC programs as of 2003 are Colorado, Illinois, Indiana, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Rhode Island, Vermont, Wisconsin, and the District of Colombia, as well as Iowa, Maine, Oregon and Virginia with non-refundable credits (State EITC Online Resource Center).

Since 2001, the U.S. economy has seen increased unemployment and a decline in real wages, which has led to the heightened interest of state governments to advance welfare policies to assist impoverished families. At the same time, state governments have faced a reduction of income, creating pressure on legislators to reduce spending and cut programs. In the face of these challenges, EITC programs have seen mixed support from state legislatures during this period. Negative impacts include the suspension of programs in Colorado (the Colorado EITC only operates when the government runs budget surpluses) and the impending expiration of Illinois' program (but renewed in the 2003-2004 legislative session). Alternatively programs have been created in Oklahoma and Virginia and expanded in Kansas (Johnson, N., Llobrera, J., & Zahradnik, B.).

State EITC program costs depend on four principal factors: the number of resident families who receive the federal EITC, the amount of the refund, whether the credit is refundable or non-refundable, and the number of eligible residents who actually file (Johnson, N., Llobrera, J., & Zahradnik, B.). For all states except Minnesota, the amount of the refund is a percentage of the federal EITC refund amount, and ranges from a low 4% to as high as 43%. (The Hatcher Group) The annual costs of these state programs extend from $11 million in Vermont to $361 million in New York (Hanauer, A. & Reddy, R., 2003). States that base their credits upon a percentage of the federal amount have recognized the low administrative costs of enacting their own programs, as formulas for tax credits tie directly to the federal EITC.

Illinois:
Illinois joined a wave of legislatures that recently increased or created permanent state EITC programs. In 2000, the Illinois legislature created a temporary (three-year), nonrefundable, 5% Illinois Earned Income Tax Credit. In 2002, 584,000 Illinois families filed for the Illinois EITC totaling $44 million in tax credits, the average per family credit was $75. In 2003, legislative action was needed to make the Illinois EITC permanent, to increase the amount of the credit, and to make the credit refundable. The Make Work Pay Coalition, a consortium of interest groups including Voices for Illinois Children, the Center for Economic Progress, the Center for Tax and Budget Accountability, the

National Center on Poverty Law and the Center on Budget and Policy Priorities, worked to advance legislation that would sustain and enhance the Illinois EITC. During the 2003 – 2004 legislative session, the Illinois legislature voted unanimously to make the 5% Illinois EITC permanent and refundable, aiming at expanding its offering to 700,000 working families and $68 million in the fiscal year 2004, a 35% increase in funding (The Hatcher Group, XXXX).

Much of Make Work Pay Coalition's success was due to their recognition that the State of Illinois could tie its EITC funding to the federal "maintenance of effort" (MOA) clause of the Temporary Assistance for Needy Families (TANF) block grant. TANF is a federal grant aimed at transitioning low-income families from welfare to self-sustainability, and MOA matching funds require states to partially match federal dollars to programs aimed at needy families. The Illinois EITC became an opportunity for the state to increase its share of expenses in order to meet MOA and TANF requirements for federal matching dollars (The Hatcher Group, XXXX). Successfully conjoining state EITC programs with MOA monies has been an effective strategy for creating and enhancing EITC programs in various states.

Minnesota:
Minnesota has one of the most unique and ambitious state versions of the EITC, with refundable credits based on income (not on the federal credit amount), but ensuring 25% - 45% of the federal EITC. Minnesota's Working Family Credit (WFC) is based on a percentage of earned income. In 1998, legislators chose this option in order to reduce the work disincentive created by the state's tax structure and welfare system. The WFC amount is a function of marital status, number of qualifying children (up to two children can count towards increased credit) and income. For fiscal 2001, about 9% of all tax returns in Minnesota claimed the WFC: the state paid $107.5 million to 212,709 filers, for an average refund of $508. Minnesota's credit is refundable, and 80.5% of all WFC was distributed as refunds to filers. The State of Minnesota has determined that the WFC has a greater overall participation rate (75%) than most assistance programs and that the WFC is substantive enough to lift single parents of one or two children above the poverty level (Manzi & Michael, 2004).

Ohio:
Perhaps the most pro-EITC expansion research comes from Ohio, with a report from Policy Matters Ohio (2003). In 2003, the group advocated for Ohio to enact a state EITC at 20% of the federal benefit amount in order to provide 676,466 working families with $222 million, or an average credit of $328, for the fiscal year 2004. Policy Matters Ohio claimed that the state EITC would reduce poverty, increase work ability, and create a less regressive tax system for the state. The organization claimed that under Ohio's tax code, poorer families pay a relatively higher share of taxes than the wealthy, and that with an Ohio EITC program; the refunded money would go quickly and directly into local economies, claiming that:

Implementing a state EITC now could offset some of the hardships caused by the current recession and provided an added incentive to find work. The spending induced as a result of the credit could also contribute slightly towards economic recovery. Unlike tax breaks to the wealthy, tax credits to families of modest means are typically spent in the immediate community on essentials (Hanauer & Reddy, 2003).

The Policy Matters Ohio coalition was not successful in creating an EITC program for Ohio during the 2003 legislative session.

Colorado:
A final example of local EITC programs comes from Denver, Colorado, a city with unique plans to provide an opportunity for low-income and working poor families in the city. Colorado law allows counties to administer the state's TANF funding, and since 1996, Denver had received $42 million annually for redistribution. In 1999, the Department of Social Services for the city, along with Mayor Wellington E. Webb determined that their current programs for assisting low-income families were too difficult for needy families to enroll in. City officials in Denver saw an opportunity to distribute these funds in a more efficient way, and in 2001, the city decided to overhaul its methods for distributing TANF dollars. Simply put, Denver was able to use an existing allotment of money and through a redesign of the program; more efficiently distribute the funds to those in need (Nevel, 2002).

The program needed to identify federal EITC recipients who were also eligible for TANF funds, as well as to provide a simplified method for enrolling eligible families. Using pre-existing information provided by federal and state income tax forms and a short supplemental questionnaire, the Department of Social Services cut the amount of paperwork required for families to apply for TANF funds by 90% and reduced administration overhead by 95%. In 2001, Mayor Webb announced his support for a local EITC program in Denver that would take $5 million TANF dollars (12% of Denver's total TANF allocation), and in 2002, Mayor Webb officially began the Denver EITC program. The first-of-its-kind city-sponsored EITC, available only to resident families with one or more qualifying children, offers approximately 20% of the federal credit, with an average benefit of $360 (Denvergov.org, 2002).

Specific Research on the Effects of the EITC Program in Tennessee

Because the public awareness campaign to utilize the EITC in Nashville and in the state of Tennessee has just quite recently taken off, documentation and historical records regarding the EITC in these areas is extremely limited. Most EITC campaign organizations are just now starting up all across Tennessee to help eligible workers file their claims and to bring Tennesseans the money that they deserve. Many Tennesseans who are in financially vulnerable situations count on their refund checks during tax season. Unfortunately, many taxpayers in Tennessee are not receiving the amount they are entitled due to several reasons, including costly tax preparation fees, "rapid refund" loans with extremely high interest rates, and an overall lack of knowledge regarding the unclaimed credits (Nashville, 2004).

The Nashville EITC Campaign, entitled "Earn It! Keep It! Save It!" (Nashville, 2005), began in 2004 as an initiative of the Nashville Wealth Building Alliance, with the strong support of Congressman Jim Cooper and the following organizations: IRS, United Way of Metropolitan Nashville, St. Thomas Health Services, Nashville Area Chamber of Commerce, Federal Reserve Bank of Atlanta, Nashville Area *Tennessee Saves Coalition*, Woodbine Community Organization, Community Impact!, Conexion Americas, Hands On Nashville, The Oasis Center, 15th Avenue CDC, several Metro government departments, and other local institutions.

In 1998, Nashville received $122 million in EITC refunds, but $30 million was still left unclaimed. In 2002, there was $86 million in refunds, with $15 million left unclaimed (*Nashville*, 2004). In its initial year, 2004, the "Earn It! Keep It! Save It!" campaign set up nine Volunteer Income Tax Assistance (VITA) sites around the Nashville area, including sites at Woodbine Community Organization, Conexion Americas, and Community Impact!. Combined, the three aforementioned VITA sites helped to bring in approximately $150,000 in EITC funds out of 520 prepared tax returns (Nashville, 2005). In 2004, the average EITC refund in Nashville was $1,454 per claim with a total of $1.25 million brought in via 49,347 filed EITC returns at VITA sites.

For fiscal year 2005, preliminary data from the Nashville VITA sites indicates that 4,630 tax returns were prepared with $973,736,775 in federal refund dollars claimed. $2.29 million EITC refunds were claimed. 1,432 or 32% of the clients served in Nashville claimed the EITC. The median adjusted gross income of the clients served was $19,760. 25% of the clients served used a paid tax preparer last year including 12% that claimed a rapid refund loan as well. The average EITC refund for fiscal 2005 is $1,563. (Tax Returns Report, 2005). This year's estimated average EITC refund is $1,600 (*Nashville*, 2004). The "Earn It! Keep It! Save It!" campaign has also set up a 2-1-1 hotline for taxpayers to find a VITA site and information regarding the EITC (Office, 2005).

Statistics show that certain areas of the city had higher concentrations of returns in 2004, and the EITC advocates have planned to target those areas for 2005 to maximize EITC refunds (Nashville, 2005):

Zip Code	Total Refunds	Average Refund	Estimated Amount Unclaimed	Percent Using Paid Preparer
37013	$5,869,806	$1,542	$498,763	66%
37075	$3,312,781	$1,513	$290,593	66%
37115	$5,145,725	$1,618	$438,839	69%
37206	**$6,658,944**	**$1,772**	**$579,093**	**67%**
37207	**$10,346,898**	**$1,802**	**$896,028**	**70%**
37208	$4,726,468	$1,791	$406,849	66%
37209	$4,573,927	$1,596	$401,327	65%
37211	**$7,562,691**	**$1,602**	**$641,259**	**65%**

37216	$3,140,585	$1,642	$275,593	66%
37217	$3,617,793	$1,566	$316,864	66%

In 2003, 50% of EITC eligible taxpayers filed through Refund Anticipation Loans, costing them a significant amount of income. By providing free tax services with the help of volunteers at VITA sites, the EITC campaign has attempted to move eligible taxpayers away from commercial tax preparation services and out of Refund Anticipation Loans into free tax preparation services (VITAs) without the high interest loans and fees that have been preventing Nashville taxpayers from receiving the correct amount of refund. Another goal of the "Earn It! Keep It! Save It!" campaign is to keep EITC-eligible taxpayers aware of information regarding how refunds can be best spent to maximize financial independence, such as education funding, credit repair, and home ownership. By combining education with an increase in income through the campaign, the Nashville Wealth Building Alliance hopes to dramatically increase financial independence and stability in the Nashville area (Nashville, 2005).

Memphis, Knoxville, Chattanooga, Clinton

In the Memphis and surrounding Mid-South area, the United Way of the Mid-South has teamed with the IRS, local businesses and non-profits to create an EITC campaign aimed at low-income families eligible for EITC refunds (*Tax Volunteering,* 2004).The Children's Defense Fund has planned to create corporate partnerships and open up VITA sites in Nashville, Knoxville, and Clinton to help with the Tennessee EITC campaign (*Tax and Benefits Outreach*, 2004).In Chattanooga, the city has teamed up with the IRS, University of Tennessee - Chattanooga, and the Urban League to campaign for EITC awareness and provide free tax-filing services to eligible workers (The Chattanoogan, 2005).

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** The Nashville Wealth Building Alliance is a broad based collaboration dedicated to promoting financial stability for low- and moderate-income individuals of Nashville/Davidson County. The coalition engages business, community, government, and faith-based organizations to provide direct services and create linkages that will enable members of our community to achieve new levels of self-sustaining financial independence.*