



# Maximizing the Earned Income Tax Credit in Your Community:

A Toolkit for Municipal Leaders

National  
League  
of Cities



Institute for  
Youth, Education,  
and Families



## PART I:

# The Earned Income Tax Credit – A Prime Opportunity for Cities

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## Introduction

A city thrives when its residents thrive. Yet many families, even though they are employed full-time, continue to struggle to meet their families' basic needs.

Local elected officials across the country have discovered a way to strengthen working families while bringing more federal dollars into the local economy: by connecting eligible workers to the Earned Income Tax Credit (EITC). The EITC provides a financial boost to these families by reducing their tax burden and,

in many cases, giving them a tax refund when they file their annual income tax return.

Recognizing that each city is unique, this toolkit highlights the diverse roles that local governments can play in helping families claim this important resource. To assist municipalities in developing an EITC campaign, the guide offers concrete steps, advice from existing campaigns, specific roles for elected leaders, city examples, and links to important resources.

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## ➤ What is the Federal Earned Income Tax Credit (EITC)?

The federal Earned Income Tax Credit (EITC) is a tax benefit for low- to moderate-income working families, as well as a small benefit for some workers without children. Workers who qualify for the EITC and file a federal income tax return can receive a refund, even if no taxes were taken out of their pay during the year.<sup>1</sup> While most EITC recipients claim the credit in a lump sum at the end of the tax year, workers with children may be eligible to receive a portion of the credit in their paychecks throughout the year as Advance EITC.

In 2006, the credit provided up to \$2,747 for a parent with one child earning less than \$32,001. Working parents who were raising more than one child and earning less than \$36,348 qualified for up to \$4,536.<sup>2</sup> Also, there is a small benefit to very low-income workers who are not raising children in their home and are between the ages of 25 and 64.

The EITC is often referred to as one of the most successful federal anti-poverty programs ever developed. The program is administered by the Internal Revenue Service (IRS) and since the credit's inception in 1975, the EITC has grown to become

one of the United State's largest programs to support low-income families. In tax year 2005, the EITC was worth \$42.6 billion — worth more to working families than any other federal program. Approximately 22.7 million families claimed the credit for 2005 with an average refund of \$1,874 — the credit for families with children averaged more than \$2,280.

For more information on the EITC, including state-specific data, go to <http://www.irs-eitc.info/SPEC/> and look at EITC Statistics at a Glance.

Example: Mr. and Mrs. Smith are raising two children, ages 7 and 9. They both work and earned \$25,000 in wages in 2006. They had \$500 withheld for federal income taxes during the year. They are eligible for an EITC of \$2,811. They also qualify for a Child Tax Credit (CTC) worth \$2,000. Their income tax liability for the year is \$150. The Child Tax Credit pays their income tax, with \$1,850 left over as an additional refund. Mr. and Mrs. Smith will receive all of their income tax withholding (\$500) back, their EITC (\$2,811), and the rest of their CTC (\$1,850). Their total federal refund is \$5,161.

Cities can reap a variety of benefits by initiating campaigns that raise awareness of the EITC, provide tax assistance to eligible families, and in some cases, promote additional work supports and help families leverage this credit into longer-term assets.

◆ **Promote Family Economic Success:** EITC campaigns raise incomes for local families. According to U.S. Census Data, the EITC in 2002 lifted 4.9 million people above the federal poverty line, including 2.7 million children – more than any other federal aid program. Moreover, those campaigns that help families retain and leverage their EITC refunds make families more financially secure and boost key indicators of self-sufficiency, such as homeownership.<sup>3</sup>

◆ **Combat Predatory Practices by Paid Tax Preparers and Lenders:** More than 68 percent of low-wage earners who claim the EITC use commercial tax preparation agencies,<sup>4</sup> which frequently charge exorbitant fees and aggressively market “rapid refund” loans with triple-digit interest rates. To preserve the value of the credit for local families, EITC campaigns often support free or low-cost tax preparation, financial education, and partnerships with financial institutions to offer low-interest refund loans as an alternative to predatory products.

◆ **Inject Federal (and State) Funds into Local Economies:** Efforts to connect

<sup>1</sup> The EITC is based on the amount of earned income, which includes wages reported on a W-2 and self-employment income reported on Form 1099-MISC.

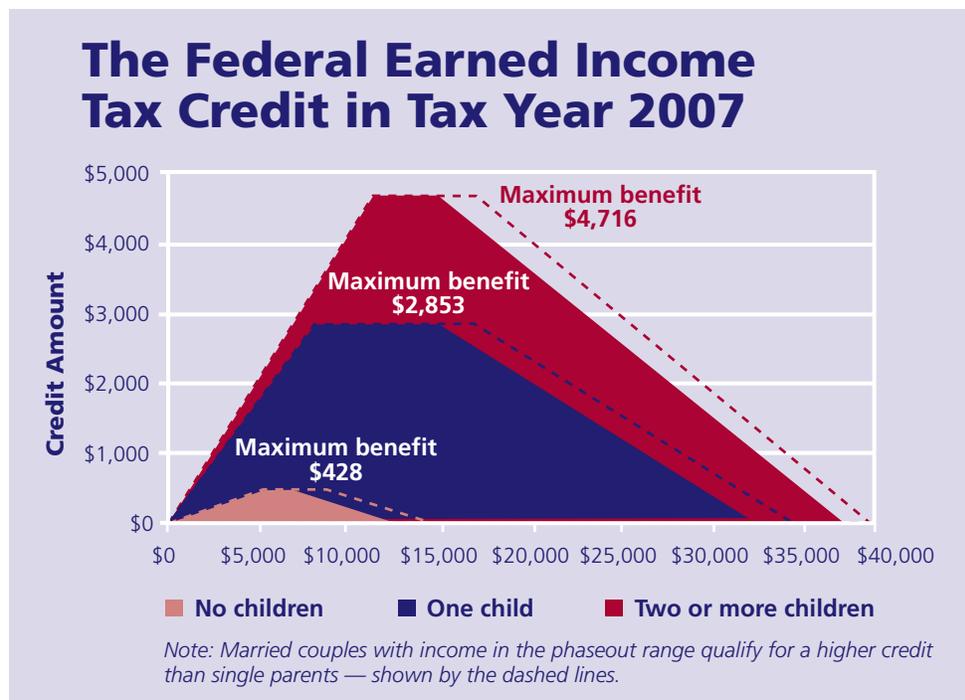
<sup>2</sup> Earnings limits for married workers were slightly higher: \$34,001 for families with one child and \$38,348 for families raising more than one child. Source: Center on Budget and Policy Priorities.

<sup>3</sup> Source: Center on Budget and Policy Priorities.

<sup>4</sup> Source: Internal Revenue Service.

## The Federal Earned Income Tax Credit in Tax Year 2007

(Source: Center on Budget and Policy Priorities, 2007)



workers to the EITC bring millions of federal – and in some cases state tax credit – dollars into the community, which then circulate through the local economy creating a ripple effect many times the size of the original refund. As a result, this new money strengthens neighborhoods, assists small businesses, and spurs local economic development.

#### ◆ Strengthen the Local Workforce:

Employers are always looking for new strategies to recruit and retain qualified employees. By supporting EITC campaigns, cities can help employers put together of package of wages and tax benefits that make families more financially secure. Through the Advance EITC, employers can essentially provide a raise of \$1 to \$2 per hour at no cost.

Mayors and other city officials can – and in many cases do – play a key role in launching or supporting EITC campaigns. In addition to the substantial benefits noted above, political leaders

who promote the EITC generate positive press and boost political support as they visibly help local residents put more money in their pockets.

The remaining sections of Part I of this toolkit lay out the common elements of an EITC campaign, provide city examples, and outline NLC support for municipal EITC activities. Part II covers key steps to preparing for an EITC initiative. Part III offers ideas about conducting an outreach and public awareness campaign. Part IV provides specific considerations for providing free tax preparation services and highlights some suggested post-campaign activities. Part V looks at how communities can move beyond the EITC by conducting complementary outreach for additional public benefits, and Part VI reviews asset building opportunities. Appendix A includes a list of additional resources for each of the key topics covered in the toolkit. Appendix B includes contact information for IRS regional offices.

## What Does an EITC Campaign Include?

An EITC campaign can range from a simple effort to raise public awareness about the credit to an in-depth initiative that not only informs families but also helps them claim and make the most out of this benefit.

The primary goals and activities for EITC campaigns generally include one or more of the following:

- ◆ Increase the number of families who know about and claim available tax credits through outreach and public awareness;
- ◆ Increase the amount of tax credits and overall refunds that actually reach low-income working families and neighborhoods by reducing transaction costs related to filing taxes and converting refunds into cash through free or low-cost tax preparation and alternatives to high-interest refund anticipation loans;
- ◆ Increase the number of families who claim not only the EITC but also related tax credits and other benefits by expanding the reach of existing public awareness and tax preparation programs; and
- ◆ Assist low-income families in using their tax refunds to build assets by promoting financial literacy, credit counseling, and connections to savings and investment opportunities.<sup>5</sup>

Most new campaigns start out by tackling only a portion of the activities described above. For instance, a mayor or councilmember may choose to focus on outreach and public awareness to raise the visibility of the tax credit in the first year, and then expand to other activities in future years. This is not necessarily a linear process, however, and some cities find other strategic opportunities on which to build, such as a savings or

homeownership campaign or a neighborhood empowerment project, that may already include several aspects of a potential EITC campaign.

Clearly more ambitious campaigns require more staff time and resources. On the other hand, campaigns that simply focus on public awareness without addressing tax preparation needs or helping families convert refunds into longer term assets will not have the same financial impact for eligible residents and the local economy. Each city will need to weigh these factors in deciding on short- and long-term goals. This toolkit offers an overview of what a full-blown campaign might include so that municipal leaders have access to a more complete menu of options for maximizing the impact of the EITC.

## What Do City-Led EITC Campaigns Look Like on the Ground?

Across the country, in cities and towns of all sizes, city officials are taking steps to maximize the impact of the EITC for local families and economies.

### San Antonio, Texas

*(Population: 1.2 million)*

In a large city like San Antonio, Texas, where an estimated \$50 million in potential EITC benefits remain unclaimed, the city leads EITC outreach and free tax preparation efforts through the Department of Community Initiatives (DCI). In the 2002 tax-filing season, DCI operated 12 free tax preparation sites and mobile teams in San Antonio, completing nearly 6,500 returns (including more than 200 city employees). These efforts returned a total of almost \$6 million in EITC and Child Tax Credit benefits to local working families.

<sup>5</sup> Source: Annie E. Casey Foundation.

Some of the city's more creative efforts have included training over 80 young people in the city's Youth Opportunity Program to provide electronic tax preparation assistance citywide; utilizing mobile teams to serve workers at their place of employment; and conducting targeted outreach specifically to low- and moderate-income city employees, DCI program participants, and workers in the hospitality industry.

In addition, the city is promoting savings through individual development accounts that offer public matching funds for family savings. These savings can then be used to make long-term investments, such as purchasing a home, paying for higher education or job training, or starting a small business.

"We are trying to get ahead of the curve," said DCI Director, Dennis Campa. "We want to connect families to tax credits and savings options so they are less likely to need emergency services down the line."

## Dayton, Ohio

*(Population: 166,000)*

Even in communities where there is not a city department that manages these efforts, city leadership can be crucial to developing a strong coalition and getting the word out to local families. In Dayton, Ohio, City Commissioner Dean Lovelace helped form a broad-based coalition to increase public awareness of the EITC and similar supports for working families. Since they began promoting the credit in 2001, Dayton's efforts have grown substantially. In 2003, Dayton's free tax preparation sites electronically filed more than 500 returns for local families and generated EITC refunds of over \$226,000, and total federal refunds of over \$518,000.

"The Earned Income Tax Credit is an excellent way for lower wage-earners to save money on their federal tax returns," Commissioner Lovelace asserts.

Dayton has a strong outreach and public awareness effort, tapping the resources and networks of the members of their EITC collaborative, including banks, businesses, the Chamber of Commerce, community action agency, public housing authority, public schools, child development center, county job center, neighborhood-based non-profit service providers, and the United Way.

The city has also gotten the EITC message out through a variety of venues, from bus placards to paycheck stuffers and the city's website. Commissioner Dean Lovelace has a regular public access show where he promotes the importance of filing for EITC and the Child Tax Credit and on which they have borrowed and aired videos produced by the IRS and another community.

Like San Antonio, the City of Dayton also promotes an Individual Development Account program operated by a local community-based organization.

## Hattiesburg, Mississippi

*(Population: 50,000)*

Astonished to find out that in a community the size of Hattiesburg, Mississippi, the IRS estimated that approximately \$5 million was not being claimed by EITC eligible filers, Mayor Johnny DuPree took action to put those dollars back in families' pockets.

Mayor DuPree led the city's effort by initially joining forces with a local financial institution, the IRS, and the American Association of Retired Persons (AARP) to launch the Mayor's Financial Education Initiative. The Mayor, along with councilmembers and other key community leaders, have gotten the word out through local radio, newspaper and television interviews; public speeches at neighborhood associations and teacher meetings; and the distribution of written pamphlets in stores, schools, and churches. Through their first

year efforts, they helped an additional 499 residents claim the EITC through free tax services and raised the overall visibility of the credit. As a result, Hattiesburg residents received more than \$1.8 million in EITC refunds over prior year returns.

As soon as the tax season came to an end, the Hattiesburg coalition started discussing how to better organize the initiative for the next filing season. The coalition divided responsibilities among board members so that the campaign is truly a joint venture.

"This is one of the best programs that the City, businesses, and non-profits can get involved in because there is such a tangible financial benefit that is immediate," DuPree said. "And we are fortunate to have such great community partners to make this happen."

## Opportunities for Support from NLC

Municipal leaders who are interested in launching or supporting local EITC campaigns do not have to go it alone. The Institute for Youth, Education, and Families (YEF Institute), a special entity within the National League of Cities, can help. In addition to several written resources, such as the *Helping Working Families* action kit and this more comprehensive toolkit, YEF Institute staff stand ready to assist cities by:

- ◆ **Providing City Examples:** A growing number of cities across the country are initiating EITC outreach campaigns, offering free tax preparation assistance, and promoting asset development to their citizenry. These cities serve as a vital resource for other municipal leaders interested in developing new campaigns. The city examples provided throughout this kit

provide a sample of the insights and ideas that are available through NLC.

- ◆ **Fostering EITC Peer Networks:** Since 2001, NLC has sponsored annual convenings of municipal officials and staff who are interested in or actively promoting the EITC. These sessions foster peer-to-peer networking and information exchange on best practices and key challenges in this arena. These meetings are typically connected to a broader EITC networking conference hosted by the National Community Tax Coalition (NCTC). While NCTC is not solely focused on the efforts of municipalities, NLC encourages cities to take advantage of the training, technical assistance, and networking opportunities this coalition provides.
- ◆ **Facilitating Local Partnerships through National Membership Groups:** NLC's YEF Institute helped establish a National EITC Outreach Partnership to improve communication among a large number of national organizations that are actively informing local members about the opportunity to promote the EITC. Through this group, NLC is able to provide targeted materials to city officials seeking to engage other stakeholders in local EITC campaigns and, if needed, can facilitate outreach to these stakeholders through their national associations.
- ◆ **Connecting Cities to Support from the Internal Revenue Service:** The Internal Revenue Service (IRS) works with local and national groups around the country to increase education about the federal EITC and establish or strengthen free tax preparation sites. Through its Stakeholder Partnership, Education, and Communication (SPEC) Division and field offices, the IRS can provide resources and support to local groups interested in launching a free tax preparation site.

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- ◆ **Helping Cities Locate Additional Resources:** In addition to the municipally-focused assistance that NLC can provide, the YEF Institute can also connect city officials to other organizations that offer high quality materials or technical assistance related to EITC outreach campaigns, free tax preparation, complementary outreach to promote other benefits for working families, or asset development strategies. For instance, the Center on Budget and Policy Priorities in Washington, DC, has a comprehensive kit on EITC outreach, and the Annie E. Casey Foundation has developed a strong set of best practices based on communities they have funded to promote family economic success. These and other resources are listed in the last section of this toolkit, and YEF Institute staff can help facilitate connections as needed.
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