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DC'S EARNED INCOME TAX CREDIT SUPPORTS WORKING FAMILIES ACROSS THE DISTRICT

By Katie Kerstetter

The District's Earned Income Tax Credit (DC EITC) is a critical tool to support working poor families. The EITC boosts take-home pay by providing tax relief and, in many cases, refunds to low-income workers, especially those with children. The DC EITC helps to reduce poverty, supplement the income of low-wage workers, and lower the taxes of low- and moderate-income families.

To build on the strengths of the federal EITC, DC joins 22 states in offering a state-level EITC.¹ DC enacted its EITC in 2000. The District expanded the credit to 35 percent of the federal EITC benefit in 2005, making it one of the most generous state-level EITCs in the nation. A proposal in the FY 2009 budget would increase the DC EITC even further — to 40 percent of the federal credit. Recent data show that the District's EITC assists a substantial number of working families and individuals:

- Some 46,300 DC households received the DC EITC for tax year 2005. This represents one in six DC households.
- DC residents received \$30 million in DC EITC benefits in 2005, with an average benefit of \$652 per household. When combined with the federal EITC, working DC households received nearly \$120 million in EITC benefits, with average benefits of \$2,400 per household.
- If approved by the Council, the proposed expansion of the DC EITC will bring the amount received by DC working families to \$39 million, with an average benefit of \$865 per household. When adjusted for inflation, this equals an average benefit increase of

KEY FINDINGS

- The DC Earned Income Tax credit provides tax relief and some refunds to many working families across the District.
- In 2005, the DC EITC provided \$30 million in tax relief to 46,300 working families.
- The Mayor's proposed expansion of the DC EITC will provide \$39 million in tax relief — increasing average benefits nearly \$200 over the 2005 level.
- Increasing numbers of federal EITC recipients are applying for the DC EITC, suggesting that DC EITC outreach efforts are succeeding.
- However, District families are still losing \$17 million to \$25 million in unclaimed federal and DC EITC benefits.

¹ Center on Budget and Policy Priorities, "A Majority of States with Income Taxes Have Enacted State Earned Income Tax Credits," 2007, <http://www.cbpp.org/10-5-07sfp.htm>.

nearly \$200 from the 2005 level.

- The EITC helps families throughout the District but receipt is particularly concentrated in some neighborhoods. For example, more than one-third of all tax filers living east of the Anacostia River claim the EITC. Overall, 40 percent of EITC recipients live East of the River.

In addition to measuring the benefits of the federal and District EITC, this report also examines the participation rate, or the share of eligible residents that claim each credit.

- In 2004, some 92 percent of those who benefited from the federal EITC also benefited from the DC EITC. This represents an improvement from 2002, when less than 80 percent of District residents that claimed the federal EITC also claimed the DC EITC. This is a sign that awareness of the DC credit has grown.
- At the same time, some 7,000 to 11,000 DC residents do not claim the federal EITC, even though they are eligible for the credit. This means that they cannot claim the DC EITC, either. The amount of federal EITC dollars unclaimed by DC residents in 2004 is estimated to range between \$12.4 million and \$18.3 million. The amount of unclaimed DC EITC dollars in 2005 is estimated to range between \$4.5 million and \$6.6 million.
- The number of DC households claiming the federal EITC is falling. From 2002 to 2005, the number of federal EITC recipients in DC decreased by nearly 3,000 households. It is not clear if this reflects fewer eligible households or reduced participation among eligible households, but it does emphasize the need for ongoing outreach.
- Moreover, there appears to be substantial variation in DC EITC participation across the city, even among those who claim the federal credit — most of whom should be eligible for the DC credit. In areas with large numbers of federal EITC recipients, most federal EITC filers also claimed the DC EITC. For example, in areas east of the Anacostia River, nearly all federal EITC recipients also claim the DC EITC.
- In zip codes where fewer than 500 people applied for the federal EITC, a much smaller share of federal credit recipients also claimed the DC EITC. For example, in three zip codes located primarily in Wards 2 and 3, where fewer than three percent of federal EITC beneficiaries live, 61 percent or fewer of federal EITC recipients claimed the DC EITC.

Given the tremendous benefits provided by the Earned Income Tax Credit — including the proposed expansion of the DC EITC — outreach is important to help ensure that all eligible families and individuals claim the credit. There is a substantial EITC outreach effort in the District, led by the DC EITC Campaign, a citywide, multi-sector collaborative that provides marketing, outreach, and free tax preparation assistance to low-income DC residents. The campaign relies primarily on private funds and volunteer efforts, but it also receives public funding from the DC government. These data indicate that DC EITC outreach efforts have been successful, especially in areas with large numbers of federal EITC recipients.

Outreach efforts should continue to target areas where many federal EITC recipients are concentrated, and they should focus on raising awareness of the federal EITC. This is important because the number of DC residents claiming the federal EITC has fallen, and the federal credit is a

prerequisite to claiming the DC EITC. Additionally, groups may want to consider extending their outreach campaigns to areas with fewer numbers of federal EITC recipients, where DC EITC participation rates are lower. Because continued development and gentrification in the District may result in population shifts over time, it will be important to update this analysis in future years to track participation and better target outreach.

What is the Earned Income Tax Credit?

The federal EITC was established in 1975 as a way to reduce the payroll tax burden for low-income workers. Since then, the size of EITC benefits and the number of eligible households have been expanded greatly.² The District and a number of states also have created their own EITCs, modeled after the federal credit. Both the federal and the DC EITC are refundable credits, meaning that if a family's EITC benefit exceeds their tax payment, they receive the remaining amount of the EITC as a refund. This is important because it allows the EITC to boost many working families' incomes, in addition to reducing their tax burden.

Unlike many other benefits, such as Food Stamps or Temporary Assistance to Needy Families (TANF), the EITC is administered through the tax system and usually is paid in a lump sum as a tax refund, rather than in monthly installments.³ In order to claim the federal credit, families with qualifying children complete a separate form (Schedule EIC) when they file their income taxes. To claim the DC credit, households must submit a copy of their federal return with their DC tax return.

Earned Income Tax Credits Provide an Array of Benefits to Working Families

Research shows that earned income tax credits supplement the income of low-wage workers, reduce taxes for low- and moderate-income families, increase workforce participation among low-income single mothers, and decrease poverty. While this section focuses mainly on the benefits of the federal EITC, the DC EITC reinforces and expands these benefits.

- **Several studies suggest that the EITC encourages workforce participation, especially among previously non-working single mothers.** This is because the EITC helps “make work pay” for workers who otherwise would have to rely on very low wages. From 1984 to 1996, the EITC and state tax reforms were estimated to increase the labor force participation of single mothers by over 60 percent.⁴
- **The EITC helps working families move out of poverty.** In 2003, the EITC lifted 4.4

² In 1975, 6.2 million families received \$1.25 billion in benefits, while in 2003, 19.3 million families received \$34.4 billion in benefits. Steve Holt, “The Earned Income Tax Credit at 30: What We Know,” 2006, The Brookings Institution, http://www.brookings.edu/reports/2006/02childrenfamilies_holt.aspx.

³ The IRS does allow households to receive up to 60 percent of the maximum benefit for a worker with one child as an advance payment. The advance payment is added to each paycheck, rather than paid as a lump sum. However, only a very small number of beneficiaries (0.2 percent in 2003) choose this option. Holt, p. 6.

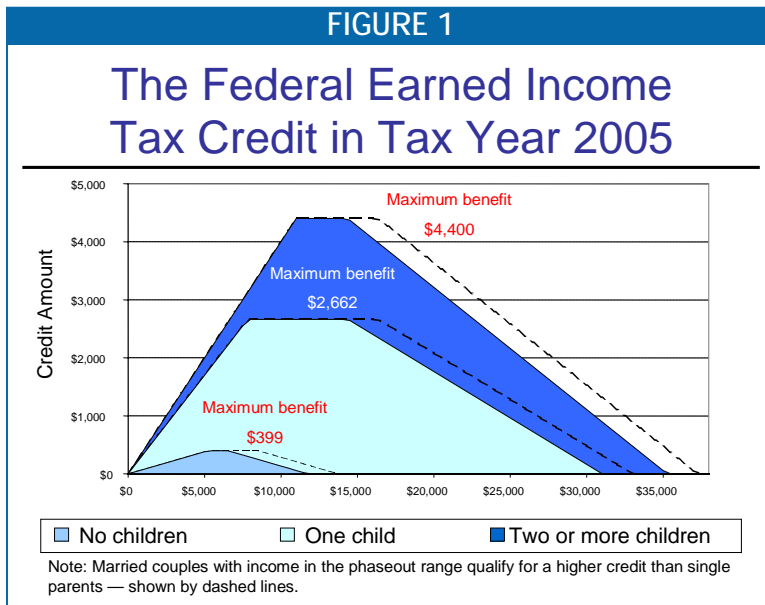
⁴ Bruce T. Meyer and Dan T. Rosenbaum, “Welfare, the Earned Income Credit, and the Labor Supply of Single Mothers,” 2000, http://jcpr.org/wpfiles/eitc_meyer_rosenbaum_update22001.PDF?CFID=541709&CFTOKEN=68773703.

million people out of poverty nationally, over half of which were children.⁵ The EITC currently does more to lift children out of poverty than any other social program or group of programs. Without the EITC, it is estimated that the child poverty rate nationally would have been almost one-fourth higher in 2003.⁶

- **The EITC helps recipients make ends meet and build assets for the future.** A survey of EITC recipients in Chicago found that more than half of all recipients planned to use their refund in ways that could improve their social mobility, such as investing in tuition and transportation or setting aside money for savings. Nearly half of the recipients planned to use their refund to pay utility bills and rent and meet more immediate needs.⁷

Who is Eligible for the EITC?

Both the federal and the DC EITCs have the same benefit structure and eligibility requirements. Whether a family qualifies for the two credits depends largely on their household earnings and the number of children in their family. In 2005, single parents with two or more children qualified for the EITC if they earned less than \$35,263, while single parents with one child qualified if they earned less than \$31,030. Married couples with two or more children were eligible for the EITC if they earned less than \$37,263, while married couples with one child were eligible if they earned less than \$33,030.



Individuals and couples without children also are eligible to receive the EITC but on a more limited basis. In 2005, they were required to be between 25 years and 64 years old and earn less than \$11,750 (single filers) or \$13,750 (married filing jointly) to qualify. In addition, all EITC recipients must have been U.S. citizens during the past year, possess valid Social Security numbers for themselves and their children, and have investment income less than \$2,700 in 2005.⁸

As Figure 1 shows, federal EITC benefits are structured in three distinct sections. In the first

⁵ Holt, p. 13.

⁶ Robert Greenstein, “The Earned Income Tax Credit: Boosting Employment, Aiding Working Families,” 2005, Center on Budget and Policy Priorities, <http://www.cbpp.org/7-19-05eic.htm>.

⁷ Timothy M. Smeeding, Katherine Ross Phillips, and Michael O’Connor, “The EITC: Expectation, Knowledge, Use, and Economic and Social Mobility,” Center for Policy Research, 2000, <http://www-cpr.maxwell.syr.edu/cprwps/pdf/wp13.pdf>.

⁸ Internal Revenue Service, “EITC Thresholds and Tax Law Updates,” <http://www.irs.gov/individuals/article/0,,id=150513,00.html> and Holt, p. 4.

section (the phase-in range), low-income households' benefits increase as their income increases, up to a maximum benefit. In the phase-in range, the more workers earn, the more their EITC benefit increases. This allows the EITC to serve as a work incentive. EITC benefits rise until they reach a maximum level, which was \$4,400 for families with two or more children in 2005, \$2,662 for families with one child, and \$399 for individuals or couples without children.

Once a family's income reaches the level to qualify for the maximum credit, it remains eligible for the maximum over an income range of several thousand dollars. For example, married couples with two children qualify for the maximum credit if their income is between \$11,000 and \$16,399. In the third section (the phase-out range), families with higher incomes see their benefits decrease as their income increases. Benefits decrease until families are no longer eligible for the credit.

The DC Earned Income Tax Credit Is among the Largest in the Nation

The District's EITC benefits are set at 35 percent of the federal credit. This means that, in 2005, the maximum DC EITC benefit was \$1,540 for families with two or more children, \$932 for families with one child, and \$140 for families with no children. As noted, Mayor Fenty's proposed budget for FY 2009 would expand the DC EITC to 40 percent of the federal credit.

Table 1 shows the benefits that a single head of household with two or more children could receive from the federal and DC EITCs. For example, if this family earned \$5,000 in 2005, it could have received a \$2,010 federal EITC credit and a \$710 DC EITC credit. The combined amount of the two EITC credits would have raised this family's income by 54 percent. If the family earned \$15,000 in 2005, it could have received a \$4,262 federal EITC credit and a \$1,492 DC EITC credit. Together, this equals a wage boost of nearly 40 percent.

Household Income*	Federal EITC Benefit	DC EITC Benefit	Percent Increase in Household Income
\$5,000	\$2,010	\$704	54%
\$10,000	\$4,010	\$1,404	54%
\$15,000	\$4,262	\$1,492	38%
\$20,000	\$3,209	\$1,123	22%
\$25,000	\$2,156	\$755	12%
\$30,000	\$1,103	\$386	5%

* Adjusted Gross Income, Source: Internal Revenue Service, 2005 Earned Income Credit Table

DC has one of the most generous state-level EITCs in the nation (Table 2). Minnesota, New York, and Vermont have refundable credits set at 30 percent or more of the federal credit, but none reach DC's benefit of 35 percent of the federal EITC or its proposed increase to 40 percent of the federal credit. Wisconsin provides a larger benefit (43 percent of the federal credit) for families with three or more children, but the state offers a much lower benefit for smaller families and does not provide any benefits for workers without children.⁹

⁹ Center on Budget and Policy Priorities, "A Majority of States," p. 5.

**TABLE 2
STATE EARNED INCOME TAX CREDITS BASED ON THE FEDERAL EITC**

State	Percentage of Federal Credit (Tax Year 2007 Except as Noted)	Refundable?	Workers Without Qualifying Children Eligible?
Delaware	20%	No	Yes
District of Columbia	35%	Yes	Yes
Indiana ^a	6%	Yes	Yes
Illinois	5%	Yes	Yes
Iowa	7%	Yes	Yes
Kansas	17%	Yes	Yes
Louisiana	3.5% (effective in 2008)	Yes	Yes
Maine	5%	No	Yes
Maryland ^b	20%	Yes	No
Massachusetts	15%	Yes	Yes
Michigan	10% (effective in 2008; to 20% in 2009)	Yes	Yes
Minnesota ^c	Average 33%	Yes	Yes
Nebraska	8% (to 10% in 2008)	Yes	Yes
New Jersey	20% (to 22.5% in 2008, 25% in 2009)	Yes	Yes
New Mexico	8%	Yes	Yes
New York ^d	30%	Yes	Yes
North Carolina ^e	3.5% (effective in 2008)	Yes	Yes
Oklahoma	5%	Yes	Yes
Oregon ^f	5% (to 6% in 2008)	Yes	Yes
Rhode Island	25%	Partially ^g	Yes
Vermont	32%	Yes	Yes
Virginia	20%	No	Yes
Wisconsin	4% - one child, 14% - two children, 43% - three children	Yes	No

^a Indiana's EITC is scheduled to expire in 2011.

^b Maryland also offers a non-refundable EITC set at 50 percent of the federal credit. Taxpayers in effect may claim either the refundable or the non-refundable credit, but not both.

^c Minnesota's credit for families with children, unlike the other credits shown in this table, is not expressly structured as a percentage of the federal credit. Depending on the income level, the credit for families with children may range from 25 percent to 45 percent of the federal credit; taxpayers without children may receive a 25 percent credit.

^d Should the federal government reduce New York's share of the TANF block grant, the New York credit would be reduced automatically to the 1999 level of 20 percent.

^e North Carolina's EITC is scheduled to expire in 2011.

^f Oregon's EITC is scheduled to expire in 2011.

^g Rhode Island made a very small portion of its EITC refundable effective in TY 2003. In 2006, the refundable portion was increased from 10 percent to 15 percent of the nonrefundable credit (e.g. 3.75 percent of the federal EITC).

Source: Center on Budget and Policy Priorities, "A Majority of States with Income Taxes Have Enacted State Earned Income Tax Credits," 2007. (<http://www.cbpp.org/10-5-07sfp.htm>)

Proposed DC EITC Expansion Will Provide Further Relief to Low-Income DC Workers

The proposal to expand DC's EITC from 35 percent of the federal credit to 40 percent would enhance the assistance it provides to low-income working families and individuals. The

expansion would increase total DC EITC benefits from \$35 million per year to \$40 million, and the average DC EITC benefit would grow from \$650 in 2005 to \$870 in 2009.

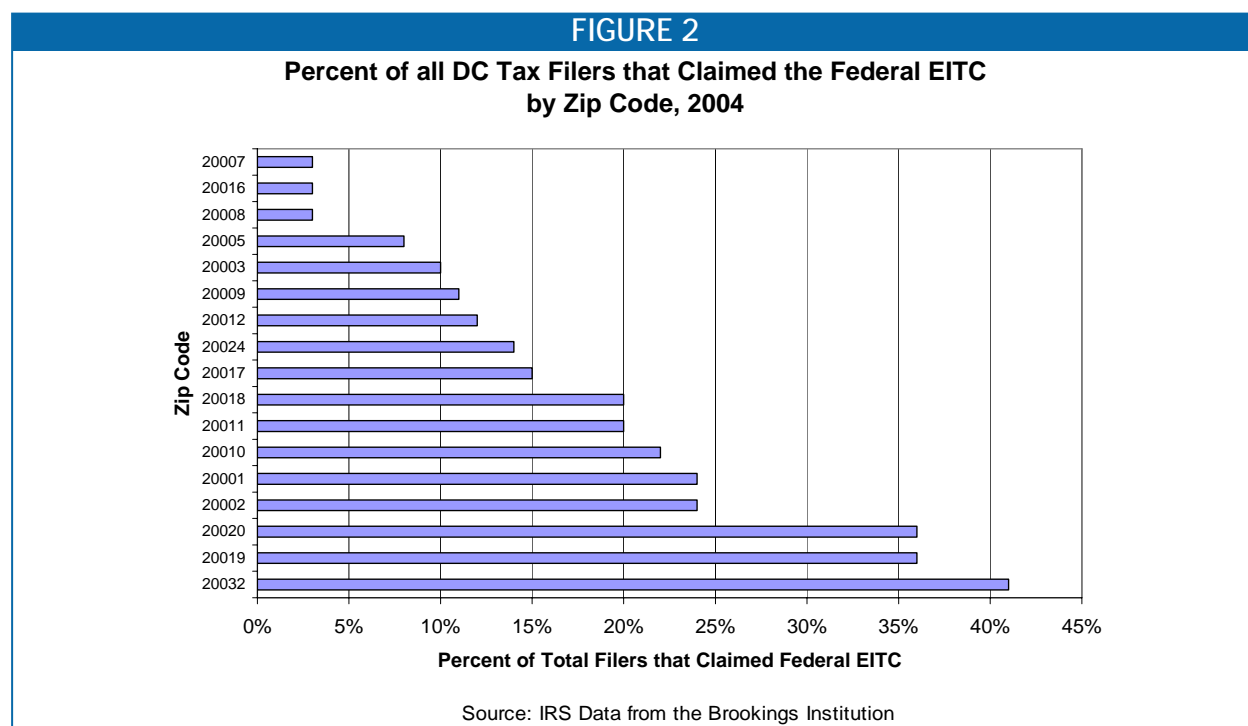
This also would enhance the combined impact of the federal EITC and DC EITC on low-income working families. For a family earning \$10,000, the combined EITC benefits would total \$5,600 — equivalent to a 56 percent wage boost.

The EITC Provides Benefits to Families throughout the District

In 2005, nearly 18 percent of DC households that filed federal income tax returns — approximately 48,000 households — benefited from the federal EITC. DC families received \$83 million in federal EITC benefits in 2005, with an average federal benefit of \$1,766 among households that received the benefit.¹⁰

In 2005, some 46,283 DC households (or about one in six households) that filed DC income tax returns received a credit from the DC EITC. These families received \$30 million in DC EITC benefits, with an average benefit of \$652.¹¹

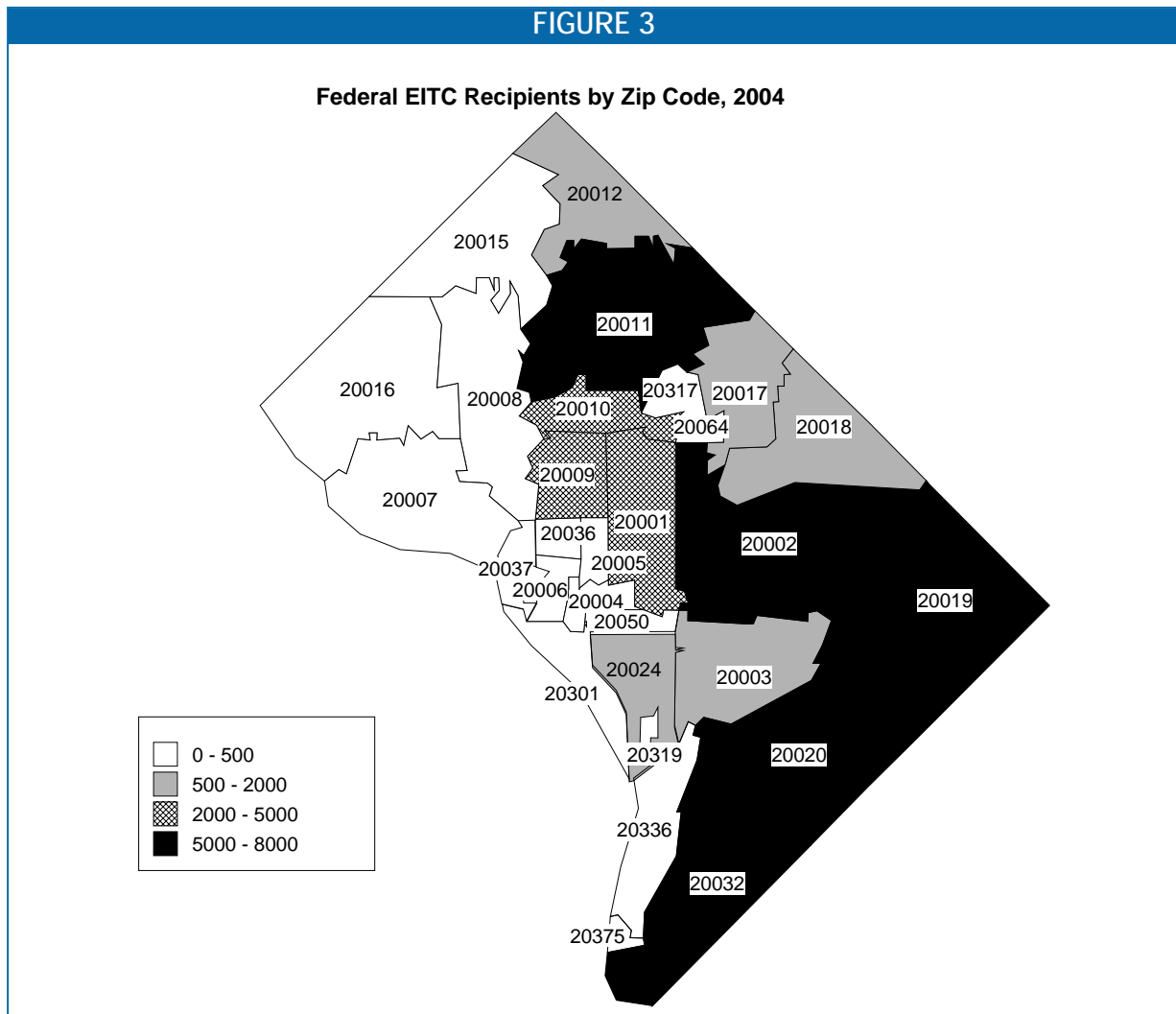
While families throughout DC benefit from the EITC, there is variation by neighborhood. This is evidenced by zip code-level data provided by the IRS and the DC Government. Figure 2 shows the percentage of all filers in each zip code that claimed the federal EITC in 2004, while Figure 3 shows the number of filers that claimed the federal credit in each zip code in 2004.



¹⁰ Tax Policy Center, “Historical EITC Recipients,” 2007, http://www.taxpolicycenter.org/taxfacts/Content/PDF/eitc_state.pdf.

¹¹ DCFPI analysis of data from the DC Office of the Chief Financial Officer

The largest concentration of federal EITC recipients was located in three zip codes east of the Anacostia River (20019, 20020, and 20032). In these zip codes, over 35 percent of all households that filed tax returns claimed the federal EITC.



In an additional five zip codes, at least one fifth of all tax filers claimed the federal EITC in 2004. These zip codes were located across the District and included Wards 1, 2, 4, 5, and 6. The only ward in which less than five percent of all filers claimed the federal EITC was Ward 3.

- Because families in neighborhoods east of the Anacostia River are most likely to claim the EITC, these neighborhoods accounted for a large share of the city's EITC recipients. Over 40 percent of federal EITC recipients (or 20,000 recipients) lived east of the Anacostia River.
- More than one-fifth of federal EITC recipients are in Wards 5 and 6. About 12 percent of recipients (5,600 families) lived in the 20002 zip code, which covers Wards 5 and 6. Nearly 10 percent of EITC recipients (4,500 families) lived in four other zip codes in Wards 5 and 6 (20003, 20017, 20018, and 20024).

- About 11 percent of federal EITC recipients (5,400 families) lived in the 20011 zip code, which spans Wards 4 and 5. Three other zip codes in the center of the city (20001, 20009, 20010) together include 19 percent (or 9,078) DC EITC recipients. These zip codes are mainly in Wards 1, 2, and 4.

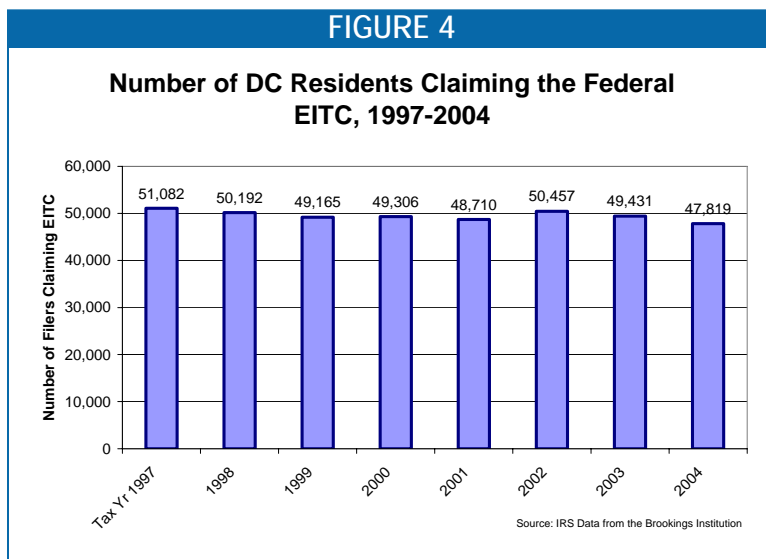
Measuring Participation in the DC EITC

Another important way to assess the EITC’s effects is to examine the share of eligible residents that claim the benefit. Unfortunately, neither Census nor IRS data provide the information needed to calculate the participation rate accurately, largely because of difficulties in identifying the number of families and individuals eligible for the credit.¹²

Given these data limitations, this report uses several strategies to estimate participation in the DC EITC. These include calculating the percentage of federal EITC recipients that also claim the DC EITC and comparing trends in the number of federal EITC recipients in DC to other states and inner cities.

This analysis shows that a substantial number of eligible households fail to claim the federal EITC and that the number of DC families claiming the federal credit has fallen in recent years. On the positive side, nearly all families claiming the federal credit also received the DC credit, an improvement from recent years when a significant share did not claim the DC credit.

Number of DC Residents Claiming the Federal EITC is Declining



The first strategy for estimating DC EITC participation takes into account the potentially large numbers of residents in DC that are eligible to claim the federal EITC, but do not claim the credit. The most recent national study of EITC participation estimates that between 13 percent and 18 percent of those eligible for the federal EITC fail to claim the credit.¹³ Applying this to DC means that approximately 7,000 to 11,000 eligible households do not claim the federal credit. DC

¹² There is not currently enough data from the U.S. Census to allow for estimates of EITC participation at city and neighborhood levels. Additionally, households that are eligible for the EITC but do not file tax returns are not included in IRS data. For more information, see Alan Berube, “Earned Income Credit Participation – What We (Don’t) Know,” <http://www.brookings.edu/metro/eitcparticipation.pdf>.

¹³ See SB/SE Research, “Participation in the Earned Income Tax Credit Program for Tax Year 1996,” 2002, http://www.taxpolicycenter.org/taxfacts/papers/irs_eitc.pdf.

residents who do not claim the federal EITC are unable to claim the DC EITC.

The number of DC families claiming the federal EITC has decreased in recent years. In 2002, nearly 50,500 DC residents claimed the federal EITC, while in 2005, only about 47,800 residents claimed the federal EITC (Figure 4). This also means that fewer households were able to claim the DC EITC.

During the same period, the number of families claiming the EITC nationally grew from 19 million to 23 million. The reason for the drop in the number of DC families claiming the federal EITC is unclear. One possibility is that gentrification and a lack of affordable housing are pushing low-income residents out of the city, so that there are fewer EITC-eligible residents in DC. The decline also could reflect declining employment rates among residents with a high school degree or less.¹⁴

The decline in federal EITC participation in the District also is greater than in other large cities. Table 3 compares the change in the number of federal EITC recipients in the inner cities of the ten largest metropolitan areas in the U.S. Between 1997 and 2004, the number of federal EITC recipients in DC decreased by 6.4 percent. Atlanta was the only other city with a larger decline (11.5 percent). In seven cities, the number of EITC households increased, in some cases by a large margin. The number of federal EITC recipients increased by 21 percent in New York and by 15 percent in Philadelphia.

**TABLE 3
PERCENT CHANGE IN FEDERAL EITC RECIPIENTS IN DC
& OTHER INNER CITIES, 1997-2004**

	Percent Change
New York	21.3%
Philadelphia	14.7%
Miami	9.7%
Houston	6.0%
Detroit	3.1%
Chicago	2.1%
Los Angeles	0.4%
Dallas	-2.8%
DC	-6.4%
Atlanta	-11.5%

Source: IRS Data from the Brookings Institution

Percent of Federal EITC Recipients Claiming the DC EITC has Increased

The second strategy for measuring DC EITC participation examines the percent of federal EITC recipients that claim the DC EITC. Because only families that claim the federal EITC can

¹⁴ Ed Lazere, "DC's Two Economies: Many Residents Are Falling Behind Despite the City's Revitalization," 2007, <http://dcfpi.org/?p=120>.

receive the DC EITC, this percentage provides an estimate of the number of eligible residents that are aware of and able to access the DC EITC.

Table 4 shows the number of DC households that claimed the federal and DC EITC by zip code and ward in 2004. During that year, 44,194 families received a DC EITC benefit, compared to 47,819 families who received a federal EITC benefit. Thus, 92 percent of DC households that claimed the federal EITC also claimed the DC EITC in 2004. This represents an improvement from 2002, when fewer than 80 percent of families that claimed the federal EITC also claimed the DC EITC.¹⁵ This increase appears to reflect greater awareness of the DC credit.

TABLE 4 COMPARISON OF FEDERAL AND DC EITC RETURNS BY ZIP CODE, 2004				
Zip Code	Ward	Estimated DC EITC Returns*	Federal EITC Returns	Percent of Federal EITC Recipients who Claim DC EITC
20019	7	7,661	7,661	100%
20020	7,8	7,101	7,112	100%
20011	4,5	5,127	5,588	92%
20002	5,6,7	5,058	5,361	94%
20032	8	4,937	5,248	94%
20001	1,2,5,6	2,862	3,263	88%
20010	1,4,5	2,546	2,938	87%
20009	1,2	2,521	2,877	88%
20018	5,7	1,383	1,453	95%
20017	5	1,057	1,183	89%
20003	2,6,7,8	931	1,076	87%
20024	2,6,8	765	834	92%
20012	4	637	734	87%
20005	2	330	476	69%
20008	1,2,3,4	244	445	55%
20016	3	227	371	61%
20007	2,3	208	352	59%
Others		479	847	57%
Total		44,194	47,819	92%

*See footnote 16. Sources: DC Office of the Chief Financial Officer and IRS data from the Brookings Institution.

The percent of federal EITC recipients that also claimed the DC EITC differed by geographic area in 2004. The areas where most federal EITC recipients are located also had the highest DC

¹⁵ DC Fiscal Policy Institute, “The District Earned Income Tax Credit: Helping Working Families Escape Poverty,” 2002, <http://dcfpi.org/?p=59>.

EITC participation rate. For example, in three zip codes east of the Anacostia River, home to 42 percent of federal EITC beneficiaries, nearly all federal EITC recipients also claim the DC EITC.¹⁶

However, zip codes where fewer than 500 households applied for the federal EITC also had a lower share of federal credit recipients apply for the DC EITC. For example, three zip codes located primarily in Wards 2 and 3, had less than 61 percent of federal filers claim the DC EITC. These areas potentially could have low participation among eligible families in the federal EITC as well.

When looking at this measure of participation, it is important to note that there will always be a gap between the number of residents that claim the DC EITC and the number that claim the federal EITC due to the DC policy that households cannot claim both the low-income tax credit and the DC EITC. The low-income tax credit eliminates families' tax payments if their income falls below a "no-tax floor," roughly equal to the federal poverty line.¹⁷ Depending on their economic situation, it may make more sense for a family to claim the low-income tax credit rather than the DC EITC.

While participation in the DC EITC among households that claim the federal EITC is relatively high, the fact that many eligible families do not claim the federal EITC means that participation in the DC EITC also is reduced. As noted, an estimated 13 percent to 18 percent of households eligible for the federal EITC fail to claim the credit.

Taking this into account, the estimated overall participation rate in the DC EITC among all eligible households is between 78 percent and 82 percent. The trends by zip code are similar to the last measure. In Wards 7 and 8, some 80 percent to 90 percent of eligible households claim the DC EITC. The three zip codes predominantly in Wards 2 and 3, where fewer than 3 percent of DC federal EITC recipients live, have estimated DC EITC participation in the range of 47 percent to 54 percent.

Unclaimed Credits Total \$17 to \$25 million

This measure also can be used to estimate the amount of federal and DC EITC dollars that are unclaimed by eligible DC residents. In 2004, DC residents received \$83.3 million in federal EITC benefits. Taking into account the 13 percent to 18 percent of eligible households that fail to claim the federal EITC, the amount of federal EITC dollars that were unclaimed by DC residents is estimated to range between \$12.4 million and \$18.3 million.

In 2005, DC residents received \$30 million in DC EITC benefits. DC residents who do not claim the federal EITC cannot claim the DC EITC. Given that the estimated participation rate in the DC is between 78 percent and 82 percent, the amount of unclaimed DC EITC dollars is estimated to range between \$4.5 million and \$6.6 million. When combined with unclaimed federal EITC benefits, this means DC families are losing \$17 million to \$25 million in benefits for which they are eligible.

¹⁶ Data on households claiming the DC EITC fails to identify zip codes for many claimants. Data from these missing zip codes were distributed equally among all zip codes with at least one federal EITC filer.

¹⁷ Robert Zahadrick and Iris Lav, "A D.C. Earned Income Tax Credit Could Provide Tax Relief and Reduce Child Poverty," Center on Budget and Policy Priorities, February 9, 2000, http://www.cbpp.org/2-9-00sfp.htm#N_4.

Conclusions

The DC EITC provides tax relief and wage increases to families across the District. In 2005, the DC EITC provided \$30 million in benefits to 46,300 families. Combined with the federal EITC, working DC families received \$120 million in 2005. Families at the lowest end of the income scale received income increases of up to 54 percent as a result of the federal and DC credits.

Mayor Fenty's proposal to increase the DC EITC to 40 percent of the federal credit could provide even larger benefits to DC families in the future. If approved by the Council, it would provide a total of \$39 million in assistance to working poor families, and it would increase the maximum DC EITC benefit to \$1,981 for a family of three in 2009.

The percent of federal EITC recipients that claimed the DC EITC increased from less than 80 percent in 2002 to 92 percent in 2004. Areas of the city where most federal EITC recipients were concentrated also had the largest percentages of DC EITC recipients, particularly Wards 7 and 8. Areas with fewer numbers of federal EITC recipients had fewer percentages of federal recipients that claimed the DC EITC. These areas are located primarily in Wards 2 and 3.

However, while awareness of the DC EITC has been growing, potentially large numbers of DC residents (7,000 to 11,000) that are eligible for the federal EITC do not claim the credit. As a result, they are unable to claim the DC EITC. In addition, the number of DC residents claiming the federal EITC declined by nearly 3,000 households from 1997 to 2004, while the number of households claiming the credit nationwide increased.

These data show that during the seven years of the DC EITC's existence, the share of federal EITC recipients that claim the DC EITC has increased. Outreach efforts led by the DC EITC Campaign and supported by the DC Government have been successful in reaching zip codes with the highest number of federal EITC beneficiaries. These areas should continue to be the primary target of outreach groups, because they allow resources to be targeted most efficiently. Increasing participation in the federal EITC will continue to be critical, both because it provides substantial benefits and because families cannot claim the DC EITC unless they claim the federal credit first. As DC's population continues to shift and change, it will be important to update this analysis in subsequent years to track the progress of outreach efforts and identify areas in the city where participation can be improved.