

# Memorandum



CITY OF DALLAS

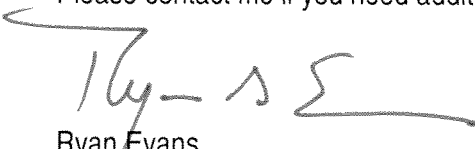
DATE August 30, 2012

TO Honorable Members of the Budget, Finance, & Audit Committee: Jerry R. Allen (Chair), Tennell Atkins (Vice Chair), Monica R. Alonzo, Scott Griggs, Ann Margolin

SUBJECT Earned Income Tax Credit (EITC): A Major Financial Benefit to Low Income Families

On Tuesday, September 4, 2012, at the Budget, Finance, and Audit Committee meeting, you will be briefed on Earned Income Tax Credit (EITC): A Major Financial Benefit to Low Income Families. Please see the briefing material attached.

Please contact me if you need additional information.



Ryan Evans  
Assistant City Manager

Attachment

C: Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Rosa A. Rios, City Secretary  
Thomas P. Perkins, Jr., City Attorney  
Craig D. Kinton, City Auditor  
Daniel Solis, Administrative Judge  
A.C. Gonzalez, First Assistant City Manager  
Ryan S. Evans, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Edward Scott, City Controller  
Stephanie Pegues-Cooper, Assistant to the City Manager

# **Earned Income Tax Credit (EITC): A Major Financial Benefit to Low Income Families**

Budget, Finance and Audit Committee  
September 4, 2012



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

- A tax refund for working families to supplement wages
- Enables a family of 4 to earn up to \$40,000 per year and receive a maximum lump sum tax credit payment of up to \$4,716
  - Average credit is \$2,000
- Can be supplemented by Additional Child Tax Credit (ACTC) of \$1,000 per child and Child and Dependent Care Tax Credit up to \$2,100



# EITC Background

- Established by Congress in 1975 and indexed to inflation
- Nationwide EITC is estimated to pump over \$40 billion annually into local economies
- Recent Brookings Institute study shows nationally (2011):
  - Half who filed for EITC also claim ACTC
  - 75% of those eligible receive refunds
  - 70% of refunds claimed through tax preparers
  - Average EITC per family in 2009 = \$2,270
- Local data from Brookings (2008):
  - Dallas County
    - \$548 million EITC claimed
  - City of Dallas
    - \$308 million claimed



# EITC Background (cont.)

- More than 20% of eligible families don't claim
  - Lack of awareness
  - Complexity of filing
- Or benefits are reduced because of unethical tax service providers (\$2 billion of \$42 billion earned lost in tax preparation fees)
  - Excessive fees
  - Expensive refund anticipation loans
- IRS created the Voluntary Income Tax Assistance (VITA) program
  - Provides training, forms, computers and tax software
  - Helps filers get tax credits
  - Reduces cost of filing
- Many cities collaborate with United Way, banks, foundations, social service agencies
  - Leverage VITA program to increase EITC outreach



# Existing United Way Program

- United Way runs the Earn It! Keep It! Save It! Program:
  - Financial coaching
  - Free tax preparation
- Primary focus on VITA program
- Operates 10 VITA sites at churches, an Urban League location, Women’s Southwest Federal Credit Union, North Dallas Shared Ministries, Habitat for Humanity, and other nonprofit organizations
- Major growth constraint is lack of paid staff (all volunteer operation with donated computers and minimal formal marketing)
- Earn It! Keep It! Save It! results:
  - 2012: \$13.6 million from tax refunds and preparation fees saved for more than 7,600 families
  - 1,000 families received financial coaching in 2011-2012
  - Every dollar spent in the program’s first four years returned an average of more than \$22 in savings to families



# Comparative Texas EITC Results (2011)

	Number of Centers	Returns Processed	Annual Benefits Generated
Austin	13	18,228	\$30 million
Houston	15	25,000	\$37 million
San Antonio	23	35,000	\$60 million
Dallas	10	7,600	\$13.6 million



# San Antonio Program Impact

- Brookings Institution (2006) study cited impacts of the San Antonio program:
  - Each dollar in EITC spending results in another \$1.58 in local economic activity
  - Each \$37,000 in local credits earned creates one permanent job in the community
  - Each \$1,000 in local spending produces \$2 in local tax revenue





# Growth Opportunities

- According to U.S. Census Bureau 2010 American Community Survey
  - 37.5% of Dallas County households had income below \$35,000
  - 19.2% of the Dallas County population lives below the poverty level
  - Dallas ranks 4<sup>th</sup> in poverty rates among 20 largest U.S. cities



# Lessons Learned

- **Know the customer base:** Provide convenient hours (including weekends) with well trained paid and volunteer staff
  - **Be culturally competent:** Deal with linguistic and demographic backgrounds
  - **Link the program to credit counseling, asset-building strategies and savings programs**
  - **Build long-term relationships with clients**
  - **Find committed partners and funders**



# Best Practices

- **Management:** One lead entity
- **Staff:** Professional, full time for central management and service center operations, extensive volunteer base
- **Funding:** Multiple sources: banks, city government, United Way, other foundations and charities
- **Marketing:** Concerted outreach to non-English speaking populations, Mayoral leadership / cheerleader role
- **Linkage:** Combine with broader asset building and credit education programs
- **Facilities:** Supersites emphasizing quality over quantity of many smaller sites



# Benefits for Dallas

- **Increased aggregate household income** in low income neighborhoods (strengthens retail viability)
- **Improves long-term economic stability**
  - Important to link EITC and Asset Building Education
  - Potential to create better saving/spending habits
  - Ultimate goal: Improved access to credit for Housing, Education, Small Business



# Questions?



# Appendix

## Appendix 1: Characteristics of DFW Metro EITC-Eligible taxpayers



## CHARACTERISTICS OF EITC-ELIGIBLE TAXPAYERS, 2007

METRO AREA:

### Dallas-Fort Worth-Arlington, TX

The Metropolitan Policy Program at Brookings

#### EITC-ELIGIBLE POPULATION

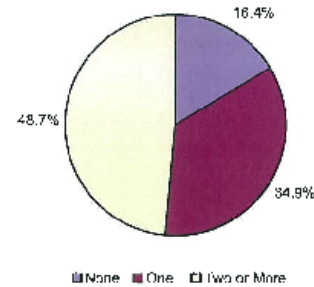
Total EITC-Eligible Tax Units	502,274	Total Population in EITC-Eligible Units	1,653,832
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#### EITC-ELIGIBLE FILING UNIT CHARACTERISTICS

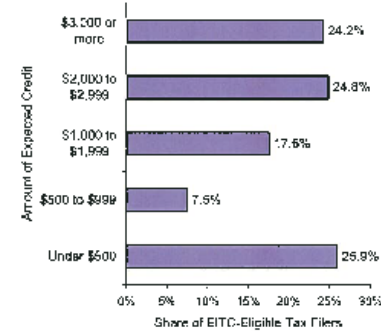
##### Filing Status

Married, Filing Jointly	33.9%
Head of Household	52.0%
Single	14.1%

##### Number of Qualifying Children



##### Size of Expected Earned Income Tax Credit

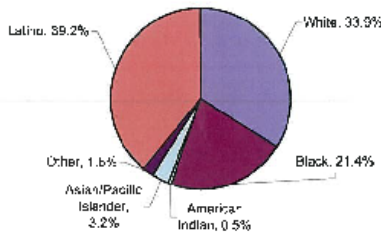


##### Adjusted Gross Income

\$1 to \$4,999	15.5%
\$5,000 to \$9,999	13.1%
\$10,000 to \$14,999	14.9%
\$15,000 to \$19,999	12.0%
\$20,000 to \$24,999	15.5%
\$25,000 to \$29,999	11.5%
\$30,000 to \$39,999	17.5%

#### EITC-ELIGIBLE TAX FILER CHARACTERISTICS

##### Race and Ethnicity of Taxpayer

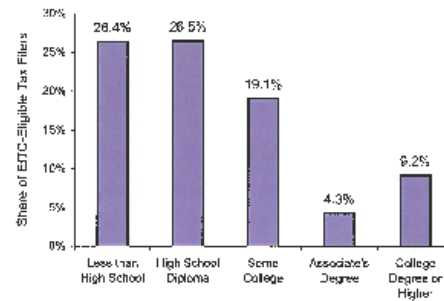


##### Age of Taxpayer

Under 25 years	14.7%
25 to 34 years	32.0%
35 to 44 years	25.5%
45 to 54 years	15.8%
55 years and over	11.8%



**Highest Level of Education Attained by Taxpayer**



**Home Ownership**

Owner-occupied, with mortgage	37.3%
Owner-occupied, no mortgage	11.7%
Renter-occupied	48.7%

**Receipt of Food Stamps**

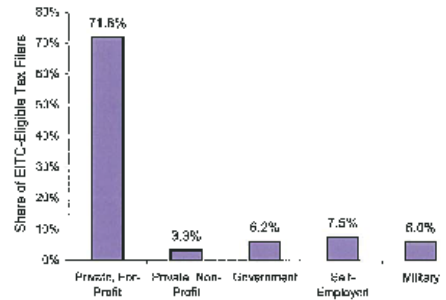
Share of tax filers in households that receive food stamps	19.2%
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**Language Spoken at Home**

English	58.6%
Spanish	36.7%
Vietnamese	1.0%
Other	3.7%

\* "Other" includes any language that is spoken by (a) less than 1% of taxpayers, or (b) less than 2,000 taxpayers in total.

**Sector of Work for Taxpayers**



\* Categories may not add to 100%. Remainder represents taxpayers who identified themselves as unemployed.

**Top Five Occupations**

Office Administration	16.2%
Construction/Min ing	13.4%
Sales	10.0%
Transportation	0.2%
Production/Manufacturing	7.7%

**Top Five Industries**

Construction	14.6%
Retail Trade	12.5%
Manufacturing	8.3%
Healthcare	8.8%
Accommodation/Food Services	8.6%

Source: MetroTax model estimates based on 2007 American Community Survey microdata

