

Increase Receipt of the EITC

This initiative helps eligible low-income New Yorkers claim the Earned Income Tax Credit by providing them with completed amended tax returns for prior tax years.

<i>Agency</i>	<i>Start Date</i>	<i>Number Served per year¹</i>	<i>CEO Budget (City FY 08)²</i>	<i>Total Budget (City FY 08)</i>
The Department of Finance	January 2007	TBD	TBD	TBD

Problem Statement

Since 2002 New York City has organized a coordinated citywide campaign to increase the number of eligible New Yorkers claiming the EITC. However, even with the most comprehensive coalition in the country to publicize the credit, nearly 20% of eligible households do not claim it.³ Fortunately, the program allows people to claim the credit up to three years after the initial tax filing deadline.

Research and Evidence

The Earned Income Tax Credit is considered one of the most effective anti-poverty tools in the United States. Since the credit was enacted in 1975, it has been expanded multiple times (1986, 1990, 1993, 2001).⁴ In a report examining the impacts and accomplishments of government programs that assist low-income families, the Center for Budget and Policy Priorities praised the EITC program, finding that, “by increasing the rewards of low-wage employment, the Earned Income Tax Credit has substantially raised the proportion of single mothers who work, while lifting 2.7 million children out of poverty in 2002.”^{5,6}

In two published studies, researchers Bruce Meyer and Dan Rosenbaum found that EITC expansions between 1984 and 1996 were responsible for 63% of the increase in the employment rate of single mothers over the 12-year period. The authors also found that the most significant gains in employment traceable to the EITC were for mothers with young children and mothers with low education levels.⁷ Several researchers have also shown that the expansions of the EITC have substantially increased the employment of female family heads.⁸

Economist Jeffrey Grogger suggests that the EITC may be the single most important policy for explaining recent increases in work and earnings and declines in receipt of cash welfare assistance among female-headed families.⁹ Due to the EITC’s effects in increasing employment among single mothers, expansions of the EITC have produced large declines in receipt of cash welfare assistance. Economists Stacy Dickert, Scott Houser, and John Scholz estimate that expansions of the EITC between 1993 and 1996 induced more than a half a million families to move from welfare (AFDC cash assistance) to work.¹⁰

Program Description

In order to increase participation in the EITC program the City’s Department of Finance (DOF) analyzes income tax data to determine eligibility in prior years, prepares and mails pre-filled amended tax returns and self-addressed, stamped envelopes to eligible New Yorkers. Recipients must verify their income and dependent child information, provide their social security number, and sign and mail the returns. Finance creates a web-based look up for eligibility and works with the City’s 311 system, the Department of Consumer Affairs, and a network of volunteer income tax assistance sites to provide customer assistance after the mailing is sent.

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Starting in January 2007, mailings were sent out for 2003 and 2004 tax years, which resulted in 16,000 households receiving EITC worth an estimated \$10 million. In February 2008, completed tax forms for the 2005 tax year will be sent to targeted households. DOF will continue the mailings each tax season.

Target Population

This initiative serves the working poor citywide who were eligible for the EITC in prior years but did not file a claim.

Expected Outcomes

- Increase the income of EITC eligible households that have not filed a claim

¹ 16,000 households benefited from the January '07 mailing; In February '08, forms will be sent to 30,000 households. See program description for further details.

² The minimal costs associated with mailing completed tax forms will be covered by existing agency resources.

³ CEO Report, 19.

⁴ Eighteen states have also enacted their own EITCs, including New York.

⁵ For a review of the literature on the EITC, see Hotz, V. Joseph and John Karl Scholz. "The Earned Income Tax Credit." In Robert A. Moffitt, ed., *Means-Tested Transfer Programs in the United States*. Chicago: The University of Chicago Press, 2003.

⁶ Committee for Economic Development. "Welfare and Beyond: Making Work Work." 2000.

⁷ Meyer, Bruce D. and Rosenbaum, Dan T. "Making Single Mothers Work: Recent Tax and Welfare Policy and its Effects." In Bruce D. Meyer and Douglas Holtz-Eakin, eds., *Making Work Pay: The Earned Income Tax Credit and Its Impact on America's Families*. Russell Sage Foundation, 2001.

⁸ Eissa and Liebman 1996; Dickert, Houser, and Scholz 1995; Meyer and Rosenbaum 1999; Ellwood 2000.

⁹ Grogger, Jeffrey. "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Head Families." *Review of Economics and Statistics*, May 2003.

¹⁰ Dickert, Stacy, Scott Hauser, and John Karl Scholz, "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation," in *Tax Policy and the Economy*, Vol. 9, MIT Press, 1995.