

## EARNED INCOME TAX CREDIT AND RURAL HOUSEHOLDS

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#### WHAT IS THE EARNED INCOME TAX CREDIT?

The Earned Income Tax Credit (EITC) is "a benefit for working people who have low to moderate income," particularly those with children.1 It has been promoted by many on a bi-partisan nature as one of the most effective anti-poverty public policy initiatives in the United States.2 The EITC was enacted in 1975 to reduce the burden of Social Security taxes on low-income workers and to promote work rather than welfare benefits.3 The EITC has been adjusted and expanded since. In 1990, the original basic credit was expanded to provide a larger credit for families with two or more children. In 1993, the credit was expanded again, and a small credit was added for childless workers.

The amount of EITC depends on a variety of factors, particularly a recipient's income and number of children. In the 2013 tax year, working families with children that have an income below \$37,870 to \$51,567 (depending on the number of children in the family) may be eligible for the EITC. Workers without children that have incomes below \$14,340 (\$19,680 for married couples) may be eligible to receive a small EITC.<sup>4</sup> For tax year 2013, the maximum EITC for a single person or a couple filing jointly without children is \$487. The maximum EITC with one child is \$3,250, \$5,372 for two children, and \$6,044 for three or more children.<sup>5</sup>

### KEY FINDINGS

For the 2012 tax year, the following were found:

- Over one in five federal income tax returns from rural county residents, 21.4 percent, claimed the Earned Income Tax Credit.
- About the same number of federal income tax returns from micropolitan county residents, 21.6 percent, claimed the Earned Income Tax Credit (micropolitan counties are

<sup>1 &</sup>lt;u>www.irs.gov</u>, accessed September 23, 2014

Vallas, Rebecca, Boteach, Melissa, and West, Rachel. "Harnessing the EITC and Other Tax Credits to Promote Financial Stability and Economic Mobility." Center for American Progress, October 7, 2014. For examples of the bi-partisan nature of the EITC, the program was proposed during the Nixon administration and adopted during the Ford administration. President Reagan deemed it "the best anti-poverty and pro-family, the best job creation measure to come out of Congress." Snyder, Brad.1995. "GOP is cutting Tax Credit Begun by Nixon, Expanded by Reagan." *Baltimore Sun*, October 27, 1995.

<sup>3</sup> Durst, R. and Farrigan, T. 2011. *Federal Tax Policies and Low-Income Rural Households*. Washington, DC: United States Department of Agriculture, Economic Research Service.

<sup>4</sup> EITC Instructions, Internal Revenue Service.

<sup>5 &</sup>quot;Tax Credit for Working Families, Earned Income Tax Credit." www.taxcreditsforworking families.org/earned-income-tax-credit. Accessed October 1, 2014.

those with small cities).

- The number of 2012 federal income tax returns from rural and micropolitan counties claiming the EITC was greater than the number of tax returns from metropolitan counties claiming the EITC.
- More people from rural counties claimed the EITC on their federal tax returns than those from metropolitan counties. The same was true of micropolitan counties.
- For rural and micropolitan areas combined small cities, small towns and rural areas 21.5 percent of all individual tax returns claimed an EITC, nearly 3 percentage points greater than metropolitan areas, and over 2 percentage points greater than the nation as a whole.
- Proposals to expand the EITC have the potential to provide the anti-poverty, income support, and economic stimulus benefits of the EITC in greater amounts to more people, particularly more low-income residents of rural and small city areas. More of these taxpayers qualify under the expanded proposals, especially those without qualifying children.

#### INTRODUCTION

The Earned Income Tax Credit (EITC) is an example of a social safety net, anti-poverty effort, the usage of which varies by place of residence.

This brief uses data from the Internal Revenue Service on usage of the EITC, and compares overall usage with U.S. Census Bureau geographic classifications of places of residence within the United Sates. EITC tax return claims by place of residence of tax filer are examined.

#### METHODOLOGY

Data was gathered from the Internal Revenue Service website "SOI Tax Stats" section (www. irs.gov/uac/Tax-Stats-2) for Individual Income Tax Returns for 2012 tax returns (the most recent year available). County data for each county, parish (Louisiana), and independent city (Virginia) was gathered for 2012

returns. Within the county data, the number of returns claiming an EITC was gathered as were total individual tax returns.

U.S. Census Bureau classifications were used to determine the classification – metropolitan, micropolitan or rural – for each county, parish or independent city in the nation. The number of returns claiming an EITC was then assigned to a county classification and summed for each state. A percentage of returns for each county type in each state claiming an EITC was calculated.

#### EITC RETURNS BY PLACE OF RESIDENCE

The table and chart below show data estimates for 2012 EITC returns by place of residence. Data is broken down for three place of residence types outlined above: metropolitan, micropolitan, and rural.

The nation's smallest population areas have the largest estimated number of households claiming the EITC on their tax returns. Taken together rural and micropolitan areas – small cities, small towns, and rural areas – have over one in five individual federal income returns (21.5 percent of all individual tax returns) claiming an EITC, nearly 3 percentage points greater than metropolitan areas, and over 2 percentage points greater than the nation as a whole.

The Appendix contains data for each state and the District of Columbia for federal tax returns containing EITC claims for each place type. Only 8 states plus the District of Columbia had metropolitan areas with the highest percentage of EITC claimants. In addition, 5 of those 8 states plus the District of Columbia have no micropolitan and rural areas.

Metropolitan: Any county designated as part of a Metropolitan statistical area (MSA) based on the 2010 Census. Each MSA must have at least one urbanized area of 50,000 or more inhabitants. Micropolitan: Counties based around a core city or town with a population of 10,000 to 49,999. A micropolitan area may consist of more than one county depending upon economic, social, and cultural connections. Rural: Counties with a population center of less than 10,000 inhabitants and not included in either a metropolitan or micropolitan area.

PLACE OF RESIDENCE	TOTAL INDIVIDUAL FEDERAL INCOME TAX RETURNS (2012)	TOTAL INDIVIDUAL FEDERAL RETURNS CLAIMING EITC (2012)	PCT. OF ALL INDIVIDUAL FEDERAL RETURNS CLAIMING EITC (2012)
United States	144,276,600	24,745,200	19.2%
Metropolitan	122,107,900	22,976,820	18.7%
Micropolitan	11,630,220	2,513,310	21.6%
Rural	10,535,400	2,255,610	21.4%

Only Michigan, Nevada, New York and Wyoming are states with micropolitan and rural areas that also have metropolitan areas with the highest rates of EITC returns. Twenty-one states had both micropolitan and rural areas with the highest rates of federal tax returns claiming EITC. The states with the largest rates of federal returns claiming EITC in rural and micropolitan areas are:

Top 5 States with largest rates of federal returns claiming EITC — Rural

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<ol> <li>Mississippi</li> </ol>	37.5%
2. Georgia	32.7%
3. Florida	29.3%
4. South Carolina	28.8%
5. Louisiana	28.8%

Top 5 States with largest rates of federal returns claiming EITC — Micropolitan

<ol> <li>Mississippi</li> </ol>	34.0%
2. Arizona	32.2%
3. Georgia	32.1%
4. Louisiana	31.0%
5. Alabama	29.2%

#### PREVIOUS FINDINGS ON RURAL AREAS AND EITC

The findings outlined herein correspond with other recent findings of rural taxpayer claims of EITC.

A 2012 report of the Carsey Institute and the Brookings Institute found that in 2010 22.9 percent of federal tax returns from rural areas claimed EITC, compared to 20 percent nationally and 24.4 percent of federal tax returns

from urban areas.<sup>7</sup> This report used a different place methodology from the one used here.

The Carsey/Brookings report analyzed federal tax returns from urban, suburban, small metropolitan and rural places. In that report "rural" areas are all counties not included in an official metropolitan statistical area, essentially the rural plus micropolitan areas employed in this report.

The Carsey/Brookings report also found that EITC claims rose for all places from 2000 to 2003, then remained constant until 2008 (with a general small dip in 2007) through 2010.8 EITC claims followed the contours of the Great Recession – for example, in 2007 (before the onset of the Great Recession), 18.2 percent of federal tax returns in rural areas claimed EITC, increasing to 22.9 percent in 2010. An EITC expansion in the American Recovery and Reinvestment Act in 2009 also prompted a significant increase in EITC claims from 2008 to 2009 for all areas.

The economic benefits of EITC are substantial. EITC brought \$10.5 billion to rural America in 2010, an average of \$2,245 per EITC filer (based on the data from the Carsey/Brookings report).9

USDA found that in 2008 22 percent of households that received EITC were rural compared to 78 percent urban households.<sup>10</sup>

- 7 Mattingly, Marybeth and Kneebone, Elizabeth. 2012. "Share of tax filers claiming EITC increases across states and place types between 2007 and 2010." The Carsey Institute at the Scholars' Repository, Paper 182.
- 3 <u>Id</u>.
- 9 Center on Budget and Policy Priorities, "Fact Sheet: The Earned Income Tax Credit and Refundable Child Tax Credit in Rural America." April 19, 2013.
- Durst, page 6.

According to that USDA report, households receiving EITC were disproportionately rural – 18 percent of all taxpayers were rural, 82 percent of all taxpayers were urban.<sup>11</sup>

Despite differences in years examined, and specific locations analyzed, the results of this report and previous reports are similar: the EITC program has become, in many respects increasingly a "rural program" as rural areas and small cities contain the highest claims of EITC.

#### **EITC AND ANTI-POVERTY EFFORTS**

The EITC has been touted as one of the nation's most effective anti-poverty policy efforts. A recent Census Bureau report on poverty seems to confirm this belief. For the Census Bureau's Supplemental Poverty Measure – likely a more accurate measure of poverty than the traditional poverty rate – the 2012 poverty rate would have been 3 percentage points higher without the EITC and the refundable portion of the Child Tax Credit. In 2010, the Census Bureau stated that the EITC kept 5.4 million people, including 3 million children, out of poverty.

The EITC has positive effects on income distribution and income inequality. The EITC has been found to be highly progressive, that is benefits predominately received by those in lower income levels. <sup>14</sup> The EITC has also been found to reduce income inequality, with a Gini coefficient of 0.34 percent (a Gini coefficient of 0 indicates income is evenly distributed across the population – everyone has the same income – and a Gini coefficient of 1 indicates perfect inequality – one person has

11 <u>Id</u>.

all the income).15

Several studies have also found the EITC increases work hours for low-income wage earners, particularly for low-income single parents.<sup>16</sup>

#### **IMPLICATIONS**

The EITC has become a major source of income support for low-income rural taxpayers, particularly in the South.<sup>17</sup> The economics of rural areas relative to non-rural areas demonstrates why this is the case.<sup>18</sup> Rural areas experience:

- concentration of poverty in many rural locations across the nation
- a rural (non-metropolitan counties) per capita income that is 78 percent of urban (metropolitan counties) per capita income (2012)
- a rural earnings per job that is 71 percent of urban earnings per job (2012)
- a rural poverty rate that is nearly 19 percent higher than the urban poverty rate (2012)

This daily life of rural economic conditions results in a large number of working, low-income households – most with children – that rely on an array of income support programs like the EITC to bolster their well-being (see our previous report on the rural participation in the SNAP – Supplemental Nutrition Assistance Program, also known as Food Stamps).

#### In reality, because of these economic condi-

- 15 Hungerford and Theiss; Hungerford, Thomas L. 2010. "The Redistributive Effect of Selected Federal Transfer and Tax Provisions." *Public Finance Review*, vol. 38, no.4, 450-472.
- Marr, Chuck, Charite, Jimmy, and Huang, Chye-Ching. 2013. "Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds," Washington, D.C.: Center on Budget and Policy Priorities.
- 17 "How Would Changes to the Earned Income Tax Credit Affect Rural Recipients?" United States Department of Agriculture, Economic Research Service, Agriculture Information Bulletin No. 724-02. April 1996.
- Data from United States Department of Agriculture, Economic Research Service, State Fact Sheets: United States, 2014

Short, Kathleen. 2013. "Supplemental Poverty Measure: 2012." Washington, D.C.: U.S. Department of Commerce, Economics and Statistics Bureau, U.S. Census Bureau.

<sup>13</sup> Center on Budget and Policy Priorities, 2011. "Government Programs Kept Millions Out of Poverty in 2010."

Hungerford, Thomas L. 2006. "Tax Expenditures: Good, Bad, or Ugly?" *Tax Notes*, vol. 113, no. 4, 325-334; Hungerford, Thomas L. and Thiess, Rebecca. 2013, *The Earned Income Tax Credit and the Child Tax Credit*. Washington, D.C.: Economic Policy Institute, Issue Brief #370.

tions the EITC has become a "rural program," or at least a nonurban program. The stereotype of the EITC as an urban, minority program is contrary to recent data. Because of the number of rural workers qualifying for and claiming the EITC, any changes are likely to disproportionately affect rural families and rural communities, both positively and negatively.

For example, proposals by President Obama to expand the EITC to more workers without qualifying children, to increase the maximum value of the credit, to change the phase-in and phase-out rates of the credit, and to increase the amount of income at which taxpayers may claim the credit will continue the disproportionate qualification of rural residents.

Qualification for an expanded EITC is likely to be similar in rural and urban areas. <sup>19</sup> Around 8.6 percent of rural married workers without qualifying children, and 16.1 percent of rural single workers without qualifying children would be eligible for the expanded EITC. This compares to 5.4 percent and 9.4 percent, respectively, under current law. <sup>20</sup>

There is a clear message to rural people and policymakers who represent rural areas. The EITC is important to rural people and their well-being. It is also important to the economies of rural communities. The positive effects the EITC has for low-income workers – poverty alleviation, increased work hours, reduction of income inequality, and progressive distribution, for example – are necessities in rural and small city areas across the nation.

#### **ABOUT THE CENTER FOR RURAL AFFAIRS**

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

# ABOUT THE RURAL FAMILY ECONOMIC SECURITY PROJECT

The Center for Rural Affairs grew out of Goldenrod Hills Community Action, the federally-funded anti-poverty organization in northeast Nebraska (it is now named Northeast Nebraska Community Action Partnership). As a return to those roots we have established a Rural Family Economic Security Project to examine social safety net programs and how they are employed in rural areas; why they are important to rural areas; and policy issues facing rural use of the programs.

<sup>19</sup> Carson, Jessica A. and Mattingly, Marybeth J. 2014. "Proposed EITC Expansion Would Increase Eligibility and Dollars for Rural and Urban 'Childless' Workers." Carsey School of Public Policy at the Scholars' Repository, Paper 218.

#### **APPENDIX**

	STATE EITC PCT. OVERALL	METRO EITC PCT.	MICRO EITC PCT.	RURAL EITC PCT.
AL	26.2	25.4	29.2	27.0
AK	14.3	13.3	10.7	18.0
AZ	21.1	20.6	32.2	22.5
AR	25.6	26.9	27.8	21.0
CA	19.0	19.0	19.6	17.7
со	15.2	15.0	14.3	20.0
СТ	12.7	12.7	0.0	0.0
DE	17.2	17.2	0.0	0.0
DC	16.9	16.9	0.0	0.0
FL	23.4	23.3	26.1	29.3
GA	25.9	24.7	32.1	32.7
HI	17.2	16.4	21.0	0.0
ID	20.6	20.3	21.7	20.0
IL	17.3	17.2	17.6	18.4
IN	18.6	18.2	18.7	23.6
IA	15.2	14.4	17.5	15.5
KS	16.7	16.5	20.3	13.6
KY	22.1	19.6	24.8	27.1
LA	26.9	26.3	31.0	28.8
ME	16.7	15.0	17.6	19.9
MD	14.9	14.8	19.0	18.0
MA	12.7	12.6	14.1	10.7
MI	18.3	19.7	18.0	9.9
MN	13.5	12.9	15.3	16.2
MS	32.4	29.0	34.0	37.5
МО	19.7	18.3	24.2	24.3
MT	17.5	16.9	16.3	21.1
NE	16.0	15.6	17.4	15.8
NV	18.9	19.3	14.3	17.2
NH	12.2	11.1	14.5	14.1
NJ	13.9	13.9	0.0	0.0
NM	24.5	22.8	28.6	26.5
NY	19.2	19.2	18.7	18.2
NC	22.2	20.9	25.6	24.4
ND	12.5	12.6	11.2	13.7
ОН	17.8	17.7	18.5	17.7

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ОК	21.3	20.1	23.2	27.2
OR	16.5	15.9	20.2	19.7
PA	15.4	15.2	16.4	15.9
RI	16.4	16.4	0.0	0.0
SC	24.4	23.1	29.1	28.8
SD	16.2	15.3	14.4	20.1
TN	23.4	22.5	25.2	28.3
TX	23.4	23.1	27.5	23.5
UT	17.3	17.2	15.8	21.6
VT	14.7	12.0	14.4	19.6
VA	16.4	15.4	26.7	22.7
WA	14.3	14.0	16.8	17.5
WV	20.3	19.3	21.2	22.6
WI	14.4	14.2	14.1	16.2
WY	13.7	14.9	13.0	13.3
USA	19.2	18.7	21.6	21.4