

## 2004 Children's Agenda -- Action Step Fact Sheet



### Economic Security: More families claiming the EITC

#### **Increase the number and percent of eligible New Hampshire families and individuals who access the Earned Income Tax Credit.**

##### **History/background of issue**

The Earned Income Tax Credit, or EITC, is a refundable credit intended to reward work among low-income people, especially those with children. Families and individuals receive the credit as a cash benefit when there is no tax liability to offset. EITC is a powerful work incentive and anti-poverty tool that has benefited millions of low-income families since its inception. The EITC is a refundable credit offered through the federal tax system, and in some states, through state tax systems. It is available to low and moderate-income workers who meet eligibility criteria regardless of their tax liability. Even if they don't need to file or to pay taxes, many working poor families and individuals can still qualify for an EITC refund.

To qualify for the credit, a worker needs to have worked at some time in 2003. A worker raising one qualified child who earned less than \$29,666 in 2003 can get up to \$2,547. A worker raising two or more children who earned less than \$33,692 in 2003 can get up to \$4,204. A worker not raising children, who is between the ages of 25 and 64, and earned less than \$11,230 in 2003 can get up to \$382. Income limits for married workers are \$1,000 higher than these amounts. In NH 17% of all filers with incomes under \$10,000 claimed the EITC; the comparable percentage nationally in 2001 was 28% (IRS Masterfile 2001).

IRS data nationally indicates that about one-third of EITC claims each year are new claims, which suggests a significant degree of turnover in eligibility of workers and an ongoing need to conduct outreach to reach those who become eligible and didn't get the word otherwise.

Evidence shows that not all eligible NH families and individuals with limited income are claiming the Earned Income Tax Credit. The IRS data for tax year 2001 indicate that 37,708 families with children did claim the EITC, returning \$68.6 million to those families in refunds (IRS Masterfile 2001). Preliminary data for Tax Year 2002 found that 58,629 filers received EITC totaling \$87,880,000 (IRS Masterfile 2002).

Research studies on EITC participation have generally agreed that nationally between 15-20% of eligible workers do not claim the EITC (Scholz). The IRS has accepted this as a reasonable estimate, although the research needs to be updated. Applying these percentages to the NH figures gives you a range of between 5,656 and 7,542 eligible families who did not claim the EITC for tax year 2001, representing between \$10,285,351 and \$13,731,801 in additional refunds (IRS Masterfile 2001).

Nationally, nearly 70 percent of EITC claims are filed through a commercial preparer. In addition, Tax Year 2001 data indicates about 30% of NH EITC claims were made through a high-interest refund anticipation loan (RAL) from a paid preparer (IRS Masterfile 2001). The percentage is generally higher in those NH communities with larger numbers of EITC filers, so it can range between 30-40% of claimants in such areas of the state. On average, the national estimate of the total of tax preparation fees and RAL fees for an individual filer is about \$200 out of the value of their EITC refund.

## **Proposed solution**

UNH Cooperative Extension, in partnership with the NH Charitable Foundation, Annie E. Casey Foundation, Children's Alliance of NH, the Children's Advocacy Network, Casey Family Services, Internal Revenue Service and an extensive list of other partners, agencies and organizations to conduct a statewide educational campaign to educate eligible families and individuals on the EITC, resulting in their filing for, and receiving the Earned Income Tax Credit.

Steps in this campaign will include, but not be limited to:

- Information outreach for new filers
- Education for existing filers to decrease cost in filing
- Publications at appropriate literacy levels printed and distributed
- Agency personnel trained for one-on-one recruitment of EITC eligible persons
- A media and agency networking campaign to inform all EITC eligible persons how to apply for and receive the credit
- Education to increase financial capacity once EITC has been received
- Extensive networking with agencies that work with working poor to familiarize them with other resources to help them achieve financial goals

## **How does your solution meet NH CAN's criteria?**

### **How many children are affected?**

According to data from KIDS COUNT (2003) 39,000 NH households with children received the EITC in 2000. According to IRS Master File Data, 37,708 NH families with children claimed the EITC in tax year 2001.

### **What is the severity of the impact?**

We can expect that increasing the number of eligible households who claim the EITC in the 2003 tax season could add another \$11 million into NH's low-income communities.

### **What is NH CAN's ability to create or influence change?**

NH CAN is a powerful network of organizations that have access to and established trust with thousands of low-income families and individuals throughout the state who are eligible for the EITC. The network will be critical in getting the word out to these families and individuals about the EITC and linking them to tax assistance to claim the EITC.

## **Data and facts that support the need for change and your solution**

The average credit for households with children in NH was \$1,776 in tax year 2000 (KIDS COUNT, 2003). According to IRS Master File Data, the average credit for families with children in tax year 2001 (in NH) was \$1,818.42.

The IRS Master File data indicates that 18,948 New Hampshire families claiming the EITC also claimed the Child Tax Credit, but the data do not provide a dollar amount. It is likely that most families eligible for the EITC who don't claim it are also not claiming the Child Tax Credit and losing the opportunity to add additional monies to their household income.

## **Sources**

Children's Alliance of New Hampshire (2003), *KIDSCOUNT New Hampshire*.

Internal Revenue Service (January 2002), "Participation in the Earned Income Tax Credit Program for Tax Year 1996."

Internal Revenue Service, The IRS Masterfile of Tax Returns for Tax Year 2001

Internal Revenue Service, The IRS Masterfile of Tax Returns for Tax Year 2002

Scholz, John Karl (March 1994), "The Earned Income Tax Credit Participation, Compliance and Anti-Poverty Effectiveness". *National Tax Journal*. Vol 47, Issue 1. pp. 59-81.