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

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PART III

Developing a Cost-Benefit Analysis Framework for the EITC in Nashville

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Since its inception in 1975, the earned income tax credit (EITC) has grown to become the largest federally funded welfare assistance program in the United States, helping over 19 million families and individuals recover approximately $31.9 billion in income each year (LeVeen, 2003). In addition to increasing recipients' income, it is hypothesized that the EITC creates other substantial socioeconomic benefits in the communities where recipients live. Not only is the EITC thought to lift millions of families out of poverty, but it is also thought to stimulate local economies through increased consumption, increase labor force participation among single taxpayers, and significantly reduce 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) and the minimum wage (Hotz & Scholz, 2001). In this chapter, we conduct an analysis of both the costs and benefits of the credit through a close examination of the existing empirical evidence on the subject. Through our investigation, we attempted to quantify the total economic costs and benefits of the EITC in order to discern whether or not it is in Nashville's best interest to expand its current refundable earned income credit publicity program.

The Role of the EITC in Families' Financial Lives: A Review of the Literature

As the largest cash-assistance program for low and moderate-income families, the EITC increases the overall income of those who receive it. For families earning less than $20,000, the EITC refund equals 167% of their payroll and income taxes. For those earning more than $20,000, this percentage drops to 60%; however, at this level, the EITC still represents a significant increase in disposable income. In fact, McIntyre (2004) computes the EITC refunds to be equal to almost a two dollar per hour tax-free increase in wages—equal to a full 25% wage supplement for those earning between $10,000 and $20,000 per year.

Not only does the EITC increase income, but the fact that the lump-sum nature of its payments allows recipients to engage in asset building makes it an extremely effective anti-poverty tool. Since EITC payments are large and are received all at once, the families that receive them can use them to make long term investment decisions like payments on homes, establish bank accounts, pay off debt, and purchase or lease transportation—all things which help individuals acquire higher economic well-being and rise above the poverty threshold (Smeeding, Ross, & O'Connor, 2000). The EITC has also been particularly successful at slowing the rising income inequality between the working poor and high-income workers: 60% of EITC payouts go to families and individuals considered to be living below the poverty line (Scholz & Levine, 2000). Moreover, 4.3 million of the nation's poor were actually lifted out of poverty due to their refund in 1999 (Berube, 2001; Rankin, 2005). Perhaps even more startling is the effect of the EITC on child poverty. According to Rankin, one-half of the total number of people lifted out of poverty each year by the EITC are children, and one out of every six children who currently live in poverty are lifted above the poverty line thanks to the EITC (Bartolomei & Hill, 2000).

Effect of the EITC on Labor Force Participation

One of the benefits of the EITC most frequently touted by politicians is that the credit provides significant incentives for single, unemployed persons to enter the workforce. That is, by raising the effective wage rate, the EITC increases the marginal value of work (Holtzblatt, McCubbin, & Gilette, 1994), making it more attractive than welfare. Several researchers have investigated the truth of this assertion by observing work tendencies of EITC recipients before and after the two expansions, when both the eligibility income threshold and the maximum credit were raised (Hotz & Scholz, 2001). Eissa & Liebman (1995) examined the labor force participation of poor unmarried mothers after the first EITC expansion in 1987, finding that the participation rate of mothers eligible for the

EITC rose 2.6% following the expansion, compared with only a 0.1% increase in the participation of women not eligible for the credit.

While the results of this study are somewhat suspect due to demographic differences between the treatment and control groups, and due to the fact that a much larger fraction of childless single women already worked before the EITC expansion, several statistical tests conducted by Liebman (1997) and Meyer & Rosenbaum (1996) indicate that the EITC was, indeed, responsible for over 60% of the increase in the total labor force participation of single mothers witnessed between 1984 and 1996 (Grogger, 2001). Moreover, studies by Dickert et al. (1995) and Rhinhart & Desimone (1996) on the 1993 expansion yield results similar to those reported in Eissa & Liebman on the 1987 expansion, with labor participation among single mothers increasing by 3.3%. After all, a single mother going to work in 1986 could only expect an extra $2,800 due to her decision to work, whereas the gains to work had risen to nearly $7,600 by 1996 (Ellwood, 2000).

Although the positive connection between the EITC and single taxpayer labor force participation is well documented and well supported, research regarding the influence of the EITC on the labor force participation of married couples is sparse and less conclusive. Most of it has demonstrated that the EITC may actually provide a disincentive to work for secondary wage earners. Consider a family of four with a primary wage earner who brings in $11,354 annually, putting them in the phase-out range of EITC payments. If the wife decides not to work, the family will receive the maximum credit in the amount of $3,370. If she works, the family's credit will be reduced (phased out) by about 21 cents for every dollar of income that she earns. Combining this effective 21% tax rate on her income with social security, federal, state, and local taxes raises the marginal tax rate of working to almost 50%, which produces a strong incentive to remain out of the labor force (Browning, 1995; Eissa & Hoynes, 2004; Ellwood, 2000; Neumark & Wascher, 2000). Eissa & Hoynes (2004) confirm this assumption by comparing the labor supply response of married couples to the EITC expansions between 1984 and 1996. Of their sample, 1.1% of women in households who filed taxes jointly decided not to work due to fears of decreasing their family's credit. While seemingly insignificant at first glance, this decline in labor force participation by secondary wage earners more than offsets the 0.2% increase in participation by their spouses. In the end, then, the net change of total labor supply due to the EITC is -0.9%.

Effect of EITC on Welfare Program Participation

Another principal benefit of the EITC is its ability to reduce welfare participation (Dickert, Hauser, & Scholz, 1995; Grogger, 2001, 2004; Scholz, 1994). As the program increases earnings rather than simply income, it encourages economic self-sufficiency by advancing families' attachment to the labor market (Neumark & Wascher, 2000). Furthermore, the lump sum nature of EITC payments allows recipients to use them for long-term investments, such as paying off debt, buying a home, paying for tuition, purchasing a car, or establishing a bank account—all things which "enhance economic security" and thus decrease welfare dependence. In their study of Chicago area households that filed tax returns in the spring of 1998, Smeeding, Ross, & O'Connor found that over half of the participants in their sample used the EITC to make such investments. Of particular importance is the fact that the EITC often permits individuals to obtain transportation. Since lack of transportation is a serious impediment to a job search, employment, and job mobility, when individuals use EITC to buy or rent a car, it provides a critical bridge to a higher level of economic well being (1998), almost equivalent to that of a high school diploma (Danziger, et al., 1998).

It is no surprise, then, that the effect of the EITC on welfare participation rates is striking. The 1993 EITC expansion, for example, decreased participation in the food stamp and Aid for Families with Dependent Children (AFDC) programs by 7.2%, shortening the welfare rolls by over a half of a million people (Dickert, Hauser, & Scholz, 1995). According to more conservative estimates by Jeffrey Grogger (2004), who examined welfare participation rates following the second and third EITC expansions, the EITC expansions in the 1990's appear to have reduced AFDC participation by only 6.5%; however, this still accounts for over 10% of the total decline in welfare participation between 1993 and 1999. More specifically, Grogger's model predicts "each percentage-point increase in the earned income credit rate reduces initial entry [to welfare] by 3.2%." According to this reasoning, the increase in the mean credit rate between 1993 and 1999 from 16.9% to 33.3% would have decreased initial entry into welfare by more than half. The Economic Research Service (2004) comes to a similar conclusion regarding the EITC and participation in the federal Food Stamp Program (FSP). Using an econometric model examining the relationship between computed EITC benefits a household is eligible for and participation in FSP, ERS researchers find a negative and statistically significant result—meaning that a larger EITC refund check actually decreases participation in the FSP. It's important to note, however, that only medium and low levels of EITC benefits exhibit a statistically significant effect on FSP.

Non-compliance and Fraud

Historically, the EITC has been subject to extremely high rates of noncompliance, and this remains one of the programs greatest costs. Since the EITC relies largely on self-reported data, many errors made by taxpayers who prepare their taxes without professional assistance go unnoticed; as a result, 25% of total annual EITC payouts go to people who are not eligible for them. In 1995, this amounted to over $4.4 billion (Hotz & Scholz, 2001). Updated estimates from the IRS indicate that the amount lost due to fraudulent claims increased to between $8.5 and $9.9 billion for the 1998-1999 tax year (Rankin, 2005).

The majority of the fraudulent claims filed with the IRS occur due to a misrepresentation of household status. This problem arises when taxpayers falsely report members of their household who don't meet the residency, age or relationship requirements of the EITC (Milbourn, Year). In 1999, McCubbin estimated that $3.1 billon of the $4.4 billion in erroneous claims, occurred as a result of qualifying child errors, for example. Over a half of this total is lost due to the fact that claimed EITC children had failed to live in the household claiming the child for more than six months. These instances of fraud often arise from custodial issues between two separated parents where one of the parents feels they are entitled to the tax refund because they are paying child support (Hotz, Year). Finally, another $2 billion is lost due to noncompliance resulting from misrepresentation of marital status. For example, a married couple might file two separate tax returns in order to claim two separate EITC refunds (Hotz, Year). Problems may also arise from separation without divorce and various other relational arrangements.

Despite the fact that fraud and noncompliance costs associated with the EITC are currently very high, the IRS is taking aggressive steps to mitigate the losses. The IRS developed a computer system known as the Dependent Database to incorporate statistics provided by the department of Health and Human Services into the processing of individual tax returns. The Dependent Database uses child custody and support data and assigns a numeric value to all EITC- qualifying child or dependent child household, based on 25 sets of criteria. After all the initial tax returns are scored, certain taxpayer's statements are flagged and there returns frozen until further investigation. Aside from the Dependent Database, the IRS has also amalgamated a criteria known as the Electronic Fraud Detection System, created from common characteristics of past fraudulent claims, into there noncompliance defense strategy (Milbourn, Year).

The EITC in Nashville

In the tax year 2002, 98,787 families and individuals in the Nashville Metropolitan Statistical Area (MSA) claimed EITC benefits, representing 16.2% of total tax filers in the area. This resulted in $165,332,767 of EITC dollars flowing from the federal government to low-income families in Nashville (Brookings, 2002). For the demographics of Nashville area EITC recipients (see *Table 1*).

Table 1

Demographic Characteristics of Nashville EITC Filers

Indicator	Percentage of Total (%)*
Tax Filing Status	
Single	46%
Married - Joint	12%
Married - Separate	2%
Head of Household	39%
Race	
African-American	73%
Asian/Pacific Islander	1%
Caucasian	14%
Latino/Hispanic	6%
Native American	1%
Other	4%
Public Benefits	
Received Public Benefits	23%
Not Eligible for Public Benefits	47%

*based on sample size of 2024 returns filed at Volunteer Income Tax

Updated estimates indicate that the EITC is becoming more important than ever in Nashville. Using a five year statistical average of past growth rates, it is estimated the number of families and individuals in the Nashville MSA that claim the EITC will climb to 109,091 by 2005, representing 17% of the total tax paying population. Despite the fact that over $188 billion in income is expected to be returned to these people, the effectiveness of the EITC is still limited due to the number of eligible taxpayers who fail to claim their refund either because they are simply unaware of the program, or because they believe the required tax forms are too difficult to fill out. In order to reduce the number of unclaimed refunds in the area, the Nashville Wealth Building Alliance, in partnership with the United Way, has launched the Earn It! Keep It! Save It! Initiative, which provides publicity for the EITC and free tax preparation for those who wish to claim their refunds.

Overview of the Cost-Benefit Analysis Approach

A cost-benefit analysis is a common technique used to evaluate the effectiveness of policy decisions. It enumerates the benefits that accrue as a result of the decision in question, then estimates and subtracts the costs, with the difference between the two indicating whether or not the planned policy is a desirable option. The net benefits of a proposed project can be predicted using the following model, where B represents the benefits of the project, C represents the costs of the project, and r is equal to the prevailing interest rate in year t:

$$NB = \sum_{t=1}^{T} \frac{(B_t - C_t)}{(1+r)^t} \quad NB = \sum_{t=1}^{T} \frac{(B_t - C_t)}{(1+r)^t} \quad (1)$$

If the value of the above Equation 1 is positive, then the project is a candidate for adoption. Notice, however, that the value of the net benefits in equation (1) is not simply the sum of all benefits less all costs (*B t-C t*). While costs are generally one-time affairs, benefits may be realized over a longer period of time; as a result, the value of benefits and costs expected to occur in the future must be discounted into current dollars in order to reflect the fact that a dollar available five years from now is not worth as much as a dollar available in the current time. This relationship is true due to the fact that a dollar available today can be invested with the possibility of earning a certain rate of interest *r* for five years. For example, if the interest rate is five percent, then only $95.24 needs to be invested today to obtain $100 one year from today. That is to say, $100 received a year from today is worth only $95.24 today. To address this concern, net benefits must be divided by the potential return on those benefits (*1+r)* if they were received in the present time. Finally, in order for the analysis to be meaningful, all benefits and costs must be expressed in terms a common unit (Hyman, 2004). For the purposes of our study, we will use the dollar as the common unit of measurement.

In doing a cost-benefit analysis, it is also important to note that total costs and total benefits include more than just the intuitively obvious line item revenues and expenses. In other words, a meaningful analysis must take into consideration any opportunity costs, averted costs, or externalities that occur as a result of the project. Opportunity cost, or the value of the next best alternative that the policy decision forces the policymaker to forgo, must be included in the total cost figure to reflect what is being given up by implementing the project in question. If, for example, the money refunded to EITC recipients would have otherwise been used to build a public park, the monetary and intrinsic value of the park must be added to the costs of the EITC program, as the refunds are depriving the community of the benefits of the park (Citation, Year). Any costs that are avoided due to the implementation of the project, known as averted costs, must be added to total benefits.

For the EITC, an oft-cited example of an averted cost is the reduction in federal welfare outlays that occurs as a result of the EITC's negative effect on welfare dependency. Since the government would be paying benefits to more families were it not for the EITC, this money saved represents costs avoided by the government and must be added to total benefits. Finally, externalities, coming in the form of either external costs or external benefits, must be included in the analysis in order to reflect any costs or benefits that the project confers upon any parties not directly involved in the transactions of the proposed policy (Hyman, 2004). Coincidentally, we will see that external benefits comprise a large portion of the total benefits of the Earned Income Tax Credit.

Measuring the Benefits and Costs of the EITC

The cost-benefit analysis is based on a comprehensive list of the benefits and costs of the EITC to the Nashville Metropolitan Statistical Area. Although intangible costs and benefits (such as the happiness gained from no longer having to live in poverty) were difficult to measure, we used historical precedent from previous literature to assign values to such costs and benefits. Also, a lack of statistical data for Nashville prevented us from obtaining completely accurate measurements for some costs and benefits for the area itself. These costs and benefits were estimated by combining the information that we did have about Nashville with data previously gathered from other comparable metropolitan areas. For example, the number of Nashville EITC recipients on welfare who willingly withdrew from welfare participation due to their EITC refund was unknown. We knew from previous national research, however, that the EITC reduced welfare program participation by approximately 6.5%. In order to obtain the total number of EITC recipients in Nashville who left welfare as a result of the refund, we multiplied this percentage by the total number of EITC recipients on welfare.

In addition to the direct increase in income experienced by EITC recipients, the chief indirect benefits of the EITC include reduced poverty, a decrease in welfare dependency, and an increase in the labor force participation of single. The principal costs are actual program costs, administrative costs, money lost due to fraud and noncompliance, refund money lost due to the use of rapid anticipation loans at for-profit tax preparers, and a decrease in the labor force participation rate of couples filing jointly.

Initial Benefits

1. Increased Income
According to data collected by a Brookings Institution study of 27 communities participating in the National Tax Assistance for Working Families Campaign, $165,332,767 was refunded to citizens of the Nashville MSA via the Earned Income Tax Credit in 2002. Using a five year statistical average, we estimated that this number to grow to approximately $188,318,834 for 2005. This means that the EITC increased the income level of the Nashville area by over $188 million. While the impact of this increase in income on consumption and saving is *prima facie* significant, calculation of such impact is beyond the scope of this chapter and can be found in the economic impact analysis.

2. Reduction in Poverty
It is impossible to numerically quantify the value of raising a family or an individual above the poverty line.

3. Reduction in Welfare Outlays
According to the 2003 census, mean cash public assistance income in Nashville is $1,479. This may not be of interest due to the EITC's larger effect on rate of entry into welfare programs, rather than exit rates.

4. Increased Labor Participation of Singles
The 2003 census cites an estimate of the median income for women working in Nashville at $30,560/year and for men at $36,250/year.

Initial Costs

1. Program Costs
While the EITC payments refunded to taxpayers represents revenue not collected by the federal government, and thus may be viewed as a cost of the program in general, this analysis is only concerned with the costs and benefits faced by the Nashville community in particular, not the federal government. As a result, the value of the benefits paid to Nashville citizens via the EITC are counted only as benefits.

2. Administrative Costs
Estimates from the Economic Research Service, the research arm of the federal government, suggest that administrative costs of the EITC may be equal to 1% to 3% of the benefits provided. Using the estimated total benefit figure calculated above, this means that the cost of administering the EITC to Nashville in 2005 resides in the range between $1,883,188.34 and $5,649,565.02 annually. Once again, administrative costs are likely paid by the IRS and other federal bureaucracies, and are not counted as costs for Nashville.
(http://www.ers.usda.gov/Emphases/Rural/SafetyNet/safetynetthoughtax/issues.htm)

3. Fraud and Noncompliance
Hotz & Scholz (2001) reported that approximately one quarter of all EITC refunds were paid to taxpayers ineligible for the credit. Assuming that this percentage holds true for returns paid to taxpayers in the Nashville community, approximately $47,079,708.50 of Nashville's total EITC payment ends up in the hands of people who don't deserve it. Again, this may or may not be viewed as a cost to Nashville, as any taxpayers filing illegally would be investigated by the IRS, with no cost to Nashville.

4. For-Profit Tax Preparation and Rapid Anticipation Loans
In 2005, an estimated 45,493 EITC claims filed in Nashville will be sent using a rapid anticipation loan given be a for-profit tax preparer. According to H&R Block, the nation's largest provider of paid tax preparation services, the average RAL loan fee is $75.00 for a refund between $1,501 and $2,000, which is around the average refund for the Nashville area. Not only do taxpayers using the services of a paid preparer have to pay the loan fee, but they also have to pay multiple other fees, like a processing fee and an electronic filing fee (see *Table 2*). In total, the average cost of using a paid tax preparer amounts to approximately $248.00 (H&R Block, as cited in Consumer Federation of America, 2003).

Table 2

Total Tax Preparation Cost

Type of Fee	Cost To Taxpayer
RAL Loan Fee	$75.00
Electronic Filing Fee	$40.00
Document Prep/Application Handling Fee	$33.00
Tax Preparation Fee	$100.00
Subtotal	**$248.00**

Source: H&R Block

Assuming, then, that every Nashville taxpayer who bought an RAL also used a paid tax preparer to file their taxes, a total of $11,282,264 worth of EITC refunds in Nashville are siphoned away from low-income families and individuals via RAL and tax preparation fees. Again, this is not necessarily a cost of the EITC program itself, as the money paid to companies like H&R Block and Jackson Hewitt is probably recirculated through the Nashville economy; however, it does represent money that is leaving the program and not going to its intended targets (low-income individuals). Thus, we count it as a cost.

Table 3

Summary of EITC Benefits & Costs

Direct Benefits		Indirect Benefits	
Refunds	$188,318,834.00	Reduction in Welfare Outlay	$
	$	Increase in Labor Income	$
	$		$
	$		$
Total Direct Benefit:	$	**Total Indirect Benefit:**	$
Costs	$	**1) Net Present Value = Benefit-Cost**	
Program Cost	$		
Administrative Cost	$		
Fraudulent Claims	$		
RAL's	$11,282,264.00	**2) Benefit-Cost Ratio = Benefit/Cost**	
Total Cost:	$		

Conclusions

TO BE DETERMINED & WRITTEN

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Supplement to Cost-Benefit Analysis of the Earned Income Tax Credit: Evaluating the Effectiveness of Local EITC Awareness Campaigns

Taylor Brinkman (Team Leader)

Despite the fact that the Earned Income Tax Credit is the largest federal cash assistance program in the United States, numerous studies have discovered that a significant number of eligible families and individuals do not claim the credit either because they are unaware that it exists or because they believe that the required forms are too difficult to fill out. At the same time, research has also revealed that millions of dollars in EITC refunds are being siphoned away from recipients through the use of Rapid Anticipation Loans (RALs) provided by for-profit tax preparers, which allow recipients to receive their tax refunds immediately, in exchange for a fee. In order to ameliorate these problems, local EITC publicity programs that promote awareness of the credit and give free tax preparation have sprung up in metropolitan areas across the country (The Annie E. Casey Foundation). This chapter seeks to not only detail the efforts of these programs, but to also evaluate their effectiveness from a cost-benefit perspective. After reviewing the pertinent literature on the subject, we conduct a cost-benefit analysis of the Earn It! Keep It! Save It! program, the EITC awareness initiative in Nashville, Tennessee.

EITC Participation Rates: Use of For-Profit Tax Preparation & Rapid Anticipation Loans

Since EITC recipients often face literacy and language barriers that preclude them from preparing their own taxes, use of for-profit tax preparation services is much higher among EITC recipients than it is among the general population. Indeed, 60% of EITC recipients in 1994 used the services of a for-profit tax preparer, compared with 52% of all filers.

Table 1
Total Tax Preparation Cost

Type of Fee	Cost To Taxpayer
RAL Loan Fee	$75.00
Electronic Filing Fee	$40.00
Document Prep/Application Handling Fee	$33.00
Tax Preparation Fee	$100.00
Subtotal	**$248.00**

Source: H&R Block

Perhaps the greatest revenue stream for these for-profit tax preparers comes from the fees associated with rapid anticipation loans, which reduce the time it takes taxpayers to receive their refunds from the government. Instead of having to wait seven to ten days to receive their refund check, a RAL places cash in the hand of the taxpayer after one to two days. Although the difference between two days and seven days may seem inconsequential, time is of the essence for low income families who are late on paying rent or other bills, which is why they are often willing to pay outrageous RAL fees, whose implied rates of interest can exceed 200%. According to 2000 data from the IRS, 4.32 million people—40% of all RAL customers—were EITC recipients. Assuming that the average EITC refund was in the neighborhood of $1,600, the average RAL fee was roughly $75.00 (See Table 2 for a full fee schedule), meaning that over $363 million worth of EITC money was drained away from the taxpayers by RAL fees in 2000 alone.

Table 2

Rapid Anticipation Loan Schedule

Amount of Loan	Fee Schedule
$200 - $500	$34.95
$501 - $1,000	$44.95
$1,001 - $1,500	$64.95
$1,501 - $2,000	$74.95
$2,001 - $5,000	$89.95

Source: H&R Block

Impact of Local Programs: Cost-Benefit Analysis of Earn It! Keep It! Save It!

In 2004, the Nashville Wealth Building Alliance, in cooperation with the United Way, launched the Earn It! Keep It! Save It! initiative in order to increase awareness of the EITC and reduce the amount of EITC refunds siphoned away from recipients through the use of RALs. The 2004 campaign included extensive publicity for the EITC through flyers and brochures placed throughout the community, as well as free tax preparation services provided at nine Volunteer Income Tax Assistance (VITA) sites strategically placed in low-income areas of the city . In aggregate, the VITA sites prepared 3,090 tax returns, 27.6% of which included an EITC refund. Overall, these refunds amounted to approximately $1,240,029.36 returned to low-income families in Nashville. In an attempt to target neighborhoods with a higher incidence of EITC qualification, the Earn It! Keep It! Save It! program expanded to include three new VITA sites in 2005. As of April 21, 2005, 4360 returns had been filed at the VITA sites citywide, with an estimated $2,290,621.00 in EITC refunds being returned to citizens in Nashville, already surpassing the total for last year.

Measuring the Benefits and Costs of Earn It! Keep It! Save It!

Initial Benefits

1. Reduced Use of Paid Tax Preparers & RALs

Of the 4,630 taxpayers who had their tax returns prepared at one of the VITA sites though April 21, 2005, 577 said that they had enlisted the services of a paid tax preparer like H&R Block for the previous tax season. Per the calculations above, the average per person tax preparation cost, not including a RAL fee, was $173.00. Thus, we can estimate that the Earn It! Keep It! Save It! initiative has already saved Nashville EITC recipients $99,821 in would-be fees. Of these 565 who used a paid tax preparer last year, 516 said that they had received a rapid anticipation loan as part of their services. According to H&R Block, the RAL loan fee for a refund between $1,501 and $2,000 is $74.95, meaning that the VITA sites helped Nashville EITC recipients avoid $38,674.20 in RAL fees this year. Adding this to the amount saved on tax preparation in general brings the total direct benefit of Earn It! Keep It! Save It! to $138,495.20.

2. Averted Tax Preparation Costs

Of the people who prepared their taxes with the assistance of VITA site staff, 548 said that they had not filed taxes during the previous tax year. Assuming that all of these people would have paid a for-profit tax preparer in absence of the VITA sites (and this is a large assumption), the Earn It! Keep It! Save It! program helped these individuals avoid tax preparation costs, which, as quoted above, average $173.00 per person. The total averted cost of the program, then, totals $94,804.

3. Increased Program Participation

Another main benefit of the Earn It! Keep It! Save It! initiative is the increased participation in the EITC program that results from publicity. Unfortunately, the surveys completed by the VITA site users

Initial Costs

1. VITA Site Operation & Marketing

Total costs for the Earn it! Keep It! Save It! campaign are listed in Table 3 below. Not reflected in these costs are an estimated $246,000 in in-kind donations, which came in the form of computer equipment, volunteer labor, and "professional services."

Table 3

2005 Earn It! Keep It! Save It! Costs

Expense	Cash	In-Kind
Coordinator (salary, benefits)	$37,500	
Young Adult Volunteer	$5,000	
Professional Development	$2,000	
Travel	$2,000	
Administrative Support	$1,000	$4,500
Occupancy		$2,400
Volunteer Training	$3,500	
VITA Site Supplies	$2,500	
Marketing	$12,000	
Economic Impact Study	$10,000	
Special Events	$1,800	
Volunteer Support	$1,500	
NWBA Website	$1,500	
Total	$1,500	**$6,900**
	$81,800	

Source: Jessica Leveen, Federal Reserve Bank, Atlanta

The Nashville Metropolitan Statistical Area includes all cities of middle Tennessee within the boundaries of Davidson, Sumner, Williamson, Wilson, Dickson, Cheatham, Robertson, and Rutherford counties.

The available data set only contained entries through 2002 . In order to project growth for the years after that time, we computed the average growth rate over the previous five years and added that to the values for 2002. While linear regression would have yielded a more accurate estimate, we chose not to employ this technique due to its complexity.

Growth rates were averaged in order to smooth any extreme values. For more on how to perform regression, see.

It should be noted that the Nashville Wealth Building Alliance's *Earn It! Keep It! Save It!* campaign has been able to greatly reduce the amount of EITC refunds siphoned away by for-profit tax preparers in the last two years; however, this chapter only concerns the costs and benefits of the EITC itself. The costs and benefits of the campaign are beyond the scope of this chapter and can be found in the forthcoming supplement to this section.

VITA sites were located at 100 Oaks Mall, Belmont University, Hadley Park, Conexion Americas, Westwood Baptist Church, Woodbine Community Center, Primus, Community Impact!, and Bell South (The Nashville Wealth Building Alliance).

These numbers are slightly deceiving, as the data only reflects electronically filed returns. Approximately 80% of all returns prepared at VITA sites were submitted electronically (The Nashville Wealth Building Alliance).