Left on the Table: The California Economy and Low-Income Residents Lose $1 Billion when Earned Income Tax Credits go Unclaimed

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The EITC Program

- A **refundable federal income tax credit** for low to moderate income working individuals and families.

- When the EITC exceeds the amount of taxes owed, it results in a **tax refund** to those who claim and qualify for the credit.

- **Effective poverty-alleviation policy** since it does not have the usual collateral effects of alternative welfare policies.
2009 EITC Structure for a Single, Head of Household or Qualified Widow

Earned Income (thousands)

$0 $5 $10 $15 $20 $25 $30 $35 $40 $45

Tax Credit

-$457 $3,043 $5,028 $5,657

No Children
One Child
Two Children
Three Children

SOURCE: Internal Revenue Service (IRS)
The Economic Impact

• The large sums of EITC dollars claimed in the State of California provide a substantial amount of cash to State residents.

• The State greatly benefits from this annual infusion of money as resident recipients spend the extra money.

• Ripple effects → as more dollars move among consumers, firms and even among state and local governments, which capture higher tax revenue.
The Foregone Economic Impact

• Unfortunately, the positive economic impact of the EITC could be even larger than it is.

• Not all taxpayers who are eligible claim the credit, so some EITC resources never make it into the State’s revenue stream.

• Sometimes taxpayers:
  → Are not aware that the credit exists
  → Face language or cultural barriers
  → May be afraid that by claiming the credit they will lose their eligibility for other important programs.
EITC Claims as a Percentage of Total Claims: 2006
Main Findings: Economic Impact

• In 2006, California residents claimed $4.5 billion in EITC payments.

• These EITC refunds spurred $5 billion in business sales, $1.2 billion in wages, $355 million in tax revenue and added nearly 30,000 jobs to the California economy.

• It is estimated that in 2009, California residents will claim $4.95 billion in EITC refunds. These payments will spur:

  → $5.5 billion in business sales
  → $1.32 billion in wages
  → $390.5 million in tax revenue
  → Nearly 33,000 jobs
Main Findings: Foregone Impact

- Around **one in five** eligible EITC claimants fail to claim their refunds.

- On average, families not claiming the credit would have received **$1,400**.

- In 2009, it is estimated that 800,000 Californians **will fail** to claim **$1.2 billion** in EITC refunds, which would mean:
  - $1.4 billion in business sales
  - $342 million in wages
  - $97.8 million in tax revenue
  - 8,200 jobs to the economy
Annual Foregone Employment Impact of Unclaimed EITC Dollars
(number of jobs)
Claimed and Unclaimed EITC Payments ($) in California