

EITC Usage in the Fifth District

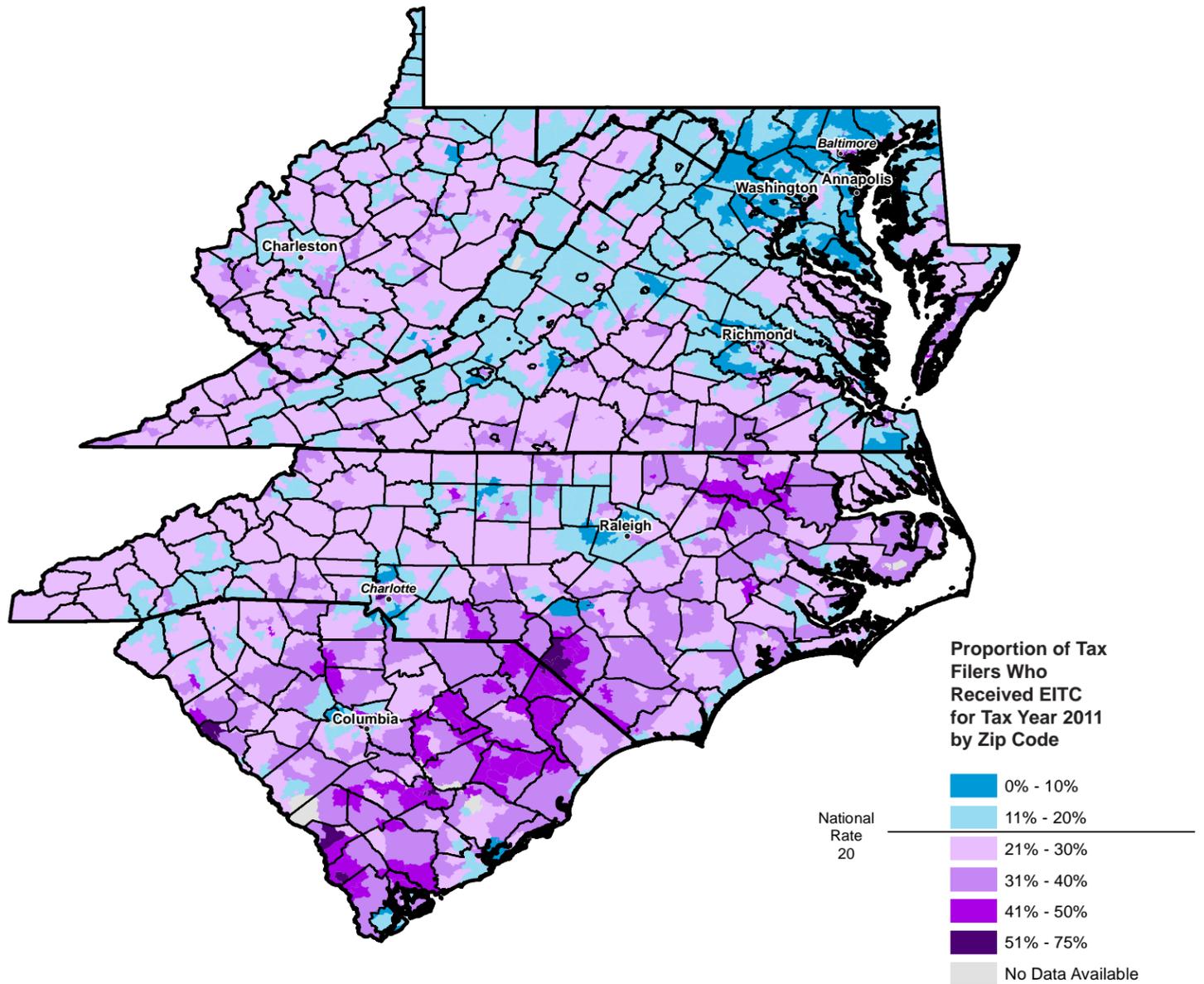
This issue of *5th District Footprint* looks at usage and potential economic benefits of the earned income tax credit (EITC). Enacted in 1975 and extended in 2013 for five years, EITC, the largest means-tested cash transfer program in the U.S., targets low- and moderate-income workers.¹ The maximum amount of EITC available to an individual filer changes annually and is tied to their earnings, number of qualifying children and marital status. When the credit is larger than the amount owed in taxes, the Internal Revenue Service (IRS) refunds the difference to the filer. Twenty-six states including Maryland, Virginia and North Carolina², along with the District of Columbia and Montgomery County, Md.³ have independent EITC programs.

In 2012, more than 27 million tax filers across the U.S. received nearly \$62 billion in EITC payments for the 2011 tax year.⁴ Close to \$6 billion went to more than 2.6 million filers in the Fifth District. The average EITC payment in the Fifth District ranged from \$2,067 in West Virginia to \$2,350 in South Carolina.

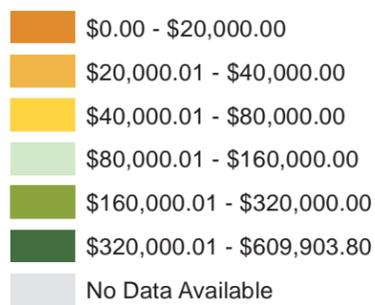
An estimated 20 percent of all U.S. tax filers claimed EITC for the 2011 tax year. The proportion was the same for the Fifth District. Ninety-nine percent of Fifth District zip codes had at least one EITC claim. The Fifth District zip code with the highest share of EITC claims (75 percent) includes the town of Thurmond in Fayette County, W.V.

The IRS estimates 21 percent of eligible taxpayers did not claim EITC for the 2010 tax year.⁵ Government, nonprofit and private sector organizations have launched outreach campaigns to increase awareness of the EITC. They also provide information about free tax preparation services which assist individuals with filing and determining EITC eligibility.⁶

More EITC claims may lead to an increase in economic benefits for communities. For example, an increase in the number of EITC filers in a zip code by 5 percent may result in additional revenue of up to \$609,000 flowing to the communities within the Fifth District.



Potential Economic Benefit from Additional EITC Eligible Filers for Tax Year 2011 by Zip Code



Note: Data calculated assuming a 5 percent increase in the potential number of eligible EITC filers and these new filers receive 50 percent less than the average credit amount.

Source: Brookings Earned Income Tax Credit (EITC) Interactive

richmondfed.org/publications/community_development

¹ McGranahan, L. and Schanzenbach, D. W. (2013). *The Earned Income Tax Credit and Food Consumption Patterns (WP2013-14)*. Chicago, IL: Federal Reserve Bank of Chicago.

² In the 2013 legislative session, the North Carolina General Assembly voted to repeal the state EITC for taxable years beginning January 2014. For more information, see Flores, Qiana Torres. (2013). "Tax Credits for Working Families: Earned Income Tax Credit." Washington, DC: National Conference of State Legislatures, October.

³ IRS. (2014) "State and Local Government EITC Programs." June 12.

⁴ IRS. "Statistics for 2011 Tax Returns with EITC."

⁵ Ibid. "EITC Participation Rates by States."

⁶ For more information on EITC campaigns, see Holt, S. (2011). *Ten Years of the EITC Movement: Making Work Pay Then and Now*. Washington, DC: Brookings Institute.