

The Upshot of Increasing EITC Uptake in Virginia



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We know from an extensive body of research that the federal Earned Income Tax Credit (EITC) is one of the most effective anti-poverty tools in the United States. Yet, as this report will detail, many eligible households throughout Virginia do not take advantage of this credit. This means that Virginia households and communities are leaving hundreds of millions of federal dollars on the table each year. This has serious implications for communities across Virginia that could be receiving significantly more federal support if uptake rates were improved. Increasing uptake rates of the EITC should be of central concern for economic development and addressing poverty in Virginia.

Virginia lawmakers have many tools at hand to influence uptake rates in the state. Chief among them is their ability to make the state's corresponding earned income credit refundable – meaning that a low-income tax filer would receive a refund for the amount of the credit that exceeds their income tax, offsetting state and local taxes that take up a disproportionate share of their income. Evidence shows that making a state credit refundable is a highly effective way to increase uptake rates of the federal EITC.

A state credit builds on the success of the federal EITC. But when a state does not improve its own credit by making it refundable (like the federal EITC), fewer individuals take advantage of it. Unlike most other states that have an EITC, Virginia has still not made its state credit refundable – meaning low-income workers in the state miss out on the additional benefits that their peers in other states see. In addition to making the EITC refundable, policymakers can use proven

outreach tools to raise awareness among Virginia families of the benefits of the existing federal and state credits. This brief details the benefits of the EITC, who claims it, how we can improve uptake rates, and what policy opportunities Virginia should pursue to do so.

150,000 families in Virginia are estimated to be eligible for the EITC but do not claim it.

What Works to Increase Uptake

In 2014, only an estimated 80.5 percent of EITC-eligible workers in Virginia claimed the credit. This is a relatively high participation rate for a federal safety-net program, but thousands of eligible Virginia filers and our state economy are still missing out on accessing hundreds of millions of federal dollars that working Virginians are allowed to claim each year.

Targeted Outreach and Increased Awareness

Increasing EITC outreach and coordination could boost uptake. Oftentimes, families with incomes below the threshold at which they have to file a federal return may not know that they qualify for credits like the EITC. They may also be unaware that they can receive free assistance to file their taxes and apply for the EITC. The IRS has noted that people less likely to claim their EITC include those who live in rural areas, are self-employed, do not have qualifying children, do not speak English well, are grandparents, or recently changed their

Background on the EITC

The EITC was enacted in 1975 as a bipartisan effort in Congress to provide hard-working low- to moderate-income individuals and families with a credit to help them make ends meet. The credit is only available to families and individuals who work and whose income is below a certain threshold. Its design can encourage entering the workforce and increasing work hours. The federal EITC is given in one lump sum to households and can range up to \$6,431, depending on family composition and earnings. Families with children receive significantly more help from the EITC than low-income working adults without children. The federal EITC, together with the Child Tax Credit, lifted nearly 200,000 Virginians out of poverty each year from 2011 to 2013, including nearly 100,000 children.

State supplements to the federal credit vary substantially in how beneficial they are. Since the EITC was enacted, 29 states and the District of Columbia have enacted their own state EITCs to supplement the federal credit. In most cases, the state credits are refundable like the federal credit.

Virginia's credit is still not refundable and is set at 20 percent of the federal EITC. In 2015, around 633,000 Virginia households received nearly \$1.5 billion from the federal EITC. An additional 150,000 families are estimated to be eligible for the credit but do not claim it.

filing status. Communities with a moderate number of immigrants (between 2 and 13 percent of the community population) are also less likely to be aware of the credit or take advantage of it. These known barriers imply that specific and targeted outreach to these groups is necessary for maximizing participation.

Encouraging low-income working Virginians to use free Volunteer Income Tax Assistance (VITA) sites to prepare their taxes can both boost the share of people who claim the EITC and make sure they receive the full benefit available. VITA preparers are trained to make sure that people apply for the EITC if they qualify for it. The number of VITA sites in a community seems to make a difference in how many people receive the federal EITC. However, despite the availability of this free service, most households that receive the EITC pay to have their taxes completed and this fee, normally hundreds of dollars, diminishes the benefit of the EITC. The state should increase their efforts in coordinating and supporting VITA sites to encourage people to take full advantage of the federal credits they are entitled to. Some communities have

sent mailers to SNAP recipients alerting them of their nearest VITA site. Virginia could utilize state and local offices to do the same and encourage families who are likely to be eligible for the EITC to use VITA sites.

Sending letters to people who likely qualify for the EITC and including the amount they could receive if they claimed the credit, in addition to the location of VITA sites, is another effective state-level outreach strategy for increasing uptake. Currently, the Virginia Department of Social Services sends written notice to people they believe may be EITC-eligible but does not include an estimated EITC amount they might receive based on family size and composition. The state could change this practice to provide an estimate of an amount individuals and families could claim per dependent, and could notify people electronically as well as with written notices. When struggling working families have a tangible number for the benefit that they could receive from filing a federal return, they are more likely to invest their time and effort to claim the credit.

Improve Virginia's Credit through Refundability

One of the most effective ways to get individuals to take advantage of the federal EITC is to make the state credit refundable. Improving a state credit by making it refundable has been shown to increase uptake rates and also labor force participation, since it entices more people to work.

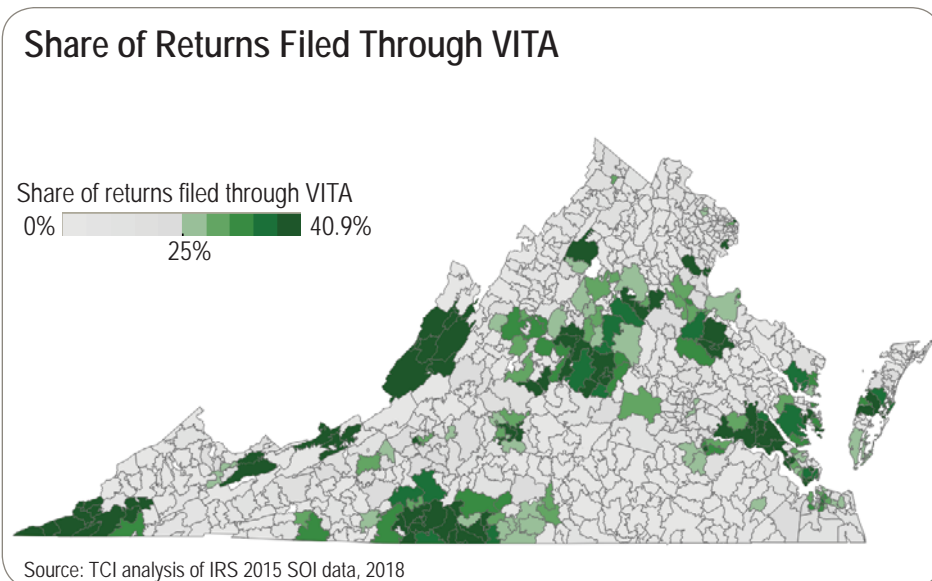
If Virginia wants to draw down the maximum amount of federal dollars by increasing the federal EITC participation rate, making our state credit fully refundable would go a long way towards this end.

Benefits From Increasing Uptake

Increasing uptake of the EITC in Virginia and improving the credit at the state level by making it refundable would improve local economies, employment, and the overall well-being of the households that receive the credits.

Driver of Economic Development

Virginia has a vested interest in increasing federal EITC uptake not only because it helps hard-working Virginia families, but because it can improve local economies across the state by drawing down federal dollars. Families who receive an EITC refund generally do not use it to pay for recurring monthly expenses. Instead, low-income families are especially likely to make larger purchases with the refund, which puts money into the local economy. These families mostly use the EITC refund to cover necessities like home repairs, paying down debt, or maintenance of vehicles (expenses they may not have the savings to afford). The most common new expenditure from an EITC return is on vehicle purchases or transportation, which are critical work supports.



The benefits go beyond the individual families who receive the credit. Multiple studies have found that the EITC helps stimulate local economies with new spending. Employers have been shown to benefit by as much as 36 cents of every dollar from EITC funds received, according to one study. This can allow employers to make additional investments in their business and employees. Both of these findings indicate that EITC dollars in communities have an outsized impact.

Communities throughout the state with lower median incomes are more likely to have a higher share of working families that receive the EITC. In 2015, half of the households who filed taxes in a part of rural Lee County received the EITC. This means that those households have extra money each year to stimulate the local economy and support jobs around the area. Households in this community who claimed the EITC received an average federal credit of nearly \$3,000. If 10 percent more eligible households completed their tax returns to claim the credit, Lee County would see hundreds of thousands in additional federal dollars each year.


Were Virginia able to get more families to take advantage of this credit statewide, local economies all over the state would see a boost. If all qualifying workers in the state claimed the federal EITC they have earned, Virginia communities would see an additional \$266 million in federal support each year.¹ The EITC is more than just a work and family support, it's an economic development tool for struggling communities that Virginia should be working to maximize.

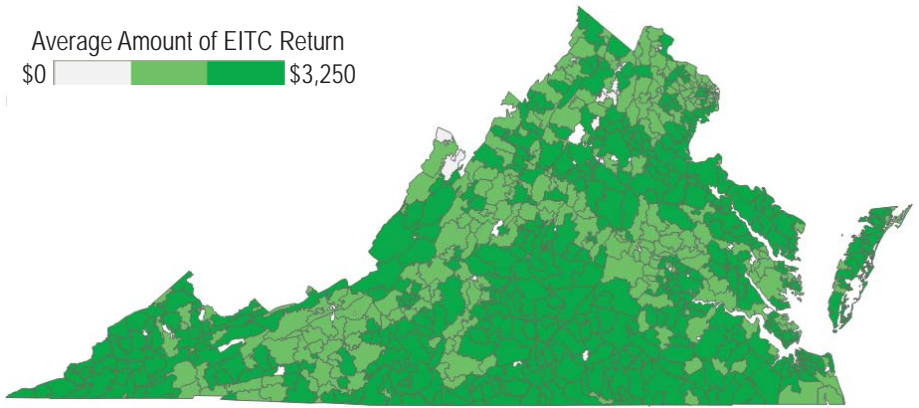
Supports the Labor Force

Aside from the EITC being proven to be an effective work support, there's also strong evidence that it encourages work, especially for single mothers. Knowing

Average Federal EITC Return

The dark green areas represent zip codes with higher average federal EITC returns.

Average Amount of EITC Return
\$0  \$3,250



Source: TCI analysis of IRS 2015 SOI data, 2018

about the EITC can be a decisive factor for people who may be considering entering the workforce. People who have very low or no income and may be considering the opportunity cost of increasing their hours worked (e.g. finding other people to care for dependents or investing in transportation) may view the EITC as a way to help offset these costs. Research finds that single parents with no more than a high school degree see the biggest boost in employment when states improve their credit. Indeed, single parents represent around 74 percent of the total amount of the federal EITC claimed. Making the availability of the EITC more known through improving the state credit is one way to make it easier for single parents to justify entering and remaining in the labor market.

And when people have taken advantage of the EITC and state supplement in the past, they generally became ineligible for the credits within two years because their earnings increase too much. This highlights the fact that the EITC is a work support and can boost the ability of individuals to move up in their careers. Increasing uptake in Virginia would likely

improve our labor force participation rate, particularly for struggling individuals who might need the support most to break into the workforce, and provide a foundation for increased wages in the medium term.

Improves Major Aspects of Well-being

The federal EITC is associated with boosting employment, lowering poverty and child poverty rates, and increasing children's academic performance, lifetime earnings and educational attainment. These are well-documented findings and are much of the reason many policymakers have long viewed the EITC as one of the most effective anti-poverty tools. When states increase their EITC refundability, the benefits to children are even more evident. States increasing EITC refundability is directly associated with

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¹ Assuming the average EITC for eligible but not currently claiming households is \$1,738, 75 percent of the average credit for Virginia households who are currently claiming the EITC

increasing a child's economic mobility in the future. Strong state credits increase educational attainment for young children. By increasing the number of people that claim these refundable credits, Virginia will increase the number of children who experience the benefits that are associated with them. Driving uptake of the EITC and improving Virginia's credit will contribute to building a more skilled and effective workforce for the state's future.

Distribution

The EITC is a practical anti-poverty tool that benefits communities throughout all of Virginia. While low-income families used to be more concentrated in center cities and rural areas, many now live in suburbs. Rural and center city areas of the state still have larger shares of EITC filers, but the share of people living just above the poverty line is going up in suburban areas, and this group, along with those below the poverty line, often qualifies for the EITC. Every community therefore stands to gain from efforts to improve uptake.

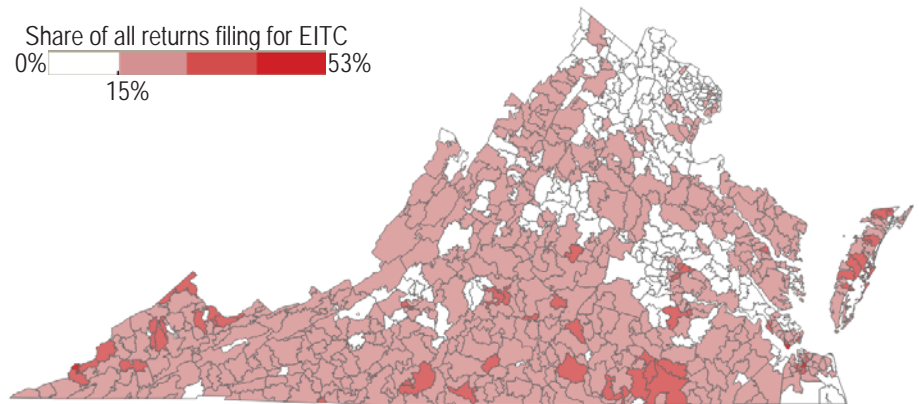
Conclusion

Virginia stands to gain substantially from increasing uptake rates in the state. Doing so will involve a combination of policy changes, outreach, and strategy. Making Virginia's state credit refundable remains one of the most effective options for increasing EITC uptake rates in our state and would have the largest impact on

improving the well-being of struggling families and communities throughout the commonwealth. Policymakers can also consider using proven outreach and targeted engagement strategies to encourage working families across Virginia to claim the earned income tax credit and, in doing so, help their communities as well as their own families.

Share of EITC Returns Out of All Returns

The dark red areas represent zip codes where a high share of the tax filers are EITC recipients.



Source: TCI analysis of IRS 2015 SOI data, 2018

The Commonwealth Institute

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