TESTIMONY OF JOHN WANCHECK
Earned Income Credit Campaign Coordinator
Center on Budget and Policy Priorities
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California General Assembly
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Senator Liu, Members of the Committee, thank you for your invitation to testify. I'm John Wancheck, the Earned Income Credit Campaign Coordinator for the Center on Budget and Policy Priorities, a nonprofit policy institute that conducts research and analysis on fiscal policy matters, as well as on programs and policies for low-income families and individuals. We have conducted a national public education campaign for over 20 years on the Earned Income Credit and other tax benefits for working families. We annually distribute about 15,000 copies of our Tax Credit Community Outreach Kit to non-profit organizations, government agencies and employers to assist them in developing local outreach efforts www.eitcoutreach.org . We conduct trainings on community outreach and have visited California many times to do so.

I was asked to provide some history today about the Earned Income Tax Credit (EITC). The EITC was enacted in 1975 as a congressional initiative related to welfare policy reforms then under discussion, which emphasized that welfare recipients should become employed. Welfare recipients and advocates pointed out that recipients often could only get low-paid entry level jobs and that their take-home pay after taxes would be less than their benefit on welfare. Thus, going to work would actually reduce the resources available to parents to raise their children. Congress responded and the original EITC aimed to offset income and payroll taxes paid during the year by low-income workers.

This policy was viewed as successful, although limited, and the EITC was gradually expanded under later Administrations to provide an additional income supplement to encourage full-time work, even if only at minimum wage levels. President Reagan praised the EITC as the "best anti-poverty, the best pro-family, the best job creation measure to come out of Congress," when he signed the Tax Reform Act of 1986, which increased the EITC.

The EITC was a linchpin of President Clinton's tax and welfare-to-work policies. In 1993 an expanded EITC boosted the size of the EITC for workers raising two or more children and enacted. the smaller EITC for workers not raising children. The underlying goal was that a parent with two children working full-time at the minimum wage would be lifted above the poverty level if the EITC were claimed. The Clinton Administration pointed out that low- and moderate-income workers were subject to other taxes besides Social Security and federal income taxes.

The EITC has now become the principle federal policy lifting working families and children out of poverty. We estimate that in 2009 alone 6.6 million individuals were lifted out of poverty by the EITC, including 3.3 million children. The EITC brings more children of working parents out of poverty than any other federal program.

President Bush's tax cuts of 2001 and 2003 added two new elements to low-income tax policy:

- marriage penalty relief in the EITC, which reduced the amount that the EITC for married workers declines as their income increases, and
- the Child Tax Credit, targeted as income tax reduction for middle-class families, but containing an element permitting lower-income workers who didn't owe income tax to receive a small benefit. The CTC was further increased in 2003 to a maximum of $1,000 per child. The CTC provides a continued tax benefit as incomes rise, as do payroll and income taxes, while the EITC phases down.

Last year's economic recovery legislation, the American Recovery and Reinvestment Act (ARRA), built on both of these policies. It expanded the degree of marriage penalty relief in the EITC. For example, married workers who earn over $20,000 and are raising children receive an EITC several hundred dollars higher than single workers. The Child Tax Credit was changed so that workers earning more than $3,000 could begin to qualify for the credit. This means that a full-time minimum wage worker earning about $15,000 and raising two children could claim a credit of $1,800 for 2009, compared to about $300 under previous rules.

Another aspect of the EITC was also changed, adding an increased benefit level for workers raising three or more children. Worth about $400 - $600, this increase benefits the 15 percent of EITC recipients claiming more than two children, raising the incomes of minimum wage earners with larger families closer to the poverty line.

The ARRA expansions are in effect only through tax year 2010, but President Obama's 2011 budget proposal calls for them to be made permanent. Together, they lift about 900,000 children out of poverty.

How EITC refunds are used. A variety of research studies over 25 years have found that EITC recipients report using their refunds primarily to pay immediate household bills, including utilities, clothing, credit card bills and rent. Many recipients also indicate an intention to use part of their refunds for longer-term goals, such as better housing, a more reliable car, or for savings.[1]

Participation patterns. Recent research of a sample of tax filers followed over a seven year period found that 30 percent claimed the EITC just once, while 11 percent received the EITC all seven years. The remaining filers were split among those claiming the EITC for two to three years and four to six years, some in consecutive years and others sporadically.[2] About half of those who received the EITC all seven years were females heading a household and one-third were married couples. The EITC has a wide range of income eligibility for workers raising children, so the economic circumstances of a family can change considerably (for better or worse) and the worker can remain eligible for an EITC that varies by income.

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[1] "The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility," Timothy M. Smeeding, Katherin Ross Phillips, and Michael O'Connor, Maxwell School, Syracuse University April 2000 www-cpr.maxwell.syr.edu/cprwps/pdf/wp13.pdf

[2] "The Pattern of EITC Claims Over Time: A Panel Data Analysis," Deena Ackerman, Janet Holtzblatt, Karen Masken, August 2009, 2009 IRS Research Conference, www.irs.gov/pub/irs-soi/09resconpatterneitc.pdf

Although California consistently leads the nation in the number of EITC claims, this is mainly due to there being many more tax return filers in California than any other state. EITC claims in California are consistently 15-16 percent of all federal returns from the state, the same as the national average. States with higher percentages of EITC claims, exceeding 20 percent, are the southern states, where lower prevailing wage rates are considered the main factor.

However, an IRS study of EITC claims filed in 1996 found that California led all states with a higher percentage of workers eligible for the EITC who failed to claim it. Non-participation in California was about 8 percent higher than the national average found in that study. The study noted that the large number of Spanish-speaking workers in California could be a factor, but it didn't provide much other guidance on who might be missing out on the EITC. In general, eligible workers without children make up a larger proportion of those not claiming the EITC, but over half of those not claiming are workers with children.

Which workers are most likely to miss out? Early research on EITC participation and our outreach experience indicate these categories:

- low-income workers who don't speak English, or speak it as a second language — they may be unfamiliar with filing taxes or have cultural barriers preventing them from filing
- workers who are paid in cash, whether in family businesses or as day laborers
- homeless workers, including those with children, who may not keep documentation of earnings
- self-employed workers — filing returns is more complex, and self-employment tax must be **paid**; this includes employees who are misclassified as independent contractors by employers
- workers transitioning from welfare assistance and other first-time workers
- first-time parents unfamiliar with filing tax returns and child tax benefits
- divorced or separated workers who permit the parent absent from the home to claim children as dependents, not realizing as the custodial parent they can claim the EITC
- non-custodial parents who owe back child support and have had previous tax refunds intercepted by IRS to pay toward that debt
- workers who have previously avoided filing tax returns, and now fear consequences if they now file
- workers who earn too little to be required to file a return and do not learn about tax benefits for which they qualify
- grandparents or other relatives who take on the responsibility of raising a child
- foster parents
- workers with disabilities or raising children with disabilities, who fear the added income from tax credit refunds will disqualify them from crucial benefits such as Medicaid and SSI.
- unemployed and downsized workers whose income previously was too high for the EITC, but are now eligible but unaware of it

Effective outreach and assistance in California. We have worked directly over the years with EITC outreach programs in San Francisco, Oakland, Santa Cruz and Los Angeles and conducted trainings with organizations in several other counties. By last fall, there were 26 EITC community outreach coalitions in California recognized by the IRS. These are at various stages of experience, but each features multiple community partners focused on developing free tax filing assistance services for low- and moderate income individuals and conducting outreach efforts geared to their community.

You will hear today about the great work of the Earn It, Keep It, Save It program in a nine-county region. This is widely recognized around the country as a top program — in many ways it is a partnership of experienced EITC outreach programs already strong in their own right who have joined to multiply their impact and create new coalitions in additional counties in the region. I suggest that other counties just trying to get a program underway might especially look to how this program has helped build new efforts, rather than believing that they have to be able to operate in nine counties to be successful.

The We Connect website sponsored by the First Lady of California is a creative resource to enable agencies to readily connect workers to information about the tax credits and the availability of free tax filing assistance in their communities. The promotional events she holds with local organizations are unique. I'm not aware of a state-level political figure elsewhere in the country who conducts such activities at this scale. This encourages other political leaders to provide similar support, and many of the coalitions in California have involvement by Assembly Members, mayors, and council members.

Several coalitions here have also built partnerships with banks and credit unions in order to provide unbanked clients quick ways to open accounts to which to deposit tax refunds.

We Connect also provides individual filers a ready link to the ICAN!E-File free on-line tax filing software, created by the Legal Aid Society of Orange County, which agencies can choose to use to coach clients through doing their own return.

I want to note two efforts in California that illustrate initiatives that can be sparked by individual agencies:

- In Butte County, the Department of Employment and Social Services partnered with the Private Industry Council to provide tax credit information to prison parolees, who are often trying to find entry-level employment, and their families, using the One-Stop job resource centers.
- In Petaluma, the Committee on the Shelterless worked with tax preparation volunteers stationed at the local library to bring their services out to residents in transitional housing and emergency shelters.

Further steps to find workers not claiming the EITC. The IRS awarded grants worth $647,000 to 14 California organizations to expand Volunteer Income Tax Assistance (VITA) services in 2010. These Community VITA grants are matching grants, so organizations need to raise the equivalent of their grant from other sources. This is a national program that will continue to make grants, based on annual applications, in each state. So, in order to keep these federal dollars coming to California programs, it may be worth looking at ways to support these grantees and also be helpful to effective programs who weren't awarded grants. Providing free tax assistance to underserved communities is part of the strategy to reach workers who aren't filing returns to claim the EITC.

For example, we know of two states that have state-funded competitive grant programs for EITC outreach and VITA services:

- Virginia awarded $218,000 to 27 coalitions for 2010. Last year the program prepared 21,300 returns by low-income filers. These are usually county or city-based coalitions.
- Louisiana has taken a different approach to this by authorizing $840,000 in grants to support nine regional efforts, which must be applied for annually.

There are some other initiatives that may be worth exploring to adapt to California's needs:

Many low- and moderate-income working parents have young children in child care centers. A Pennsylvania outreach program worked with the center directors in its area to bring a mobile VITA team out to the center to serve both center parents and the center's staff, by establishing advance appointments. This benefits parents unable to visit a VITA site during the day and saves them the considerable expense of commercial tax preparation.

Workers spend more time with their employers than with social service agencies, so employers are in a perfect position to assist with tax credits. A program based at the University of Wisconsin, Progress Through Business, has worked nationally through human resources departments for companies like Staples and for hospitals to build programs that arrange for volunteer tax preparers to complete employee returns before, after or during the workday.[3]

The Self Employment Tax Initiative, a project of the national economic development organization CFED, is aiming to increase the capacity of EITC outreach and free tax filing programs to effectively serve self-employed workers. More complicated self-employment returns are not part of the standard IRS training for VITA volunteers, so add-on training and referral resources are typically needed. SETI has provided funding and consultation to over 30 organizations in the past few years to expand their capacity in this area.[4]

Providing EITC outreach and free filing assistance is considerably more difficult in rural communities, which may be a factor in California EITC participation. There aren't as many agencies in rural areas to form coalitions and establish tax filing sites, fewer volunteer recruitment sources and travel times are a barrier. A Minnesota program began using a remote system for filing services. A partner community agency working with a client faxes the client's tax information to a preparer organization located elsewhere to prepare the return for e-file. A webcam and SKYPE are used are used to allow the preparer to interview the filer.

Just as mayors and governors have increasingly stepped up to champion EITC outreach efforts and the VITA program around the country, we think that members of state legislatures can take action as well to bolster community outreach efforts to their own constituencies, as a number have already in California. One of the most effective steps Members can take is to work with local EITC outreach programs to launch an annual outreach campaign at the beginning of the tax filing season. Events in January announcing the opening of VITA sites, or the annual national EITC Awareness Day activities are well-suited for Assembly member participation.

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[3] Progress Through Business, John Hoffmire, 608-345-5111, hoffmire@wisc.edu
[44]Self Employment Tax Initiative, CFED, Gene Severens, www.cfed.org, 202-408-9788

A legislator's staff may be able to provide invaluable suggestions to help local outreach coalitions form and even help in convening organizations and community leaders who could join in the effort. Members are particularly well-positioned to introduce leaders of the business community to the benefits of the EITC and link them to help build outreach efforts.

A number of Members have also included information about the EITC and locations of VITA sites in their newsletters or included envelope stuffers in other mailings to constituents.

You may find it interesting to check out how many EITC and CTC refund dollars have been coming into your own district. The Brookings Institution provides information on EITC claims broken down by Congressional district at its website: www.brookings.edu/metro/EITC/EITC-Homepage.aspx.

The Center on Budget and Policy Priorities would be glad to assist your offices in whatever way we can to assist you with information and materials about the EITC and contacts with organizations interested in EITC outreach in your districts.

Attachment 1: IRS Community VITA Grantees in CA, 2010

Community Partnership for Families of San Joaquin, Stockton, CA
South Bay Community Services, San Diego, CA
United Way of the Bay Area, San Francisco, CA
Taiwan Buddhist Tzu Chi Foundation, U.S.A., Los Angeles, CA
United Way of Fresno County, Fresno, CA
Community Action Partnership of Riverside County, Riverside, CA
The Foundation for CSU - San Bernardino, San Bernardino, CA
Catholic Charities of Santa Clara County, San Jose, CA
United Way of Monterey County, Monterey, CA
County of Ventura, Ventura, CA
Legal Aid Society of Orange County, Santa Ana, CA
Community Action Partnership of San Luis Obispo County, Inc., San Luis Obispo, CA
Community Services Planning Council, Sacramento, CA
India Community Center, Milpitas, CA