The Demographics of Earned Income Tax Credit

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Abstract

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit available to low-income taxpayers filing tax returns and is intended to help low-income individuals improve their living conditions. The geographic dispersion of EITC utilization during a ten year period using county-level tax return data from 1999-2008 for western South Dakota taxpayers was analyzed to identify differences. Six regions were identified including metropolitan, rural, and four Indian reservations. Significant sustained differences were identified between taxpayers residing on versus off reservations, as well as differences between reservations. Where taxpayers live makes a difference in the likelihood to claim and the amount of EITC that is claimed.

Keywords: Earned Income Tax Credit, EITC, Demographics, Taxes, Poverty

Background

The Earned Income Tax Credit (EITC) is the largest United States government anti-poverty program, the aim of which is to assist low-income families in building economic security. The EITC provides cash payments to low-income families, supplying subsistence funding as a means to help families to improve their financial sustainability. According to the Center on Budget and Policy Priorities (2016), “the EITC lifted about 6.5 million people out of poverty, including about 3.3 million children.”

People living in poverty is not a new problem in the United States. According to the U.S. Census Bureau report on 2010 demographics, 15.1 percent of Americans live at or below the poverty level. The Census Bureau report indicated that about 2.6 million more people slipped into poverty in the United States in 2010 and “the number of Americans living below the official poverty line, 46.2 million people, was the highest number in the 52 years the bureau has been publishing figures on it” (Tavernise, 2011).

Only one of many welfare programs, the EITC is unique because it is distributed to qualified individuals as part of the federal income tax system. The EITC was enacted in 1975 as a temporary, limited assistance plan for the poor and originally was available only to working families with dependent children. In 1986, President Reagan said that the Tax Reform Act of 1986, including enhancements to the EITC, was “the best antipoverty bill, the best pro-family measure, and the best job-creation program ever to come out of the Congress of the United States.”

The most important feature of the EITC is that it is a refundable credit. The credit is first used to offset tax owed, but the remainder is then refunded to the taxpayer. Many low-income taxpayers do not owe any income tax, and the EITC is then paid out as a tax refund. According to the IRS website, for 2016 returns filed in 2017, the EITC refund amount could have been as high as $6,269 with three or more qualifying children claimed.

EITC is considered a redistribution of wealth program. Income taxes paid by wealthy taxpayers are collected and distributed to the working poor as EITC refunds. Among the EITC rules is a requirement that the taxpayer must work; but “to qualify for the [EITC] credit, a taxpayer must earn money, but not too much” (Bell, 2015). Unmarried taxpayers without dependents must earn less than $14,880 to be considered eligible, while married taxpayers without dependents together must earn less than $20,430. Families with qualifying children are allowed to earn more and remain qualified for EITC, topping out at $53,505 for 2016 returns.

This paper addresses a gap in current tax research by studying the geographic dispersion of EITC utilization during a ten year period. In a dissertation study by this author (Diers, 2014), county-level tax return data from 1999-2008 for western South Dakota taxpayers was retrieved from the Brookings Institution and analyzed to determine the utilization of EITC. The tax data was studied to ascertain that a significant sustained difference exists in the average amount of EITC claimed by taxpayers residing on Indian reservations when compared to taxpayers living in metropolitan or rural areas. The western half of South Dakota was selected for this study because of the geographic diversity which includes one metropolitan area, a majority of rural area, and four Indian reservations.

Methodology

The 22 counties in western South Dakota that were studied were grouped into six regions. Two counties were metropolitan (Rapid City), four Indian reservations (Cheyenne River, Pine Ridge, Rosebud, and Standing Rock) were in five counties, and the remaining 15 counties were classified as rural. Calculations from the 2010 U.S. Census Bureau report show that almost 20 percent of those living in that region live in poverty. Significantly higher poverty percentages exist in Indian reservation counties. Ziebach County, one of the two counties that are within the Cheyenne River reservation, made national news as the poorest county in the nation when the 2010 poverty statistics were released (Rampell, 2011). In Ziebach County alone, more than half of the population lives in poverty.

Findings

Yearly averages of EITC claims were calculated for each of the six regions and plotted on a line graph (Figure 1). The results indicate a consistent, steady increase in the average amount of EITC claims, with the tax returns from Indian reservation counties averaging significantly higher claims than metro and rural returns.

Analysis was performed to determine the percentage of returns that were filed included an EITC claim. Figure 2 illustrates the percentage of tax returns for each region that included an EITC claim. Pine Ridge and Rosebud top the chart with substantially higher percentage of returns claiming EITC.

Limitations

A limitation of this study is that tax return data is confidential information. A limited amount of data is available in aggregate for analysis; however, individual taxpayer information is protected. The analysis provided in this paper could not separate taxpayers filing as unmarried individual from married taxpayers. The analysis also could not separate the EITC claims resulting from taxpayers without dependent children from the claims of those with children.

Conclusion

Where taxpayers live in western South Dakota makes a difference in the amount of EITC claimed and the likelihood that EITC will be claimed on the federal tax return. The results indicate a consistent, steady increase in the average dollar amount of EITC claims, with the tax returns from Indian reservation counties averaging significantly higher claims than metro and rural regions.

The percentage of tax returns that included an EITC claim was surprisingly consistent within each region over the ten-year period. However, there was a significantly higher percentage of returns filed for taxpayers residing in the southern reservations of Pine Ridge and Rosebud when compared with the returns for taxpayers in the northern reservations of Cheyenne River and Standing Rock. Additional research is needed to determine the reasons for these differences.

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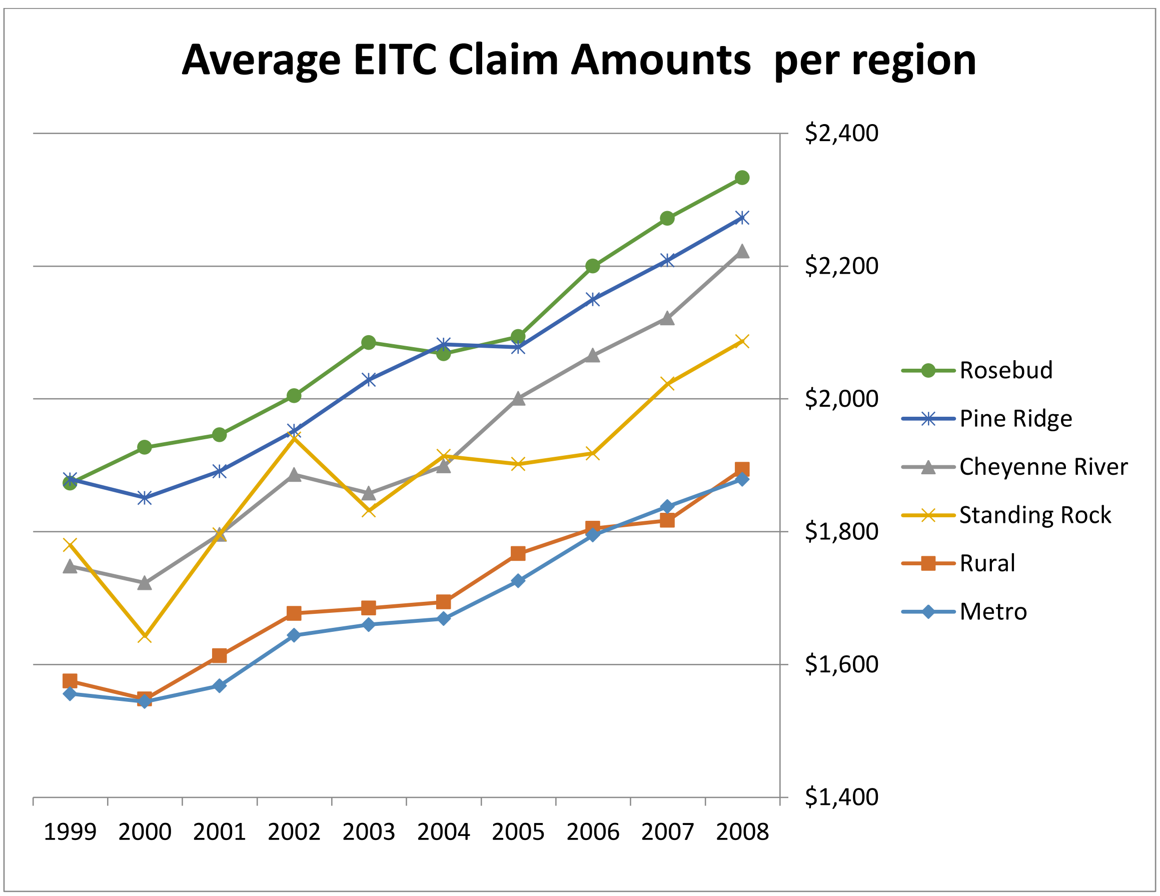
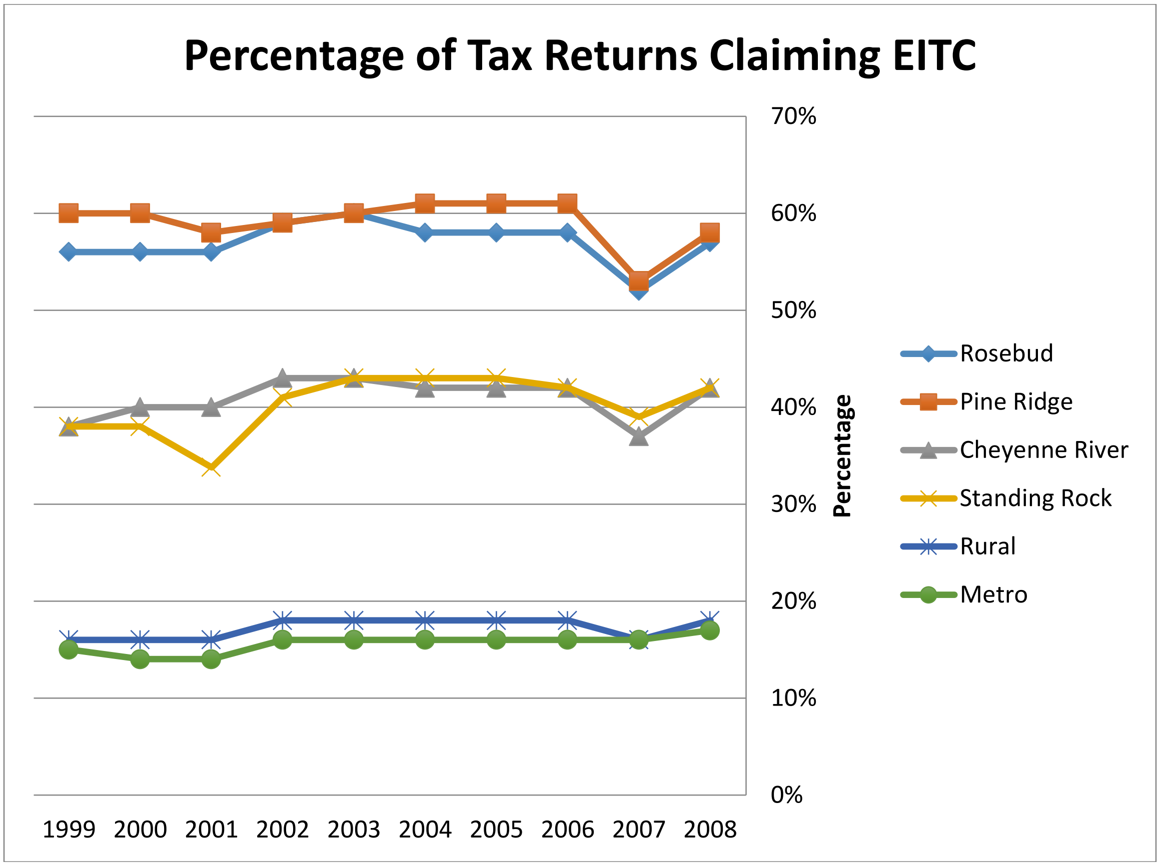
Figure 1



Retrieved from: Diers, L. A. (2014). *A ten-year study of Earned Income Tax Credit utilization in western South Dakota: Where you live matters*.

Figure 2



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