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Unclaimed Earned Income Tax Credits cost California's economy and low-income residents \$1 billion annually

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Executive Summary



The Earned Income Tax Credit (EITC) is one of the federal government's largest resources for working low-income Americans. It is widely regarded as the nation's most effective and efficient anti-poverty program and has been expanded by a series of Democratic and Republican presidents.¹ Hundreds of thousands of Californians, however, fail to claim EITC refunds, which range from a few hundred to several thousand dollars. The families and individuals who miss out are not the only losers when these refunds go unclaimed. Local economies never benefit from this money. These dollars are never spent at local businesses so fewer jobs are created, fewer wages are paid, and eventually less tax revenue goes to state and local governments. These refunds are a foregone economic stimulus for California.

This report examines the economic impact of the EITC program in California, each of its 58 counties, and select major cities. First, the authors examine the amounts of claimed and unclaimed EITC refunds. They then estimate the economic impact of EITC dollars that are injected into the state's revenue stream. Third, they estimate the foregone economic impact of unclaimed EITC refunds.

Primary Findings

The Earned Income Tax Credit has a substantial impact on the California economy

- In 2009, the authors estimate that 2.4 million California residents will claim \$4.95 billion in EITC refunds, more than the combined total wages of all home health care workers and electricians in California.
- As these refunds are spent, they will spur \$5.5 billion in sales for California businesses, who in turn will create

33,000 jobs, pay \$1.32 billion in new wages, and bring \$390.5 million in tax revenue to state and local governments.

- EITC refunds vary significantly by county. Nearly one third of the total EITC funds in the state (almost \$1.5 billion) went to Los Angeles County. Smaller counties such as Alpine, Sierra, and Trinity claimed less than \$2 million altogether.
- The ten California counties with the largest dollar amounts of EITC refunds in 2006 (the last year for which zip code level data is available) were Los Angeles (\$1.48

billion), San Bernardino (\$339.7 million), San Diego (\$310.7 million), Riverside (\$306.4 million), Orange (\$253.5 million), Fresno (\$182.3 million), Sacramento (\$165.3 million), Kern (\$151.6 million), Tulare (\$124.9 million), and Alameda (\$116.4 million).

- Not surprisingly, residents of the poorest counties in the state (such as Fresno, Merced and Tulare) show the largest number of EITC returns as a percentage of the total returns filed. These counties also have the largest average EITC payments; well above the state average in both categories.

Too many Californians fail to claim these refunds

- In 2009, an estimated 800,000 Californians, about one in five who are eligible, will fail to claim \$1.2 billion in EITC refunds.
- On average, families not claiming the credit would have received a refund amounting to \$1,400.
- The following counties missed out on the largest amounts of EITC refunds: Los Angeles (\$370 million), San Bernardino (\$84.9 million), San Diego (\$77.7 million), Riverside (\$76.7 million), Orange (\$63.4 million), Fresno (\$45.6 million), Sacramento (\$41.3 million), Kern (\$37.9 million), Tulare (\$31.2 million), and Alameda (\$29.1 million).
- The following counties are likely to have more than twenty percent of EITC eligible filers fail to claim their refunds:

Los Angeles, San Bernardino, Sacramento, Fresno, Kern, Merced, Stanislaus and Tulare.

When EITC refunds go unclaimed, businesses and the economy suffer

- Because \$1.2 billion in EITC refunds will go unclaimed in 2009, California businesses will lose out on \$1.4 billion in sales and 8,200 jobs will not be created.
- Most of the foregone economic impact is concentrated in Los Angeles, Riverside and San Bernardino counties. Because of unclaimed EITC refunds, these counties lose out on \$600 million in business sales, and a combined foregone employment impact of over 3,700 jobs.
- Due to low participation in the credit program, the San Joaquin Valley (Fresno, Madera, Merced, Kern, Kings, San Joaquin, Stanislaus and Tulare) suffers a foregone business sales impact of more than \$180 million and a foregone employment impact of over 1,100 jobs.
- The foregone economic impact of the EITC program is not spread uniformly across counties, but is felt more acutely in counties where the presence of likely non-filers is higher. These are counties with: (1) high concentrations of Hispanics; (2) significant numbers of low-income individuals; (3) high participation in the food stamp assistance programs; (4) significant numbers of families with no qualifying children.

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I. Overview of the Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low to moderate income working households. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of Social Security taxes and provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. As a refundable credit, the EITC provides assistance to families even if they do not face any tax liability. EITC payments have no effect on welfare benefits and are not used to determine eligibility for Medicaid, Supplemental Security Income (SSI), food stamps, low-income housing or nearly all Temporary Assistance for Needy Families (TANF) payments.

Who's eligible?

To receive the federal EITC, an individual must have earned income, be a U.S. citizen or legal resident and have a valid social security number. For tax year 2009, a qualified claimant may have investment income of less than \$3,100 and a maximum annual earned income of varying levels based on

the number of qualifying children. For example, for a single head of household or qualified widow, the EITC structure has three distinct ranges to determine the precise amount of the tax credit (refund) as illustrated in Chart 1:

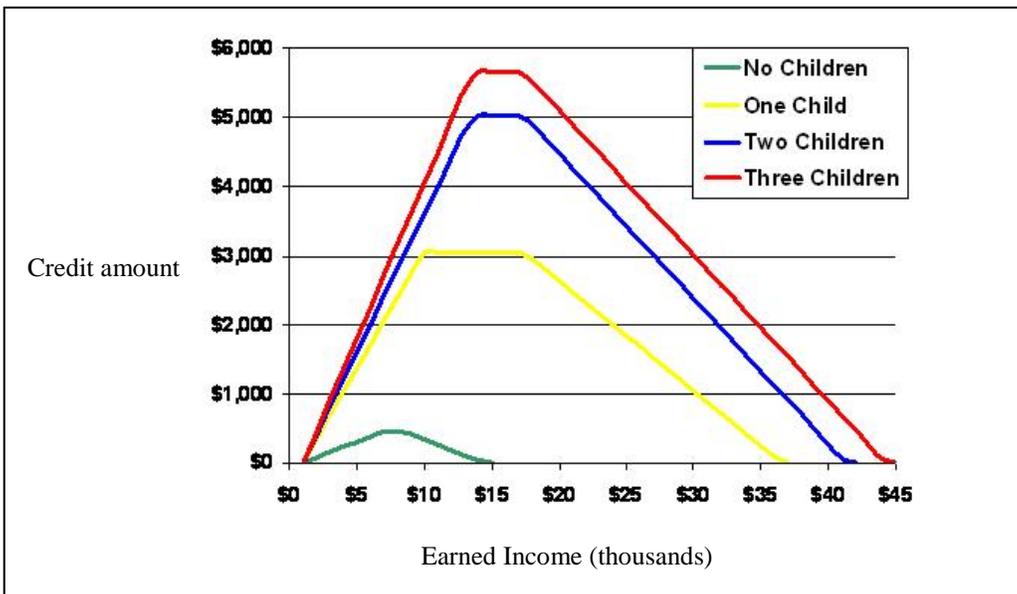
- a) Increasing range: amount of the credit increases with worker's earned income.
- b) Plateau range: amount of the credit is constant regardless of changes in income level.
- c) Decreasing range: amount of the credit decreases as the worker's earned income increases.

Refunds are larger this year

Maximum EITC benefits have been temporarily increased to \$5,657 (up from \$4,824 in 2008) for tax years 2009 and 2010, as part of the American Recovery and Reinvestment Act.

The maximum federal EITC benefit for the 2009 Tax Year is \$5,657 for families with three children, \$5,028 for families with two children, and \$3,043 for families with one child. Although workers without a qualifying child also are eligible for EITC payments, the maximum credit for individuals or couples without children is \$457 in 2009, much lower than the credit for families with children.

Chart 1: EITC Structure for a single, head of household, or qualified widow,



SOURCE: Internal Revenue Service (IRS)

In 2006, the EITC resulted in \$4.5 billion in refunds to 2.4 million California residents. The average refund was \$1,883.

How to claim the EITC

Qualifying workers must file a federal income tax return. This is the only way to receive the credit, even for those who don't make enough to be required to file. The IRS offers an EITC Assistant in English and Spanish here:

<http://www.irs.gov/individuals/article/0,,id=150557,00.html>

Filing for the credit can be complicated, but free, specialized community resources exist just to help people claim their refunds. To locate the nearest Volunteer Income Tax Assistance (VITA) site, call 1-800-829-1040.

II. The EITC: A boost to California families and the economy

Help for California's residents who work hard but struggle to get ahead

Research shows that the federal EITC is an effective tool for supporting work and alleviating poverty, contributing to significant increases in labor force participation among single mothers, and allowing EITC recipients to make investments that enhance economic security and promote economic opportunity.² One way the EITC reduces poverty for example, is by supplementing the earnings of minimum-wage workers.³ Further, the beneficial impact of the EITC program mainly occurs by inducing labor market entry in families that initially do not have an adult in the workforce.⁴

The EITC program is widely considered to be cheaper and even more efficient than other programs designed to alleviate poverty, without producing many of the negative incentives that other traditional welfare programs can produce (such as discouraging employment).⁵

The EITC is a potent economic stimulus for California

The large sums of EITC dollars claimed by California residents provide a substantial amount of resources that are

injected into the State's revenue stream. The State greatly benefits from this annual infusion of money. As recipients spend the refunds, their spending fuels business sales and is a significant stimulus to the State's economy. The stimulus is magnified beyond the original EITC payments because the spending of EITC refunds creates ripple effects as more dollars move among consumers, businesses and even among state and local governments, which capture higher tax revenue. Economists use standard techniques to estimate impacts of economic changes in their states, counties, or communities.

For example, imagine Linda is a single mother of three who lives in Los Angeles County. Linda makes \$16,000 a year working in a restaurant and has no significant investment income. Linda is eligible for an EITC payment of around \$5,600. Suppose Linda saves 10%, \$560, and spends the rest, \$5,040, on school clothes and supplies at Max's store in San Bernardino. This \$5,040 is income for Max. After Max withholds his income tax, he is left with \$4,000, which he uses for a down payment on a new car at Nell's Autos. This \$4,000 is income for Nell. After taxes, Nell spends \$3,000 on a new stereo at Ophelia's, who spends \$2,000 (her after-tax income) on tuition and books at Paula's Cosmetology school. Paula spends her after-tax income of \$1,000 on a vacation to Canada.

In this simple illustrative exercise, the initial EITC payment of \$5,600 generated \$14,040 (\$5,040 + \$4,000 + \$3,000 + \$2,000) in new labor income in the State. The initial \$5,600 also generated new economic output and tax revenue each time it was re-spent, so the economic impact of the EITC revenue was much larger over time than the initial payment. This phenomenon is known as the multiplier effect of the EITC payment. The magnitude of the multiplier effect depends on the savings rate of the economic participants and the amount of resources that leave the State during each round of spending. The \$560 that Linda saved and the \$1,000 that Paula spent on her vacation represent "leakages" from the State economic stream. For a more thorough description of the economic impact and multiplier analysis, see Appendix I.

Furthermore, recent studies by Moody's Economy indicate that the most effective ways to stimulate the economy, those that "get the largest bang for the buck," are those that put resources in the hands of low income people, who are likely to spend a large part of them immediately.⁶

Unclaimed EITC refunds are a lost opportunity for families and communities

Unfortunately, the positive economic impact of the EITC could be even larger than it is.⁷ Not all taxpayers who are eligible claim the credit, so some EITC resources never make it into California's revenue stream. Sometimes taxpayers are not aware that the credit exists, face language or cultural barriers, or are afraid that by claiming the credit they will sacrifice their eligibility for other important income-support programs. In other words, the actual EITC participation rate is known to be lower than what it could be.

Researchers agree that a large amount of EITC refunds go unclaimed, although there is some disagreement on the exact amount. A Government Accountability Office (GAO) study estimated that 25 percent of EITC refunds go unclaimed.⁸ A more recent IRS study found that 17.8% of refunds nationally go unclaimed.⁹ The IRS study also estimated that California has the highest EITC non-filer rate (24.9%).

This under-participation in the EITC program not only results in lost resources for California, but also entails social costs that are more difficult to measure. For instance, many EITC recipients file their tax returns through a paid tax preparer and often pay large sums for this service.¹⁰ While this practice does not necessarily limit the amount of EITC resources that are injected into California's revenue stream, it does represent an unintended use of public funds. In these situations, EITC resources that are intended to help the working poor are diverted to financial professionals. This is a true social cost, although difficult to quantify, because these public funds are not being used as intended. This report understates the true social cost of current EITC payments because it ignores the social impact of these diverted funds and estimates only the amount and impact of funds that go entirely unclaimed.

III. Claimed and unclaimed EITC refunds, county by county

Table 1 describes the federal EITC payments made to California residents as well as the estimated unclaimed EITC payments by county. The estimates for select cities are listed at the bottom of the table.

Not surprisingly, residents of the poorest counties in California (such as Fresno, Merced and Tulare) show the largest number of EITC returns as percentage of the total returns and also the largest average EITC payments; well above the state average in both categories.

Table 1: EITC Payments to California Residents, and Estimated Unclaimed EITC Payments, by County and Selected Cities, 2006

COUNTY	Total Returns	EITC Returns	Percent EITC	Claimed EITC Payments	Average Credit Claimed	EITC Returns Unclaimed	EITC Payments Unclaimed	Average EITC Credit Unclaimed
Alameda	651,851	69,375	10.6%	\$116,430,469	\$1,678	23,125	\$29,107,617	\$1,259
Alpine	479	58	12.2%	\$83,653	\$1,432	19	\$20,913	\$1,074
Amador	15,969	1,601	10.0%	\$2,481,383	\$1,550	534	\$620,346	\$1,163
Butte	85,118	14,083	16.5%	\$24,378,058	\$1,731	4,694	\$6,094,515	\$1,298

COUNTY	Total Returns	EITC Returns	Percent EITC	Claimed EITC Payments	Average Credit Claimed	EITC Returns Unclaimed	EITC Payments Unclaimed	Average EITC Credit Unclaimed
Calaveras	21,740	2,439	11.2%	\$4,031,883	\$1,653	813	\$1,007,971	\$1,240
Colusa	8,865	1,569	17.7%	\$2,857,822	\$1,822	523	\$714,455	\$1,366
Contra Costa	474,582	40,047	8.4%	\$67,357,249	\$1,682	13,349	\$16,839,312	\$1,261
Del Norte	9,202	1,818	19.8%	\$3,353,904	\$1,845	606	\$838,476	\$1,384
El Dorado	79,019	7,204	9.1%	\$11,285,381	\$1,567	2,401	\$2,821,345	\$1,175
Fresno	330,517	85,970	26.0%	\$182,253,755	\$2,120	28,657	\$45,563,439	\$1,590
Glenn	11,076	2,298	20.7%	\$4,245,879	\$1,848	766	\$1,061,470	\$1,386
Humboldt	53,397	9,294	17.4%	\$14,411,671	\$1,551	3,098	\$3,602,918	\$1,163
Imperial	70,279	25,374	36.1%	\$52,494,241	\$2,069	8,458	\$13,123,560	\$1,552
Inyo	9,506	1,088	11.4%	\$1,772,278	\$1,630	363	\$443,069	\$1,222
Kern	290,522	71,296	24.5%	\$151,589,072	\$2,126	23,765	\$37,897,268	\$1,595
Kings	55,482	13,744	24.8%	\$27,617,182	\$2,009	4,581	\$6,904,296	\$1,507
Lake	24,578	4,499	18.3%	\$7,794,325	\$1,732	1,500	\$1,948,581	\$1,299
Lassen	11,145	1,502	13.5%	\$2,627,290	\$1,749	501	\$656,822	\$1,312
Los Angeles	4,018,309	769,347	19.1%	\$1,480,043,437	\$1,924	256,449	\$370,010,859	\$1,443
Madera	51,438	12,340	24.0%	\$25,788,488	\$2,090	4,113	\$6,447,122	\$1,567
Marin	125,019	6,574	5.3%	\$8,066,684	\$1,227	2,191	\$2,016,671	\$920
Mariposa	10,272	1,307	12.7%	\$2,114,672	\$1,618	436	\$528,668	\$1,214
Mendocino	36,705	6,238	17.0%	\$10,458,578	\$1,677	2,079	\$2,614,644	\$1,257
Merced	91,046	22,931	25.2%	\$46,837,932	\$2,043	7,644	\$11,709,483	\$1,532
Modoc	4,720	850	18.0%	\$1,463,929	\$1,722	283	\$365,982	\$1,292
Mono	10,843	1,148	10.6%	\$1,714,888	\$1,494	383	\$428,722	\$1,120
Monterey	188,717	32,429	17.2%	\$64,629,771	\$1,993	10,810	\$16,157,443	\$1,495
Napa	59,170	4,883	8.3%	\$7,737,908	\$1,585	1,628	\$1,934,477	\$1,189
Nevada	51,180	5,194	10.1%	\$7,734,017	\$1,489	1,731	\$1,933,504	\$1,117
Orange	1,280,238	144,964	11.3%	\$253,495,035	\$1,749	48,321	\$63,373,759	\$1,312
Placer	155,553	12,372	8.0%	\$19,305,375	\$1,560	4,124	\$4,826,344	\$1,170
Plumas	10,163	1,290	12.7%	\$2,021,291	\$1,567	430	\$505,323	\$1,175
Riverside	811,045	150,548	18.6%	\$306,425,050	\$2,035	50,183	\$76,606,262	\$1,527
Sacramento	582,724	88,283	15.2%	\$165,278,992	\$1,872	29,428	\$41,319,748	\$1,404
San Benito	22,956	3,143	13.7%	\$5,721,480	\$1,820	1,048	\$1,430,370	\$1,365
San Bernardino	771,063	164,217	21.3%	\$339,692,704	\$2,069	54,739	\$84,923,176	\$1,551
San Diego	1,316,627	175,693	13.3%	\$310,665,093	\$1,768	58,564	\$77,666,273	\$1,326

COUNTY	Total Returns	EITC Returns	Percent EITC	Claimed EITC Payments	Average Credit Claimed	EITC Returns Unclaimed	EITC Payments Unclaimed	Average EITC Credit Unclaimed
San Francisco	406,313	38,739	9.5%	\$52,739,363	\$1,361	12,913	\$13,184,841	\$1,021
San Joaquin	261,778	48,350	18.5%	\$94,383,024	\$1,952	16,117	\$23,595,756	\$1,464
San Luis Obispo	113,801	11,607	10.2%	\$18,360,874	\$1,582	3,869	\$4,590,218	\$1,186
San Mateo	337,503	22,814	6.8%	\$33,950,497	\$1,488	7,605	\$8,487,624	\$1,116
Santa Barbara	170,096	20,950	12.3%	\$37,518,397	\$1,791	6,983	\$9,379,599	\$1,343
Santa Clara	772,003	64,420	8.3%	\$104,608,152	\$1,624	21,473	\$26,152,038	\$1,218
Santa Cruz	118,678	14,772	12.4%	\$25,340,068	\$1,715	4,924	\$6,335,017	\$1,287
Shasta	76,567	12,538	16.4%	\$21,849,985	\$1,743	4,179	\$5,462,496	\$1,307
Sierra	2,266	335	14.8%	\$488,300	\$1,458	112	\$122,075	\$1,093
Siskiyou	19,100	3,385	17.7%	\$5,570,710	\$1,646	1,128	\$1,392,678	\$1,234
Solano	176,936	20,985	11.9%	\$37,185,731	\$1,772	6,995	\$9,296,433	\$1,329
Sonoma	216,781	18,984	8.8%	\$28,164,818	\$1,484	6,328	\$7,041,205	\$1,113
Stanislaus	194,970	36,579	18.8%	\$70,466,031	\$1,926	12,193	\$17,616,508	\$1,445
Sutter	38,920	6,949	17.9%	\$12,927,316	\$1,860	2,316	\$3,231,829	\$1,395
Tehama	26,222	5,081	19.4%	\$9,262,145	\$1,823	1,694	\$2,315,536	\$1,367
Trinity	5,092	874	17.2%	\$1,404,593	\$1,606	291	\$351,148	\$1,205
Tulare	182,161	56,865	31.2%	\$124,947,518	\$2,197	18,955	\$31,236,879	\$1,648
Tuolumne	24,928	3,113	12.5%	\$4,957,903	\$1,593	1,038	\$1,239,476	\$1,195
Ventura	370,370	42,507	11.5%	\$75,267,327	\$1,771	14,169	\$18,816,832	\$1,328
Yolo	76,613	9,285	12.1%	\$16,094,460	\$1,733	3,095	\$4,023,615	\$1,300
Yuba	27,242	5,812	21.3%	\$11,028,586	\$1,898	1,937	\$2,757,146	\$1,423
CALIFORNIA	15,419,437	2,401,947	15.6%	\$4,522,770,000	\$1,883	800,649	\$1,130,692,500	\$1,412
CITY								
Los Angeles	1,018,339	249,726	24.5%	\$497,091,000	\$1,991	83,242	\$124,272,750	\$1,493
Fresno	203,538	53,723	26.4%	\$114,101,000	\$2,124	17,908	\$28,525,250	\$1,593
Modesto	99,232	18,838	19.0%	\$36,126,000	\$1,918	6,279	\$9,031,500	\$1,438
Oakland	178,068	28,479	16.0%	\$50,536,000	\$1,775	9,493	\$12,634,000	\$1,331
San Bernardino	81,487	27,510	33.8%	\$62,489,000	\$2,272	9,170	\$15,622,250	\$1,704
San Diego	583,966	78,015	13.4%	\$135,675,000	\$1,739	26,005	\$33,918,750	\$1,304

SOURCE: Internal Revenue Service (IRS) and authors' calculations

In terms of sheer EITC refund claims, California shows significant variation among counties. For example, Los Angeles, the most populous county in California, accounts for close to a third of the total EITC funds claimed in California (almost \$1.5 billion). Smaller counties such as Alpine, Sierra and Trinity, claim less than \$2 million added together.

EITC refunds left on the table

Approximately 800,000 California residents failed to claim \$1.1 billion in EITC refunds in 2006. Furthermore, the following counties missed out on the largest amounts of EITC refunds: Los Angeles (\$370 million), San Bernardino (\$84.9 million), San Diego (\$77.7 million), Riverside (\$76.7 million), Orange (\$63.4 million), Fresno (\$45.6 million), Sacramento (\$41.3 million), Kern (\$37.9 million), Tulare (\$31.2 million), and Alameda (\$29.1 million).

A number of EITC researchers have noted that counties with high numbers of non-claimants tend to be those with: (1) high concentrations of Hispanics; (2) significant numbers of low-income individuals; (3) high participation in the food stamp assistance programs; (4) significant numbers of families with no qualifying children.¹¹

Comments on the methodology used to estimate the amount of unclaimed refunds

While it is simple to calculate the exact amount of EITC funds claimed by California residents, the same is not true for estimating the amount of unclaimed refunds. Because some residents who claim the EITC refund are not technically eligible for it, and because the number of eligible families at the city or county level is unknown, it is impossible to calculate with precision how many eligible families fail to claim the EITC. This report provides estimates based on the latest available data from the IRS and is informed by an extensive body of similar research.

In 2001, the US General Accounting Office (GAO) estimated that the average participation rate for the whole country is

approximately 75% (25% of the eligible population does not claim the EITC).¹² However, some researchers argued that this estimate for the EITC participation rate was too low and contested the GAO's methodology on the grounds that the study was based on information from two mismatched databases.¹³ Alternatively, in 2002 the Internal Revenue Service (IRS) released a report estimating the national EITC non-filer rate to be 17.8% using the Census Bureau's Survey of Income and Program Participation (SIPP).¹⁴ In general, scholars have more confidence in the IRS estimate due to the

California's EITC non-filer rate—the percentage of those qualified who don't file for the EITC—is 24.9%, as estimated by the IRS. This is well over the national rate of 17.8%

methodology employed. The same report lists California as having the highest EITC non-filer rate (24.9%) in the nation. In order to avoid overstating the economic impact of foregone EITC claims, this study assumes an EITC non-filer rate of 20% and uses this number to estimate the amount of unclaimed

EITC payments in California and its counties.

Also, the average credit owed to eligible EITC recipients who failed to claim the credit is likely lower than for the average actual claimant because these two groups of individuals have different characteristics. Following what other researchers have done to account for these differences, the average received credit is multiplied by 75% to obtain a more accurate picture of the average credit owed to eligible EITC recipients who failed to claim the credit.¹⁵ This calculation is shown in the last column of Table 1 and is then used to estimate the number of unclaimed EITC returns (an estimate of the number of individuals that fail to claim the credit). The estimate of unclaimed EITC returns is obtained by dividing the total amount of unclaimed EITC payments by the estimated average credit owed to eligible EITC recipients who failed to claim the credit.

IV. The Economic Impact of the Federal EITC Program

EITC refunds ripple throughout the economy as they are spent at businesses, create jobs, pay for wages, and ultimately generate tax revenue for state and local governments.

EITC payments to California residents are injected into California's economy when they are spent. Due to the interactions between firms, industries, and social institutions that naturally occur within the economy, the expenditures of EITC payments now circulating within California's revenue stream initiate a series of iterative rounds of income creation, spending and re-spending that result in multiplicative effects. Thus, EITC payments spent in the state's economy become income for residents, business and local government.

The economic impact (or lack of) of the EITC attributable to the tax credit payments is linked to the ways recipients spend this income in California, in the counties and in the cities. This analysis will measure the impact of the EITC in four different areas:

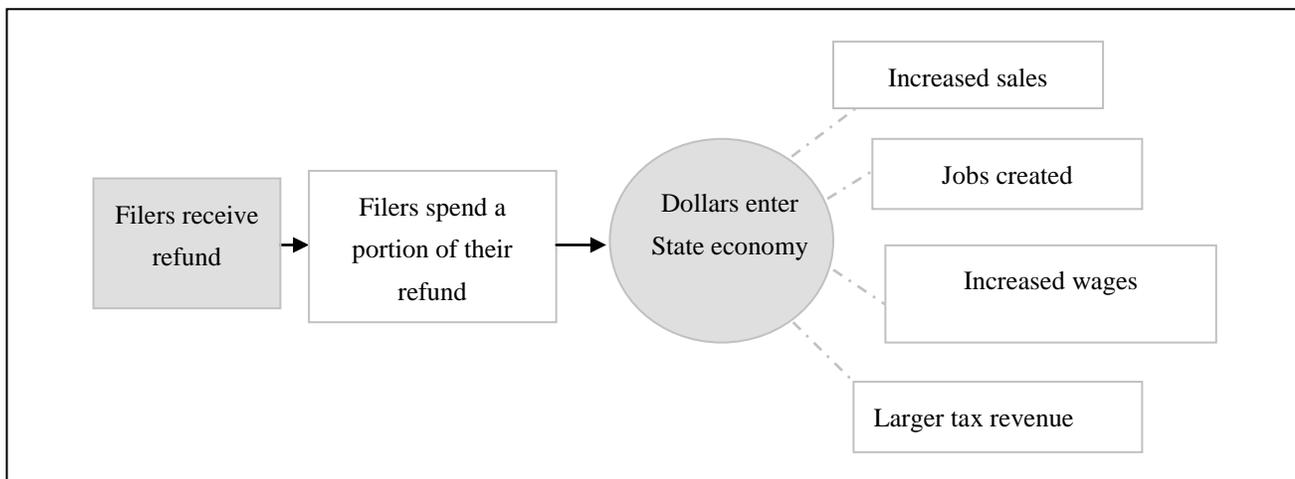
- 1) Additional output (business sales);
- 2) Number of jobs that these benefits payments support directly and indirectly;
- 3) Additional labor income (wages); and
- 4) Additional state tax revenue.

Figure 1 illustrates the conceptual framework of this economic impact analysis.

The impact of EITC dollars in the state is smaller when there are leakages, mainly savings withheld and dollars spent outside the state's economy. Determining exactly which fraction of the EITC payments is spent within California would probably require expensive primary data collection, such as a survey. Following what other researchers have done in similar studies to account for initial expenditure leakages, it is assumed that 80% of the EITC payments made to California residents are directly spent within the state's economy.¹⁶ This assumption is a conservative one considering (1) the low mobility of low-income families, (2) empirical evidence showing the low savings rate (and negative in some cases) for low-income families, and (3) the geography of California, which is bounded on three sides by mountains, deserts and an ocean. This study also assumes that EITC dollars will be spent following a typical pattern for households with incomes between \$15,000 and \$25,000. In other words, it is assumed that the spending profile of EITC recipients resembles one of typical families earning this income level.

The report calculates the economic impact of the federal EITC for 2006, the most recent tax year for which zip code level data is available. Since EITC eligibility is based on income, potential EITC payments and their associated economic

Figure 1: Conceptual Framework – How EITC Dollars Flow Through the Economy



impact in California are likely to be much higher in 2009 when unemployment was higher and income was lower due to the recession. So the estimates for 2006 likely understate the current economic impact of the EITC. In the next section, extrapolation techniques are employed to estimate the economic impact of the federal EITC for the most recent tax year, 2009. Some further explanations on the assumptions and methodology are included in the Appendix.

County by county economic impacts

Table 2 shows the economic impact of EITC payments by county and selected cities. State residents' spending of their federal EITC refunds spurs a total of over \$5 billion in business sales in California (output), supports almost 30,000 jobs and creates more than \$1.2 billion in wages or labor income. Employment numbers here include total wage and salary employees as well as self-employed jobs, including both full-time and part-time jobs.

Many counties reap significant economic benefits from the EITC

Among the counties that experience the largest impact, Los Angeles, Riverside and San Bernardino stand out with a combined business sales impact of almost \$2.5 billion and a combined employment impact of over 15,000 jobs. In regions that exhibit the highest poverty rates, for example San Joaquin Valley counties (Fresno, Madera, Merced, Kern, Kings, San Joaquin, Stanislaus and Tulare), the data show a combined business sales impact of more than \$700 million and a combined employment impact of over 4,600 jobs. If the EITC program did not exist (or if no state resident claimed it), none of these impacts would occur.

COUNTY SNAPSHOT: LOS ANGELES

The Earned Income Tax Credit has a significant economic impact on working families and on businesses, and this is especially true in Los Angeles County. Los Angeles received nearly \$1.5 billion from the EITC in 2006, more than three times the amount that went to San Bernardino, the county with the next highest claim amounts. This amount was also more than the combined incomes of all Los Angeles County's home health aides, electricians, and fire fighters in 2008 (\$1.35 billion), according to the Bureau of Labor Statistics.

The power of the credit to augment the incomes and spending power of recipients is concentrated in L.A., where nearly one in five tax filers file for the credit. The dollars claimed resulted in \$1.2 billion in additional spending in the county, which then generated \$1.8 billion in economic growth—and created almost 11,000 jobs. The resulting nearly half-million dollars in labor income also increased the local and state tax base. EITC refund dollars ripple throughout the economy, benefiting businesses and workers.

The fact that an estimated 256,449 of those eligible to claim the credit did not do so cost the County \$296 million in spending and \$446.7 million in resulting economic growth. More than 2,700 jobs could have been created, increasing labor incomes in the County by more than \$122 million. And these impacts were increased even more by the recession, so that the amount foregone in 2009 was likely much higher.

2006 Economic Impact (Table 2)	
80% Spent Locally	\$1.18 billion
Resulting Sales (Economic Output)	\$1.79 billion
Resulting Jobs	10,830
Resulting Wages	\$489 million
2006 Foregone Impact (Table 4)	
80% Spent Locally	\$296 million
Foregone Sales (Economic Output)	\$446.7 million
Foregone Jobs	2,708
Foregone Wages	\$122.4 million

Table 2: Estimated Economic Impact of the EITC in California, by County and Select Cities, 2006

COUNTY	Claimed EITC Payments	80% Spent Locally	Sales (Economic Output)	Jobs (Economic Impact)	Wages (Economic Impact)
Alameda	\$116,430,469	\$93,144,375	\$130,606,323	730	\$34,992,263
Alpine	\$83,653	\$66,922	\$68,207	0	\$3,435
Amador	\$2,481,383	\$1,985,107	\$2,293,251	12	\$402,314
Butte	\$24,378,058	\$19,502,446	\$25,147,726	172	\$5,718,639
Calaveras	\$4,031,883	\$3,225,506	\$4,506,360	19	\$593,021
Colusa	\$2,857,822	\$2,286,258	\$2,442,152	13	\$319,041
Contra Costa	\$67,357,249	\$53,885,799	\$71,523,934	377	\$17,533,527
Del Norte	\$3,353,904	\$2,683,123	\$3,017,344	16	\$489,612
El Dorado	\$11,285,381	\$9,028,305	\$10,852,219	59	\$2,026,600
Fresno	\$182,253,755	\$145,803,004	\$200,521,056	1,380	\$49,261,160
Glenn	\$4,245,879	\$3,396,703	\$3,718,869	18	\$475,905
Humboldt	\$14,411,671	\$11,529,337	\$14,525,409	97	\$3,020,547
Imperial	\$52,494,241	\$41,995,392	\$48,281,810	250	\$7,535,181
Inyo	\$1,772,278	\$1,417,822	\$1,604,015	8	\$248,291
Kern	\$151,589,072	\$121,271,257	\$155,020,708	914	\$32,648,383
Kings	\$27,617,182	\$22,093,746	\$25,233,288	132	\$4,069,874
Lake	\$7,794,325	\$6,235,460	\$7,190,405	35	\$1,200,656
Lassen	\$2,627,290	\$2,101,832	\$2,397,268	14	\$388,974
Los Angeles	\$1,480,043,437	\$1,184,034,749	\$1,786,898,654	10,830	\$489,405,794
Madera	\$25,788,488	\$20,630,790	\$23,757,822	126	\$4,140,401
Marin	\$8,066,684	\$6,453,347	\$8,288,711	42	\$2,003,752
Mariposa	\$2,114,672	\$1,691,737	\$1,820,637	8	\$191,292
Mendocino	\$10,458,578	\$8,366,862	\$10,185,556	62	\$2,040,939
Merced	\$46,837,932	\$37,470,346	\$45,116,957	270	\$8,100,264
Modoc	\$1,463,929	\$1,171,143	\$1,243,007	5	\$126,847
Mono	\$1,714,888	\$1,371,910	\$1,477,249	6	\$162,547
Monterey	\$64,629,771	\$51,703,816	\$65,516,349	368	\$14,925,917
Napa	\$7,737,908	\$6,190,326	\$7,861,226	43	\$1,823,130
Nevada	\$7,734,017	\$6,187,214	\$75,487,120	44	\$1,523,151
Orange	\$253,495,035	\$202,796,028	\$293,589,861	1,670	\$76,206,754
Placer	\$19,305,375	\$15,444,300	\$19,686,597	117	\$4,509,412
Plumas	\$2,021,291	\$1,617,033	\$1,780,897	8	\$221,710
Riverside	\$306,425,050	\$245,140,040	\$323,286,620	1,910	\$71,674,321

COUNTY	Claimed EITC Payments	80% Spent Locally	Sales (Economic Output)	Jobs (Economic Impact)	Wages (Economic Impact)
Sacramento	\$165,278,992	\$132,223,194	\$177,957,244	1,063	\$44,466,366
San Benito	\$5,721,480	\$4,577,184	\$5,143,204	21	\$708,767
San Bernardino	\$339,692,704	\$271,754,163	\$374,563,318	2,378	\$90,492,972
San Diego	\$310,665,093	\$248,532,074	\$349,996,925	2,075	\$87,798,005
San Francisco	\$52,739,363	\$42,191,491	\$53,252,730	251	\$13,466,332
San Joaquin	\$94,383,024	\$75,506,419	\$100,793,785	653	\$24,159,689
San Luis Obispo	\$18,360,874	\$14,688,699	\$19,233,546	120	\$4,206,623
San Mateo	\$33,950,497	\$27,160,398	\$35,454,043	175	\$8,773,132
Santa Barbara	\$37,518,397	\$30,014,718	\$40,308,228	242	\$9,791,463
Santa Clara	\$104,608,152	\$83,686,521	\$105,129,114	512	\$25,934,486
Santa Cruz	\$25,340,068	\$20,272,055	\$26,575,140	157	\$6,160,013
Shasta	\$21,849,985	\$17,479,988	\$23,013,001	160	\$5,500,544
Sierra	\$488,300	\$390,640	\$403,219	1	\$25,632
Siskiyou	\$5,570,710	\$4,456,568	\$5,191,175	30	\$897,455
Solano	\$37,185,731	\$29,748,584	\$38,314,346	227	\$8,508,437
Sonoma	\$28,164,818	\$22,531,854	\$31,068,180	197	\$7,892,287
Stanislaus	\$70,466,031	\$56,372,824	\$73,928,557	487	\$17,283,954
Sutter	\$12,927,316	\$10,341,853	\$12,618,959	76	\$2,543,523
Tehama	\$9,262,145	\$7,409,716	\$8,387,381	44	\$1,366,145
Trinity	\$1,404,593	\$1,123,675	\$1,195,111	5	\$129,571
Tulare	\$124,947,518	\$99,958,014	\$120,366,547	665	\$22,009,342
Tuolumne	\$4,957,903	\$3,966,322	\$4,766,801	28	\$914,116
Ventura	\$75,267,327	\$60,213,862	\$79,789,399	465	\$18,907,052
Yolo	\$16,094,460	\$12,875,568	\$16,069,013	87	\$3,383,939
Yuba	\$11,028,586	\$8,822,869	\$9,724,894	43	\$1,471,906
CALIFORNIA	\$4,522,770,000	\$3,618,216,000	\$5,088,191,467	29,912	\$1,244,775,405
CITY					
Los Angeles	\$497,091,000	\$397,672,800	\$600,040,568	3,637	\$164,342,466
Fresno	\$114,101,000	\$91,280,800	\$125,526,181	864	\$30,837,486
Modesto	\$36,126,000	\$28,900,800	\$37,895,778	250	\$8,859,755
Oakland	\$50,536,000	\$40,428,800	\$56,683,144	317	\$15,186,642
San Bernardino	\$62,489,000	\$49,991,200	\$68,882,194	437	\$16,641,658
San Diego	\$135,675,000	\$108,540,000	\$153,018,656	907	\$38,385,288

SOURCE: Internal Revenue Service (IRS), IMPLAN and authors' calculations

Spending of EITC refunds results in sales tax revenue for local and state governments

The spending of EITC refunds eventually results in additional tax revenue for the cities, counties and for the state as presented in Table 3. The multiplier effect of federal EITC dollars spent in California’s economy generates more than \$355 million in tax revenue, and 65% of this amount comes

from indirect business taxes (mostly sales taxes). The methodology employed to calculate the fiscal impact (IMPLAN) does not produce separate reports for the state and local governments. Thus, the estimates include total estimated tax revenue for all levels of government (state, county and city). However, the tax revenue produced by each county is proportional to the economic impact.

Table 3: Impact of the EITC on California State and Local Taxes, 2006

<i>State and Local Taxes</i>	<i>Employee Compensation</i>	<i>Household Expenditures</i>	<i>Corporations</i>	<i>Indirect Business Taxes</i>	TOTAL
Corporate Profits Tax			\$22,483,658		\$22,483,658
Dividends			\$32,303,755		\$32,303,755
Indirect Bus Tax: Motor Vehicle License				\$2,112,237	\$2,112,237
Indirect Bus Tax: Other Taxes				\$20,512,570	\$20,512,570
Indirect Bus Tax: Property Tax				\$78,541,098	\$78,541,098
Indirect Bus Tax: S/L NonTaxes				\$9,440,743	\$9,440,743
Indirect Bus Tax: Sales Tax				\$119,097,641	\$119,097,641
Indirect Bus Tax: Severance Tax				\$37,171	\$37,171
Personal Tax: Income Tax		\$47,714,044			\$47,714,044
Personal Tax: Motor Vehicle License		\$1,798,252			\$1,798,252
Personal Tax: NonTaxes (Fines- Fees		\$12,531,875			\$12,531,875
Personal Tax: Other Tax (Fish/Hunt)		\$323,515			\$323,515
Personal Tax: Property Taxes		\$609,218			\$609,218
Social Ins Tax- Employee Contribution	\$1,639,700				\$1,639,700
Social Ins Tax- Employer Contribution	\$6,561,009				\$6,561,009
TOTAL	\$8,200,709	\$62,976,905	\$54,787,413	\$229,741,460	\$355,706,487

SOURCE: Internal Revenue Service (IRS), IMPLAN and authors’ calculations

V. The Cost of Leaving Money on the Table

The foregone economic impact of unclaimed EITC refunds

A significant amount of unclaimed EITC payments (estimated to total over \$1.1 billion) are never injected into the state's revenue stream when eligible residents fail to claim the EITC. These foregone transfer payments represent a lost opportunity

to generate new business sales, jobs, income and tax revenue. Table 4 shows the foregone economic impact of the unclaimed EITC payments by county. These estimates illustrate the potential economic impact if all State residents claimed the EITC payments for which they were eligible. The results show that if California residents fully participated in the EITC program and if they spent 80% of the EITC payments in California, then these EITC resources would create over \$1.2 billion in additional business sales (output), support nearly 7,500 additional jobs and create more than \$300 million in wages or labor income.

Table 4: Estimated Foregone Economic Impact of the EITC in California, by County and Selected Cities, 2006

COUNTY	Unclaimed EITC Payments	80% Spent Locally	Foregone Sales (Economic Output)	Foregone Jobs	Foregone Wages
Alameda	\$29,107,617	\$23,286,094	\$32,651,581	182	\$8,748,066
Alpine	\$20,913	\$16,731	\$17,052	0	\$859
Amador	\$620,346	\$496,277	\$573,313	3	\$100,579
Butte	\$6,094,515	\$4,875,612	\$6,286,932	43	\$1,429,660
Calaveras	\$1,007,971	\$806,377	\$1,126,590	5	\$148,255
Colusa	\$714,455	\$571,564	\$610,538	3	\$79,760
Contra Costa	\$16,839,312	\$13,471,450	\$17,880,984	94	\$4,383,382
Del Norte	\$838,476	\$670,781	\$754,336	4	\$122,403
El Dorado	\$2,821,345	\$2,257,076	\$2,713,055	15	\$506,650
Fresno	\$45,563,439	\$36,450,751	\$50,130,264	345	\$12,315,290
Glenn	\$1,061,470	\$849,176	\$929,717	4	\$118,976
Humboldt	\$3,602,918	\$2,882,334	\$3,631,352	24	\$755,137
Imperial	\$13,123,560	\$10,498,848	\$12,070,453	62	\$1,883,795
Inyo	\$443,069	\$354,456	\$401,004	2	\$62,073
Kern	\$37,897,268	\$30,317,814	\$38,755,177	229	\$8,162,096
Kings	\$6,904,296	\$5,523,436	\$6,308,322	33	\$1,017,469
Lake	\$1,948,581	\$1,558,865	\$1,797,601	9	\$300,164
Lassen	\$656,822	\$525,458	\$599,317	3	\$97,244
Los Angeles	\$370,010,859	\$296,008,687	\$446,724,664	2,708	\$122,351,449
Madera	\$6,447,122	\$5,157,698	\$5,939,456	31	\$1,035,100
Marin	\$2,016,671	\$1,613,337	\$2,072,178	11	\$500,938
Mariposa	\$528,668	\$422,934	\$455,159	2	\$47,823

COUNTY	Unclaimed EITC Payments	80% Spent Locally	Foregone Sales (Economic Output)	Foregone Jobs	Foregone Wages
Mendocino	\$2,614,644	\$2,091,716	\$2,546,389	15	\$510,235
Merced	\$11,709,483	\$9,367,586	\$11,279,239	67	\$2,025,066
Modoc	\$365,982	\$292,786	\$310,752	1	\$31,712
Mono	\$428,722	\$342,978	\$369,312	1	\$40,637
Monterey	\$16,157,443	\$12,925,954	\$16,379,087	92	\$3,731,479
Napa	\$1,934,477	\$1,547,582	\$1,965,307	11	\$455,783
Nevada	\$1,933,504	\$1,546,803	\$18,871,780	11	\$380,788
Orange	\$63,373,759	\$50,699,007	\$73,397,465	417	\$19,051,689
Placer	\$4,826,344	\$3,861,075	\$4,921,649	29	\$1,127,353
Plumas	\$505,323	\$404,258	\$445,224	2	\$55,428
Riverside	\$76,606,262	\$61,285,010	\$80,821,655	478	\$17,918,580
Sacramento	\$41,319,748	\$33,055,798	\$44,489,311	266	\$11,116,592
San Benito	\$1,430,370	\$1,144,296	\$1,285,801	5	\$177,192
San Bernardino	\$84,923,176	\$67,938,541	\$93,640,830	595	\$22,623,243
San Diego	\$77,666,273	\$62,133,019	\$87,499,231	519	\$21,949,501
San Francisco	\$13,184,841	\$10,547,873	\$13,313,183	63	\$3,366,583
San Joaquin	\$23,595,756	\$18,876,605	\$25,198,446	163	\$6,039,922
San Luis Obispo	\$4,590,218	\$3,672,175	\$4,808,387	30	\$1,051,656
San Mateo	\$8,487,624	\$6,790,099	\$8,863,511	44	\$2,193,283
Santa Barbara	\$9,379,599	\$7,503,679	\$10,077,057	61	\$2,447,866
Santa Clara	\$26,152,038	\$20,921,630	\$26,282,279	128	\$6,483,622
Santa Cruz	\$6,335,017	\$5,068,014	\$6,643,785	39	\$1,540,003
Shasta	\$5,462,496	\$4,369,997	\$5,753,250	40	\$1,375,136
Sierra	\$122,075	\$97,660	\$100,805	0	\$6,408
Siskiyou	\$1,392,678	\$1,114,142	\$1,297,794	7	\$224,364
Solano	\$9,296,433	\$7,437,146	\$9,578,587	57	\$2,127,109
Sonoma	\$7,041,205	\$5,632,964	\$7,767,045	49	\$1,973,072
Stanislaus	\$17,616,508	\$14,093,206	\$18,482,139	122	\$4,320,989
Sutter	\$3,231,829	\$2,585,463	\$3,154,740	19	\$635,881
Tehama	\$2,315,536	\$1,852,429	\$2,096,845	11	\$341,536
Trinity	\$351,148	\$280,919	\$298,778	1	\$32,393
Tulare	\$31,236,879	\$24,989,504	\$30,091,637	166	\$5,502,336
Tuolumne	\$1,239,476	\$991,581	\$1,191,700	7	\$228,529
Ventura	\$18,816,832	\$15,053,465	\$19,947,350	116	\$4,726,763
Yolo	\$4,023,615	\$3,218,892	\$4,017,253	22	\$845,985

COUNTY	Unclaimed EITC Payments	80% Spent Locally	Foregone Sales (Economic Output)	Foregone Jobs	Foregone Wages
Yuba	\$2,757,146	\$2,205,717	\$2,431,224	11	\$367,977
CALIFORNIA	\$1,130,692,500	\$904,554,000	\$1,272,047,867	7,478	\$311,193,851
CITY					
Los Angeles	\$124,272,750	\$99,418,200	\$150,010,142	909	\$41,085,616
Fresno	\$28,525,250	\$22,820,200	\$31,381,545	216	\$7,709,372
Modesto	\$9,031,500	\$7,225,200	\$9,473,945	62	\$2,214,939
Oakland	\$12,634,000	\$10,107,200	\$14,170,786	79	\$3,796,661
San Bernardino	\$15,622,250	\$12,497,800	\$17,220,549	109	\$4,160,414
San Diego	\$33,918,750	\$27,135,000	\$38,254,664	227	\$9,596,322

SOURCE: Internal Revenue Service (IRS), IMPLAN and authors' calculations

Most of the foregone economic impact is concentrated in Los Angeles, Riverside and San Bernardino counties, with a combined foregone business sales impact of over \$600 million and a combined foregone employment impact of over 3,700 jobs. The San Joaquin Valley (Fresno, Madera, Merced, Kern, Kings, San Joaquin, Stanislaus and Tulare) suffers a foregone business sales impact of more than \$180 million and a foregone employment impact of over 1,100 jobs due to low take-up of the credit.

The foregone economic impact may differ by county, if the county is likely to have a high number of non-claimants

The proportion of individuals not claiming the EITC credit is unlikely to be uniformly 20% in all counties because county demographics vary with respect to characteristics of the average non-filer. The IRS has identified that the proportion of those failing to claim the EITC credit is higher: (1) in areas of high concentration of Hispanics; (2) among individuals with

lower incomes than eligible individuals who filed a tax return to get the EITC; (3) among individuals who participated in food stamp assistance programs; and (4) among those with no qualifying children. In counties where the demographic profile indicates a prevalence of these factors, the actual non-filer rate is likely to be higher than the assumed 20%.

Table 5 shows these characteristics by county. The numbers in bold indicate that the given characteristic in that county is more prevalent than is the average for the state. For example, in Los Angeles County, the concentration of Hispanics and the percentage of households receiving food stamps are higher than the state average, while the median income is lower. These numbers suggest that the proportion of eligible individuals not claiming the EITC credit in Los Angeles County is likely to be higher than 20%, the assumed average for the state. It is impossible to accurately assess how much higher without resorting to arbitrary calculations. However, it is probably reasonable to assume a non-filer rate as high as 25% in the counties with prevalent non-filer characteristics (in bold). This rate is reported as the state average by the IRS.

Table 5: Characteristics Associated with High Rates of Unclaimed EITC funds

COUNTY	Families without Minor children	Hispanic Population	Median Income	% Received Food Stamps
Alameda	39.2%	21.4%	\$70,079	3.4%
Alpine	54.7%	NA	NA	NA
Amador	54.7%	10.6%	\$56,258	3.8%
Butte	46.1%	12.6%	\$41,569	8.1%
Calaveras	55.7%	NA	\$57,703	3.6%
Colusa	41.6%	NA	\$50,288	6.7%
Contra Costa	42.2%	22.4%	\$78,619	2.9%
Del Norte	46.3%	NA	\$35,861	15.3%
El Dorado	47.5%	11.3%	\$70,022	3.1%
Fresno	33.9%	48.2%	\$45,805	11.5%
Glenn	39.6%	NA	\$40,284	7.1%
Humboldt	44.2%	8.2%	\$40,515	7.2%
Imperial	30.5%	76.0%	\$37,492	13.1%
Inyo	NA	NA	NA	NA
Kern	32.8%	46.2%	\$46,442	9.8%
Kings	31.4%	48.5%	\$49,419	10.6%
Lake	43.2%	15.4%	\$41,619	10.0%
Lassen	43.7%	15.3%	\$50,077	8.2%
Los Angeles	35.4%	47.3%	\$55,192	4.8%
Madera	38.4%	50.0%	\$45,646	10.8%
Marin	48.4%	13.6%	\$88,101	1.9%
Mariposa	48.6%	NA	NA	NA
Mendocino	48.6%	20.1%	\$43,307	6.2%
Merced	31.4%	52.4%	\$44,338	12.2%
Modoc	NA	NA	NA	NA
Mono	NA	NA	NA	NA
Monterey	38.3%	52.2%	\$59,140	4.5%
Napa	45.5%	29.3%	\$67,484	2.0%
Nevada	55.2%	7.4%	\$56,890	3.3%
Orange	40.6%	33.2%	\$75,176	2.3%
Placer	45.1%	11.7%	\$73,260	2.1%
Plumas	61.5%	NA	\$50,817	1.3%
Riverside	36.3%	43.1%	\$58,168	3.5%

COUNTY	Families without Minor children	Hispanic Population	Median Income	% Received Food Stamps
Sacramento	38.2%	19.8%	\$57,779	6.9%
San Benito	33.4%	53.0%	\$72,228	5.1%
San Bernardino	33.1%	46.7%	\$56,575	6.0%
San Diego	41.0%	30.4%	\$63,727	2.7%
San Francisco	48.0%	14.0%	\$71,957	2.4%
San Joaquin	33.8%	36.4%	\$54,711	7.3%
San Luis Obispo	50.2%	18.8%	\$57,722	2.9%
San Mateo	44.1%	23.1%	\$84,684	1.2%
Santa Barbara	41.6%	38.7%	\$59,850	3.8%
Santa Clara	40.6%	25.6%	\$87,287	2.5%
Santa Cruz	44.2%	28.7%	\$67,070	3.3%
Shasta	46.6%	7.8%	\$43,836	6.7%
Sierra	NA	NA	NA	NA
Siskiyou	51.3%	NA	\$36,171	9.8%
Solano	39.5%	22.2%	\$68,603	4.8%
Sonoma	46.0%	22.5%	\$63,768	2.5%
Stanislaus	36.8%	38.9%	\$51,601	7.0%
Sutter	38.4%	26.9%	\$52,505	7.1%
Tehama	42.7%	19.9%	\$36,731	11.3%
Trinity	NA	56.7%	NA	NA
Tulare	33.2%	56.7%	\$43,995	13.4%
Tuolumne	55.1%	9.7%	\$47,466	6.3%
Ventura	40.3%	37.4%	\$76,269	3.3%
Yolo	39.6%	28.2%	\$58,851	3.8%
Yuba	33.6%	NA	\$45,727	15.4%
CALIFORNIA	38.5%	36.1%	\$61,154	4.6%

SOURCE: U.S. Census Bureau, American Community Survey (ACS), 2006, 07, 08 estimates.

The following counties are likely to have more than 20 percent of non-filers: Los Angeles, San Bernardino, Sacramento, Fresno, Kern, Merced, Stanislaus and Tulare Counties in the Central Valley.

State and local governments miss out on \$88 million in tax revenues from unclaimed EITC dollars

If California residents claimed the estimated unclaimed EITC payments, more than \$88 million in additional tax revenue would be generated at all levels of government (state, county and city). Table 6 shows the foregone impact of EITC refunds on state and local taxes, with separate totals of foregone revenue.

Table 6: Foregone Impact of the EITC on California State and Local Taxes, 2006

<i>State and Local Taxes</i>	<i>Employee Compensation</i>	<i>Household Expenditures</i>	<i>Corporations</i>	<i>Indirect Business Taxes</i>	TOTAL
Corporate Profits Tax			\$5,620,915		\$5,620,915
Dividends			\$8,075,939		\$8,075,939
Indirect Bus Tax: Motor Vehicle License				\$528,059	\$528,059
Indirect Bus Tax: Other Taxes				\$5,128,143	\$5,128,143
Indirect Bus Tax: Property Tax				\$19,635,275	\$19,635,275
Indirect Bus Tax: S/L NonTaxes				\$2,360,186	\$2,360,186
Indirect Bus Tax: Sales Tax				\$29,774,410	\$29,774,410
Indirect Bus Tax: Severance Tax				\$9,293	\$9,293
Personal Tax: Income Tax		\$11,928,511			\$11,928,511
Personal Tax: Motor Vehicle License		\$449,563			\$449,563
Personal Tax: NonTaxes (Fines- Fees		\$3,132,969			\$3,132,969
Personal Tax: Other Tax (Fish/Hunt)		\$80,879			\$80,879
Personal Tax: Property Taxes		\$152,305			\$152,305
Social Ins Tax- Employee Contribution	\$409,925				\$409,925
Social Ins Tax- Employer Contribution	\$1,640,252				\$1,640,252
TOTAL	\$2,050,177	\$15,744,226	\$13,696,853	\$57,435,365	\$88,926,622

SOURCE: Internal Revenue Service (IRS), IMPLAN and authors' calculations

VI. Bringing it up to date: California's overall foregone economic impact in 2009

Sections one through six of this report calculate the foregone economic impact of the federal EITC for 2006, the most recent year for which data is available at the zip code level, which is required to produce the county level estimates. The IRS will release zip code level data for 2007 later in spring 2010. Since EITC eligibility is based on income, potential EITC payments

From 1997 to 2006, Californians failed to claim almost \$10 billion in EITC refunds

and their associated economic impact in California were likely to be much higher in 2009 when unemployment was higher and income was

lower due to the economic recession. Therefore, the 2006 estimates likely understate the current foregone economic impact of the EITC program.

EITC claims rise as unemployment rises

One way to estimate the current foregone impact is to look at the historical relationship between EITC claims and unemployment rates in California, and then extrapolate the data for 2009. Table 7 shows this relationship over the last 10 years. At least four things stand out. First, the accumulated amount of estimated unclaimed EITC dollars between 1997 and 2006 is large, adding up to almost \$10 billion. Second, the number of total tax returns has grown more rapidly (1.8% annually) than the number of EITC returns (0.8% annually). Consequently, EITC returns as a percentage of the total returns have declined. Third, the average EITC return has steadily increased by close to 23% during the 1997-2006

period, which may reflect both inflation adjustments and efforts to building a more generous EITC program. The recent evolution of the EITC program indicates that such efforts to build a more generous EITC program have been underway. For example, for tax year 2000, the maximum credit for a family with no qualifying children was \$353, with one qualifying child was \$2,353 and with two or more qualifying children was \$3,888. Six years later, the maximum credits were \$412, \$2,747 and \$4,536 respectively. Further, for tax

year 2009, the federal government increased the credit and dependent allowances. So, if a family has 3 or more children, it can qualify for an even larger tax credit, which eliminates the two-child credit cap. Fourth, there is a small but positive correlation (0.33) between the unemployment rate and the number of EITC returns, which supports the notion that more California residents claim the EITC credit when unemployment is high.

Table 7: Historical EITC Data and Unemployment Rates in California

Year	Total Returns	EITC Returns	% Receiving EITC	Claimed Total EITC Payments	Unclaimed EITC Payments	Average Credit	Unemployment Rate
1997	13,136,556	2,238,370	17.04%	\$3,436,211,994	\$859,052,999	\$1,535	6.4%
1998	13,576,420	2,232,825	16.45%	\$3,612,096,985	\$903,024,246	\$1,618	6.0%
1999	13,930,437	2,208,165	15.85%	\$3,696,392,424	\$924,098,106	\$1,674	5.3%
2000	14,289,773	2,198,596	15.39%	\$3,685,090,381	\$921,272,595	\$1,676	4.9%
2001	14,470,542	2,175,394	15.03%	\$3,713,183,870	\$928,295,968	\$1,707	5.4%
2002	14,493,603	2,364,922	16.32%	\$4,158,763,563	\$1,039,690,891	\$1,759	6.7%
2003	14,440,197	2,384,703	16.51%	\$4,205,930,878	\$1,051,482,720	\$1,764	6.9%
2004	14,592,665	2,378,695	16.30%	\$4,273,588,132	\$1,068,397,033	\$1,797	6.3%
2005	14,796,934	2,376,646	16.06%	\$4,397,875,497	\$1,099,468,874	\$1,850	5.4%
2006	15,419,437	2,401,947	15.58%	\$4,522,770,000	\$1,130,692,500	\$1,883	4.9%
			<i>Totals:</i>	\$39,701,903,724	\$9,925,475,931		

SOURCE: Internal Revenue Service (IRS), California Employment Development Department (EDD)

The forecast for Tax Year 2009

Based on these data, it is possible to estimate the foregone economic impact of the EITC program for the year 2009 under two scenarios: a conservative scenario and a less conservative one. The conservative scenario assumes that both total EITC

returns and the average EITC credit will continue growing at the average annual rate observed for the last 10 years of available data. Under these assumptions, Table 8 shows that the total amount of unclaimed EITC payments would total approximately \$1.24 billion for 2009.

Table 8: Unclaimed EITC Payments under the Conservative Scenario, 2009

Tax Year	EITC Returns	Claimed EITC Payments	Unclaimed EITC Payments	Average Credit	Unemployment Rate
2007	2,421,883	\$4,665,652,129	\$1,166,413,032	\$1,926	5.4%
2008	2,441,985	\$4,813,048,151	\$1,203,262,038	\$1,971	7.2%
2009	2,462,253	\$4,965,100,669	\$1,241,275,167	\$2,016	11.7%
	<i>Totals:</i>	\$14,443,800,948	\$3,610,950,237		

SOURCE: Internal Revenue Service (IRS), IMPLAN and authors' calculations

Table 9: Unclaimed EITC Payments under the Less Conservative Scenario, 2009

<i>Tax Year</i>	<i>EITC Returns</i>	<i>Claimed EITC Payments</i>	<i>Unclaimed EITC Payments</i>	<i>Average Credit</i>	<i>Unemployment Rate</i>
2007	2,414,447	\$4,651,326,691	\$1,162,831,673	\$1,926	5.4%
2008	2,459,447	\$4,847,465,424	\$1,211,866,356	\$1,971	7.2%
2009	2,571,947	\$5,186,296,615	\$1,296,574,154	\$2,016	11.7%
<i>Totals:</i>		\$14,685,088,730	\$3,671,272,182		

SOURCE: Internal Revenue Service (IRS), IMPLAN and authors' calculations

The less conservative scenario assumes the total number of EITC returns will increase with unemployment, and that the average EITC credit will continue growing at the average annual rate observed for the last 10 years of available data (similar to the conservative scenario). The measured correlation between EITC returns and the unemployment rate for the 1997-2006 period implies that for every 1 percent increase in the unemployment rate, the number of EITC returns increases by 25,000. Table 9 shows that the total amount of unclaimed EITC payments would be approximately \$1.29 billion for 2009.

If 80% of the EITC payments are spent within the state, unclaimed EITC payments will result in the 2009 foregone economic impact shown in Table 10. Under the conservative scenario, the output impact would be \$1.40 billion and the

employment impact would be 8,237 jobs, implying a 2009 impact that is approximately 10% larger than 2006. Under the less conservative scenario, the output impact would be close to \$1.45 billion and the employment impact would reach 8,575 jobs, implying a foregone economic impact in 2009 that is approximately 15% larger than 2006. The foregone economic impact in 2009 can be estimated for either the counties or the cities examined in previous sections by increasing the estimated numbers for output, employment or labor income for 2006 by 10% under conservative assumptions or 15% under less conservative assumptions. Table 10 gives estimates for the unclaimed 2009 EITC payments, and the estimated foregone economic impacts. Data is provided for counties and selected cities under the conservative scenario (increased by 10% over 2006 estimates given in Table 4). Table 11 gives the state totals under both scenarios.

Table 10: Estimated Foregone Economic Impact of the EITC, by County and Selected Cities, 2009

COUNTY	Foregone Sales (Economic Output)	Foregone Jobs	Foregone Wages
Alameda	\$35,916,739	201	\$9,622,872
Alpine	\$18,757	0	\$945
Amador	\$630,644	3	\$110,636
Butte	\$6,915,625	47	\$1,572,626
Calaveras	\$1,239,249	5	\$163,081
Colusa	\$671,592	4	\$87,736
Contra Costa	\$19,669,082	104	\$4,821,720
Del Norte	\$829,770	4	\$134,643
El Dorado	\$2,984,360	16	\$557,315

COUNTY	Foregone Sales (Economic Output)	Foregone Jobs	Foregone Wages
Fresno	\$55,143,290	379	\$13,546,819
Glenn	\$1,022,689	5	\$130,874
Humboldt	\$3,994,487	27	\$830,650
Imperial	\$13,277,498	69	\$2,072,175
Inyo	\$441,104	2	\$68,280
Kern	\$42,630,695	251	\$8,978,305
Kings	\$6,939,154	36	\$1,119,215
Lake	\$1,977,361	10	\$330,180
Lassen	\$659,249	4	\$106,968
Los Angeles	\$491,397,130	2,978	\$134,586,593
Madera	\$6,533,401	35	\$1,138,610
Marin	\$2,279,396	12	\$551,032
Mariposa	\$500,675	2	\$52,605
Mendocino	\$2,801,028	17	\$561,258
Merced	\$12,407,163	74	\$2,227,573
Modoc	\$341,827	1	\$34,883
Mono	\$406,243	2	\$44,700
Monterey	\$18,016,996	101	\$4,104,627
Napa	\$2,161,837	12	\$501,361
Nevada	\$20,758,958	12	\$418,867
Orange	\$80,737,212	459	\$20,956,857
Placer	\$5,413,814	32	\$1,240,088
Plumas	\$489,747	2	\$60,970
Riverside	\$88,903,821	525	\$19,710,438
Sacramento	\$48,938,242	292	\$12,228,251
San Benito	\$1,414,381	6	\$194,911
San Bernardino	\$103,004,912	654	\$24,885,567
San Diego	\$96,249,154	570	\$24,144,451
San Francisco	\$14,644,501	69	\$3,703,241
San Joaquin	\$27,718,291	180	\$6,643,914
San Luis Obispo	\$5,289,225	33	\$1,156,821
San Mateo	\$9,749,862	48	\$2,412,611
Santa Barbara	\$11,084,763	67	\$2,692,652
Santa Clara	\$28,910,506	141	\$7,131,984
Santa Cruz	\$7,308,164	43	\$1,694,004

COUNTY	Foregone Sales (Economic Output)	Foregone Jobs	Foregone Wages
Shasta	\$6,328,575	44	\$1,512,650
Sierra	\$110,885	0	\$7,049
Siskiyou	\$1,427,573	8	\$246,800
Solano	\$10,536,445	63	\$2,339,820
Sonoma	\$8,543,750	54	\$2,170,379
Stanislaus	\$20,330,353	134	\$4,753,087
Sutter	\$3,470,214	21	\$699,469
Tehama	\$2,306,530	12	\$375,690
Trinity	\$328,656	1	\$35,632
Tulare	\$33,100,800	183	\$6,052,569
Tuolumne	\$1,310,870	8	\$251,382
Ventura	\$21,942,085	128	\$5,199,439
Yolo	\$4,418,979	24	\$930,583
Yuba	\$2,674,346	12	\$404,774
CALIFORNIA	\$1,399,252,653	8,226	\$342,313,236
CITY			
Los Angeles	\$165,011,156	1,000	\$45,194,178
Fresno	\$34,519,700	238	\$8,480,309
Modesto	\$10,421,339	69	\$2,436,433
Oakland	\$15,587,865	87	\$4,176,327
San Bernardino	\$18,942,603	120	\$4,576,456
San Diego	\$42,080,130	249	\$10,555,954

SOURCE: Internal Revenue Service (IRS), IMPLAN and authors' calculations

Table 11: Statewide Estimated Foregone Economic Impact of the EITC, 2009

Scenario	Unclaimed EITC Payments	80% Spent Locally	Foregone Economic Output	Foregone Employment	Foregone Labor Income
CONSERVATIVE	\$1,241,275,167	\$993,020,134	\$1,399,252,653	8,226	\$342,313,236
LESS CONSERVATIVE	\$1,296,574,154	\$1,037,259,323	\$1,458,657,289	8,575	\$356,845,989

SOURCE: Internal Revenue Service (IRS), IMPLAN and authors' calculations

Concluding Remarks

The federal EITC program represents an important source of revenue for state and local governments and economies, as well as for the working families who receive EITC payments. For a variety of reasons, many eligible families within California fail to claim these credits.

Efforts that successfully close the gap between potential EITC payments and actual EITC payments would help reduce poverty, increase labor force participation rates and provide a substantial injection of resources into the California's revenue stream.

Using conservative data and assumptions, this report estimates that state residents fail to claim over \$1.1 billion annually in EITC payments for which they are eligible. If these payments were claimed, economic activity resulting from the payments would support an additional 7,500 jobs and create more than \$300 million in new labor income each year. These foregone payments, if claimed, would also generate more than \$88 million in additional tax revenue for state and local governments.

There are reasons to believe that these numbers understate the current impact of these foregone payments. Using simple assumptions based on the historical relationship between EITC participation and unemployment, it is likely that the current impact of state under-participation in the EITC is 10-15% higher than the 2006 estimates featured in this report.

California and its residents lose out on a great deal of resources by not fully taking advantage of the federal EITC program.

The eligible residents lose out on money to which they are entitled by the Internal Revenue Code. Also, other state beneficiaries lose when that money is not spent and re-circulated throughout the California economy. Using conservative estimates, the California economy would have created \$1.4 billion in new output and almost more than 8,000 new jobs in 2009 alone if the EITC were fully utilized.

Appendix I

Methodology and Data Requirements used to calculate the economic impact: The Multiplier Analysis

The analysis mainly relies on the use of input-output models and associated databases, which are techniques for quantifying interactions among firms, industries, and social institutions within a regional economy. IO models are the standard techniques that regional economists use to conduct economic impact analysis. In particular, the study makes extensive use of IMPLAN, a computer software package produced by the Minnesota IMPLAN Group, Inc. and used widely around the world.¹⁷ IMPLAN allows users to build economic models to estimate the impacts of economic changes in their states, counties or communities.

The total economic impact (also known as the multiplier effect) of the EITC is equal to the sum of three components: the direct effect, the indirect effect and the induced effect. The direct effect is the immediate upshot caused by residents when they spend their EITC payments. Due to the interactions between firms, industries, and social institutions that naturally occur within the regional and state economy, the direct effect initiates a series of iterative rounds of income creation, spending and re-spending that result in indirect and induced effects. The indirect effects are changes in production, employment and income that result from the inter-industry purchases triggered by the direct effect. Finally, induced effects arise due to changes in household income and spending patterns caused by direct and indirect effects. Since the total impact of the EITC payments that are spent within the regional economy is a multiple of the initial expenditures, the total effect is expressed as a multiplier effect. Therefore, the total impact of the EITC payments spent within the regional and state economy as estimated by IMPLAN is larger than the initial expenditures.

The increases in economic activity resulting from the multiplier process become smaller with each round due to leakages from the spending stream. Furthermore, spending on

goods and services that are not produced within the regional economy do not generate additional regional spending. Therefore, the multiplier process traces the flows of spending and re-spending until the initial expenditures have completely leaked out to other regions. To properly estimate the effects at the regional level, an adjustment known as the regional purchase coefficient is implemented within the IMPLAN system.

Successfully assessing the economic impact of the EITC in a region depends on two basic sets of data. First, the IMPLAN data comprises the input-output table of the regional economy of the impact region, in this case California, its 58 counties and selected cities. This data was purchased from IMPLAN Group, Inc. and was used to trace the impact of EITC payments. Second, individual income tax data by zip code is produced by the Internal Revenue Service (IRS) for the state. This data was purchased and was used to calculate the EITC payments received as well as unclaimed EITC payments by state residents.

Appendix II

Additional assumptions about the economic multiplier analysis used to calculate the economic impact of the EITC

The calculation of the economic impact understates the potential impact of the EITC on low-income families in California for two reasons: (1) not all eligible taxpayers claim the credit; and (2) not all taxpayers claiming the EITC credit get the entire amount for which they are eligible (mainly because they use the services of a professional tax preparer, sometimes for a very high fee). Nevertheless, for reasons outlined in the introduction, this report focuses on the loss of EITC payments to the state economy resulting from eligible families' failure to claim the credit.

An additional issue when calculating the economic impact of the EITC program is that not all taxpayers who claim the EITC are technically eligible to receive the credit. In other words, there are a number of individuals that claim and

receive the credit but do not meet all of the eligibility requirements. The “error rate” of ineligible EITC claimants is, according to IRS calculations for the tax year 1999, between 27% and 32% of EITC claims nationwide.¹⁸ Some researchers have argued that the IRS study has significant methodological shortcomings that likely result in an overstatement of the error rate.¹⁹ Even if the error rate of the program was accurately known, it would probably be inaccurate to assume that such error rate applied to every county in California.²⁰

Importantly, this study employs IRS data reporting the actual dollars received as EITC credits in California. Although some of these funds were surely obtained by error or fraud, the fact is that they made it to California and produced an economic impact. Assuming the IRS audits and catches some ineligible claimants, and assuming further that corrected returns and penalties are assessed, the re-payment of any ill-gotten EITC payment would occur years after the funds were injected into the state’s economy, producing an economic impact. A completely accurate picture of the economic impact would include a lagged leakage of the amount later collected by the IRS. Given low audit rates and the likelihood that the perpetrators will be unable to repay or will have left California, this leakage is likely to be very small relative to the initial payment.

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The Center for Economic Research and Education of Central California (CERECC) is an ancillary unit of the Department of Economics at the California State University, Fresno. The Center provides economic analysis for local business, community groups, and policymakers, and provides educational material to local educators. The mission of CERECC is to integrate and utilize the expertise of Department of Economics at the California State University, Fresno, on a broader regional basis. The Center’s goal is to enhance economic development in our region by pursuing a two-pronged approach—economic research and economic education. To realize this goal, the Center provides economic research in issues relevant to Central California, and provides extension services for local educators.

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Notes

¹ "The Earned Income Tax Credit at Age 30: What We Know," Steve Holt, 2006, The Brookings Institute.

² "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty", Nicholas Johnson, 2001, Center on Budget and Policy Priorities.

³ "Policy Basics: The Earned Income Tax Credit", 2009, Center on Budget and Policy Priorities.

⁴ "Using the EITC to Help Poor Families: New Evidence and a Comparison with the Minimum Wage", David Neumark and William Wascher, 2000, NBER Working Paper No. W7599.

⁵ See for example "Labor Supply Response to the Earned Income Tax Credit", 1996, Nada Eissa and Jeffrey B. Liebman, The Quarterly Journal of Economics 111(2): 605-637 and "Not Perfect but Still Pretty Good: The EITC and Other Policies to Support the US Low-Wage Labor Market", 2000, V. Joseph Hotz and John Karl Scholz, OECD Economic Studies No. 31.

⁶ Written Testimony of Mark Zandi, Chief Economist and Cofounder, Moody's Economy.com. Before the Committee on the Budget, U.S. House of Representatives, "The Economic Outlook and Budget Challenges" January 27, 2009. http://budget.house.gov/hearings/2009/01.27.2009_Zandi_Testimony.pdf.

⁷ "Using the Earned Income Tax Credit to Stimulate Local Economies", Alan Berube, 2007, The Brookings Institute.

⁸ US General Accounting Office, 2001, "Earned Income Tax Credit Participation", GAO-02-290R.

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¹⁰ See "Another Year of Losses: High-Priced Refund Anticipation Loans Continue To Take a Chunk Out Of Americans' Tax Refunds", 2006, Chi Chi Wu, National Consumer Law Center and "One Step Forward, One Step Back: Progress Seen in Efforts Against High-Priced Refund Anticipation Loans, but Even More Abusive Products Introduced", 2007, Chi Chi Wu, National Consumer Law Center and Jean Ann Fox, Consumer Federation of America.

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¹³ "Analysis of GAO Study of EITC Eligibility and Participation", Leonard E. Burman and Deborah Kobes, 2002, Urban Institute.

¹⁴ "Participation in the Earned Income Tax Credit Program For Tax Year 1996", IRS - Small Business Self Employed Research, 2002, Internal Revenue Service.

15 See for example “EITC Interactive: User Guide and Data Dictionary”, Alan Berube, The Brookings Institution, <http://www.brookings.edu/metro/EITC/EITC-Data.aspx> [accessed February 2010].

16 The Jacob France Institute of the University of Baltimore in its 2004 study “The Importance of the Earned Income Tax Credit and Its Economic Effects in Baltimore City” assumes that two-thirds of the payments made to city residents were re-spent within the City. Similarly, John Haskell at Vanderbilt University in his 2006 study “The State of the Earned Income Tax Credit in Nashville: An Analysis of Economic Impacts and Geographic Distribution of the ‘Working Poor’ Tax Credit, TY 1997-2004” assumes that 87% of the EITC disbursements would be spent within the Nashville region.

17 Minnesota IMPLAN Group, Inc. was founded in 1993 by Scott Lindall and Doug Olson as an outgrowth of their work at the University of Minnesota starting in 1984. This developmental work closely involved the U.S. Forest Service's Land Management Planning Unit in Fort Collins and Dr. Wilbur Maki at the University of Minnesota. Currently, there are over 1,500 active users of IMPLAN databases and software globally.

18 Internal Revenue Service, “Compliance Estimates for Earned Income Tax Credit Claimed on 1999 Returns”, 2002. <http://www.irs.gov/pub/irs-soi/00eaitc.pdf> [accessed February 2010]

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