

Who Knows about the Earned Income Tax Credit?

Katherin Ross Phillips

Low-income Hispanic parents are much less likely to know about the program than low-income non-Hispanic parents of any race.

The Earned Income Tax Credit (EITC) is the largest cash transfer program for low-income parents in the United States.¹ The refundable tax credit supplements wages and offsets taxes paid by low-income workers. Research suggests that the EITC has not only been effective in moving families over the poverty line, but it has also encouraged work among single mothers (Eissa and Hoynes 1998; Meyer and Rosenbaum 1999; Porter et al. 1998). Recipients use the money they receive from the EITC for investments in education and savings as well as to help them pay bills and daily living expenses.²

The EITC is administered through the federal income tax system. To receive the credit, low-income workers must file a tax return, even if they are otherwise exempt from doing so. As a result, knowledge of the EITC is essential if all eligible, low-income parents are to receive the credit. Furthermore, the EITC can only influence the labor supply of low-income parents who know about the program.³ Although the federal government and many advocacy groups have designed outreach programs to increase program participation, relatively little is known about whether potentially eligible recipients are aware of the EITC.

Using data from the 1999 National Survey of America's Families (NSAF), this brief examines demographic differences in knowledge about the EITC among parents across three divisions: (1) income and welfare participation; (2) marriage and education; and (3) race, ethnicity and citizenship.⁴ Nearly two-thirds of all parents have heard of the EITC and just under 30 per-

cent of parents have received the credit at some time. Low-income Hispanic parents are much less likely to know about the program than low-income non-Hispanic parents of any race. Among low-income parents who know about the EITC, Hispanics are also less likely to have ever received the tax credit. Past welfare participants are more likely than current recipients or parents who never received welfare to know about the program.

The Earned Income Tax Credit

The EITC program was implemented in 1975 to help offset the Social Security payroll taxes paid by low-income working parents and to encourage parents to work. Over the past 25 years, the EITC has grown dramatically through a large increase in benefits and expanded eligibility. In 1998, non-administrative program costs for the EITC were \$30.8 billion (IRS 2000a). During that year the EITC was responsible for lifting more children out of poverty than all other means-tested programs combined (Porter et al. 1998).

The EITC is available only to low-income tax filing units (individuals or families) with earnings. While the EITC is primarily for parents, there is a small credit for low-income workers who are not parents. For all EITC recipients, the size of the credit initially rises with earnings, reaches a plateau, and then diminishes with each additional dollar earned. The maximum credit for a working family with two children was \$3,756 in tax year 1998. Families

with two children and incomes between \$9,390 and \$12,260 could claim this maximum credit and families with two children and incomes up to \$30,095 were eligible for some EITC benefit.⁵

Low-income workers have two options for receiving the EITC. They can file a tax return with a schedule EIC at the end of the tax year or they can apply to receive a portion of the credit in their paychecks throughout the year. Very few workers take advantage of the advance payment option.⁶ Low-income workers who do not file an income tax return will not receive any benefit from the program. Furthermore, low-income workers who do file a return, but do not claim the EITC on their return, might not receive the credit.⁷

Income and Welfare Participation

Nationally nearly two-thirds (65.9 percent) of parents know about the EITC (table 1).

Given that the EITC is targeted to low-income adults, it is reasonable to assume that low-income parents are as knowledgeable about the program as higher-income parents. The first column in table 1 shows this is not always the case. The knowledge difference between parents with incomes above 200 percent of the federal poverty level (FPL) and parents whose incomes are near the FPL is not statistically significant.⁸ However, very poor parents, those with incomes below 50 percent of the FPL, are significantly less likely than higher-income parents to know about the EITC (54.6 percent compared with 66.9 percent). Very poor parents are less likely to have worked during the last year and, therefore, less likely to be eligible for the EITC.

Parents who received Aid to Families with Dependent Children (AFDC)/Temporary Assistance for Needy Families (TANF) or food stamps in the past, but who are no longer participating in the programs, are very likely to know about the

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TABLE 1. Parents at Various Income and Program Receipt Levels Who Heard of and Who Ever Received the EITC, 1999

	Heard of the EITC (%)	Ever Received the EITC (of Parents Who Have Heard of the EITC) (%)	Ever Received the EITC (All Parents) (%)
U.S. Average	65.9	45.1	29.5
Family Income as Percent of Federal Poverty Level			
Less than 50%	54.6 **	49.0 **	26.6 *
50%–100%	65.7	68.6 **	44.8 **
100%–150%	64.5	75.0 **	48.0 **
150%–200%	68.3	69.6 **	47.1 **
Greater than 200% ^a	66.9	32.7	21.7
TANF/AFDC Use			
Current	61.6	54.2 **	33.3 **
Past	82.9 **	78.9 **	65.3 **
Never ^a	63.7	38.5	24.3
Food Stamp Use			
Current	66.7	62.2 **	41.3 **
Past	77.7 **	75.1 **	58.1 **
Never ^a	62.3	31.6	19.4

Source: Urban Institute calculations of the 1999 National Survey of America's Families.

** Significantly different from comparison group at 0.01 level.

* Significantly different from comparison group at 0.05 level.

a. Base category for statistical comparisons.

EITC program. Across all parents, past AFDC/TANF participants are significantly more likely to know about the program (82.9 percent) than either current participants (61.6 percent) or parents who never received AFDC/TANF benefits (63.7 percent). The same pattern holds for Food Stamp participation. Among those who have heard about the EITC program, 78.9 percent of past AFDC/TANF participants and 75.1 percent of past Food Stamp participants have received the EITC.

Not surprisingly, parents with incomes between 50 and 200 percent of the FPL are significantly more likely than higher-income parents to have ever received the EITC. The second column of table 1 shows that three-fourths of parents with incomes just over the FPL who have heard about the EITC have received program benefits. Although knowledge of the program spills over into the higher-income group of parents, receipt of the benefit is limited to low-income workers. Hence, the remainder of this brief focuses on parents with incomes below 200 percent of the FPL.⁹

Marriage and Education

Past research has found differential effects of the EITC on the labor supply of parents based on their marital status: the EITC is related to increases in work effort among single mothers and, to a lesser extent, decreases in work effort among married mothers (Eissa and Hoynes 1998; Meyer and Rosenbaum 1999). Interestingly, knowledge about the EITC also differs by marital status. Married low-income parents are less likely than nonmarried low-income parents to know about or receive the EITC (table 2). Among low-income parents who have heard of the program, divorced/separated parents are the most likely to have received the tax credit.

Low-income parents with some college education are the most likely to know about the EITC and to ever have received the credit (79.9 percent). In contrast, less than half of low-income parents who did not finish high school know about the program (44.4 percent), and less than a third have ever received benefits from the program (26.5 percent). When we look only at low-income parents who know about the program, those who did not graduate from

Past AFDC/TANF participants are significantly more likely to know about the program than current AFDC/TANF participants.

TABLE 2. Low-Income Parents (Income below 200 Percent of FPL) with Various Characteristics Who Heard of and Who Ever Received the EITC, 1999

	Heard of the EITC (%)	Ever Received the EITC (of Parents Who Have Heard of the EITC) (%)	Ever Received the EITC (All Parents) (%)
U.S. Average	64.2	67.8	43.2
Marital Status			
Married ^a	59.3	65.9	38.5
Widowed	63.3	71.3	45.1
Divorced/separated	73.3 **	73.0 *	53.4 **
Never married	67.7 **	68.7	46.3 **
Cohabitators	63.3	63.6	40.1
Education			
Less than high school	44.4 **	60.1 **	26.5 **
High school graduate ^a	69.3	71.8	49.5
Some college	79.9 **	69.1	55.0 *
College +	68.5	60.1 **	40.7

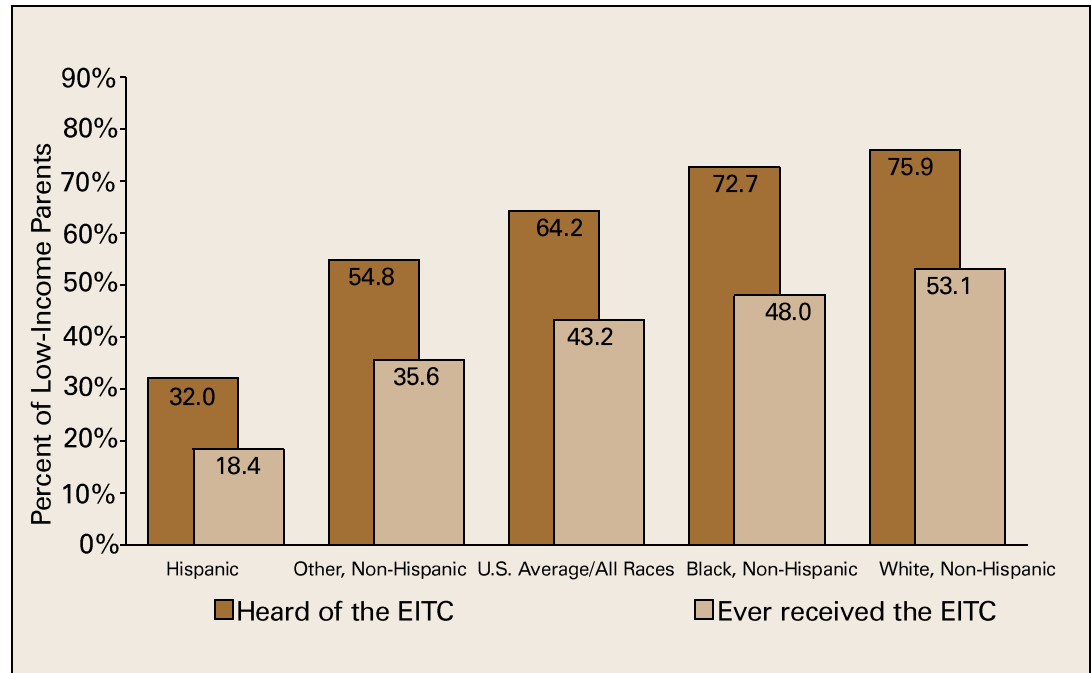
Source: Urban Institute calculations of the 1999 National Survey of America's Families.

** Significantly different from comparison group at 0.01 level.

* Significantly different from comparison group at 0.05 level.

a. Base category for statistical comparisons.

FIGURE 1. Low-Income Parents (Income below 200 Percent of FPL) Who Heard of and Who Ever Received the EITC, by Race and Ethnicity, 1999



Source: Urban Institute calculations of the 1999 National Survey of America's Families.

Less than half of low-income parents who did not finish high school know about the EITC.

high school are no less likely to have received the credit than low-income parents who graduated from college. However, both of these groups of low-income parents are significantly less likely to have received the credit than high school graduates (table 2, column 2).

Race, Ethnicity, and Citizenship

Low-income Hispanic parents are much less likely to know about or receive the EITC than low-income non-Hispanic parents of any race (figure 1). Most low-income parents know about the EITC program (64.2 percent) and a large portion have received the credit at some time (43.2 percent). In contrast, fewer than one in three Hispanic low-income parents know about the program (32.0 percent) and fewer than one in five have ever received the credit (18.4 percent). Among low-income parents who know about the program, the ethnic difference in EITC receipt is somewhat smaller, but still statistically significant.

To better illustrate the ethnic difference, table 3 shows the percent of low-

income parents who know about and who have ever received the EITC by citizenship status, ethnicity, and language of the NSAF interview. Among low-income immigrants, naturalized citizens are significantly more likely to know about the EITC than noncitizens (37.9 percent compared with 21.6 percent). Both groups are much less likely to know about the tax credit than low-income parents who were born in the United States (73.2 percent). These knowledge differences translate into differences in receipt rates. More than half of native low-income parents have received the EITC compared with 22.9 percent of naturalized citizens and 9.1 percent of noncitizens. Among low-income parents who know about the EITC program, receipt rates of U.S.-born and naturalized citizens are not statistically different.

Regardless of their citizenship status, Hispanic low-income parents are less likely to know about or to have ever received the EITC. However, when we take knowledge of the program among U.S. citizens into account, the receipt rates of Hispanic low-income parents do not differ statistically from the receipt rates of non-Hispanic low-income parents (column 2 of table 3).

TABLE 3. *Low-Income Parents (Income below 200 Percent of FPL) Who Heard of and Who Ever Received the EITC, by Ethnicity, Citizenship, and Interview Language, 1999*

	Heard of the EITC (%)	Ever Received the EITC (of Parents Who Have Heard of the EITC) (%)	Ever Received the EITC (All Parents) (%)
Native-Born U.S. Citizen	73.2	69.4	50.5
Non-Hispanic	75.7	69.3	52.2
Hispanic	53.2 **	69.4	36.5 **
Naturalized U.S. Citizen	37.9	61.3	22.9
Non-Hispanic	48.5	63.1	30.1
Hispanic	29.6 **	59.1	17.3 *
Not a U.S. Citizen	21.6	42.8	9.1
Non-Hispanic	47.2	63.3	29.7
Hispanic	16.5 **	31.3 *	5.1 **
English Interview	71.7	69.2	49.3
Non-Hispanic	74.2	69.1	51.0
Hispanic	53.6 **	70.3	37.2 **
Spanish Interview	15.4	26.1	3.9
Non-Hispanic	na	na	na
Hispanic	15.4	27.0	4.1

Source: Urban Institute calculations of the 1999 National Survey of America's Families.

Note: na = not applicable.

** Significantly different from non-Hispanics at 0.01 level.

* Significantly different from non-Hispanics at 0.05 level.

The ethnic difference in knowledge about the program might arise from a language barrier. Although the Internal Revenue Service (IRS) publication about the EITC is available in Spanish, the notice that the IRS sends out to potentially eligible tax filers who did not claim the credit is available only in English. The bottom half of table 3 shows that low-income parents who had the NSAF administered in Spanish are significantly less likely to know about the EITC program than low-income parents who took the survey in English (15.4 percent compared with 71.7 percent). Even among low-income parents who had the survey administered in English, Hispanic parents are still much less likely to know about the EITC or to have ever received the credit than non-Hispanic parents (53.6 percent compared with 74.2 percent for knowledge, and 37.2 percent compared with 51.0 percent for receipt).¹⁰

Conclusion

For the EITC to meet its goals of encouraging and rewarding work among low-

income adults, it is very important that those eligible know about the tax credit and its benefits. Almost two out of three parents have heard about the EITC, and parents with incomes near the poverty line and past welfare participants are among the most likely to know about the program. These results suggest that knowledge about the EITC is fairly well-targeted toward currently eligible parents.

Specific subgroups of the population, however, are less likely to know about the EITC program. Low-income Hispanic parents are less than half as likely as low-income non-Hispanic parents to have heard of the tax credit. In addition, very poor parents, those who are the least likely to have worked recently, are less likely than higher-income parents to know about the program. Furthermore, although the EITC can help provide an effective bridge from welfare and Food Stamp participation toward economic self-sufficiency, current welfare and Food Stamp participants are less likely to know about the program than are former recipients.

Demographic differences in knowl-

These knowledge differences translate into differences in receipt rates.

edge about the EITC program can translate into differential receipt patterns among eligible low-income workers. The receipt rates presented in the above tables demonstrate this outcome for parents and suggest populations that policymakers, government officials, and advocates should target in their EITC outreach programs.

Endnotes

1. Nonadministrative program costs for the EITC were \$30.8 billion for tax year 1998. Of that amount, \$26.3 billion was refunded to recipients; the remainder went to offset taxes owed (IRS 2000a). The combined expenditure of state and the federal government on cash assistance under TANF was \$14.6 billion in fiscal year 1998 (U.S. DHHS 2000).
2. Smeeding et al. (2000) and unpublished data from the NSAF.
3. Some tax filers who rely on paid preparers may actually receive the credit without “knowing” about the program. For the 1998 tax year, significantly more EITC returns were filed with the assistance of a paid preparer (61.7 percent) than returns not claiming the EITC (53.3 percent) (IRS 2000b).
4. The NSAF is nationally representative of the civilian, noninstitutionalized population under age 65 and their families. (For more information about the survey, see Dean Brick et al. (1999).) In households with children, the survey interviews the person who is “most knowledgeable” about each randomly selected child in the household. Throughout this brief the term “parent” refers to the subset of most knowledgeable adults of the sampled children who are also parents. If the parent who knows the most about a child is not familiar with the family’s finances, using this sample may understate knowledge about the EITC.
The 1999 NSAF included survey questions designed to measure knowledge about and receipt of the tax credit. Specifically the NSAF asks:
 - 1) Workers with low incomes can sometimes get benefits from the government in a tax refund or added to their paycheck. The program is called the Earned Income Tax Credit. Have you heard about the program?
 - 2) Have you ever received the Earned Income Tax Credit? (asked only of respondents who heard of the program).
5. For comparison, the federal poverty level (FPL) in 1998 for a family of three with two children was \$13,133. A single mother of two children who worked full-time at a minimum wage job would have earned \$10,712 in 1998. With no additional

earnings, this family would have been poor. If they received EITC, the credit would increase their income by more than 35 percent, to \$14,468, and move the family out of poverty.

6. Less than 1 percent of all EITC participants use the advanced payment option (Sholz 1994).
7. The IRS used to compute the EITC for low-income earners who appeared eligible for the credit but did not claim it. As of 1992, however, low-income tax filers must complete at least a portion of the schedule EIC in order to receive the EITC. Tax filers who appear to be eligible for the credit, but do not claim it, will receive a notice from the IRS. To receive the credit, nonclaimants must file an amended return with the schedule EIC (Sholz 1994).
8. The income thresholds used in this analyses are based on the FPL and the monetary value of the EITC, if received, is not included in the income status calculation.
9. The sample is not restricted to workers. The EITC was designed to encourage new entrants into the workforce, but the program can only influence the labor supply decisions of low-income adults who know about the credit. Additional analyses, with the sample restricted to low-income workers, yielded the same pattern of results.
10. The results of multivariate analyses that are not shown here confirm that Hispanic parents, regardless of their citizenship status, language, education, and other characteristics are much less likely than non-Hispanic, white low-income parents to either know about or to ever have received the EITC.

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