

EARNED INCOME TAX CREDIT OUTREACH

Submitted to:

The Committee on Ways and Means

Submitted by:

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On behalf of the National Council of La Raza (NCLR) – the largest national Hispanic* civil rights and advocacy organization in the United States – I submit this statement for the hearing entitled, “Earned Income Tax Credit Outreach.” NCLR serves all Hispanic nationality groups in all regions of the country and reaches millions of Hispanics each year through its network of nearly 300 affiliated community-based organizations (CBOs). NCLR is not a direct service organization, but instead works to make macro-level changes in the Hispanic community. During the past decade, NCLR, through its Washington, DC-based Policy Analysis Center, has focused on efforts to close the wealth gap and improve the economic status of Latinos. As part of this effort, a significant amount of focus has been on preserving and protecting the EITC for families and improving the EITC to more effectively reach working Latino families. This includes addressing barriers that Latinos face in accessing the EITC and promoting effective use of the EITC to enhance self-sufficiency of Latino workers.

Population Trends in the Latino Community

Latinos are the fastest-growing minority group in the United States. Currently numbering nearly 43 million, Latinos constitute more than 14% of the United States population. In addition, it is projected that by 2050 Latinos will make up nearly one-fourth of the nation’s total population and number 102.6 million. Also, Latinos are participating in the labor force at higher percentages than the overall population. In 2006, nearly seven in ten Latinos able to work were in the labor force, compared to 66.2% of all workers.¹ This in large part could be attributed to Latinos being a young population, with a median age of just over 27 years, which is nine years younger than the overall population with a median age of just over 36 years.² Despite their comparably stronger labor force participation rates, Latinos experience lower income levels than other groups. In 2005, the median income of Latino households was \$35,967, compared to \$50,784 for non-Hispanic Whites. This places many Latino families into the eligibility bracket to qualify for the EITC. Each year, more than one-third of Hispanic households benefit from this credit. Furthermore, the EITC refund alone has the potential to be as high as \$4,536 this year, keeping many families from falling into poverty.

Barriers to Accessing the EITC for Latinos

NCLR’s Issue Brief, *Hispanic Families and The Earned Income Tax Credit*, found that the credit reduces and, in most cases, eliminates the burden of the payroll tax on low-wage workers, directly lifts many families and children above the poverty line, creates a strong work incentive for workers at or near poverty, and provides low-income families with children a chance to become economically and socially mobile. However, distinct barriers to the EITC exist for many workers. The IRS acknowledges that approximately 20-25% of potentially eligible taxpayers are not participating in the EITC. Data also indicate that these taxpayers are more likely to be Hispanic, given their median income.

Some of these barriers include:

* The terms “Latino” and “Hispanic” are used interchangeably by the U.S. Census Bureau and throughout the document to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.

- **Tax Liability.** Low tax liability correlates with a worker being less likely to file taxes and thereby less likely to benefit from credits such as the EITC. One of the challenges inherent in the structure of the EITC is that the taxpayer must file taxes and demonstrate qualification for the EITC. Yet, low-income workers who have no tax liability are precisely those the EITC is meant to reach.
- **Knowledge.** Knowledge of the EITC differs by race and ethnicity. In one survey of low-income parents, 27.1% of the Hispanic parents had heard of the EITC, while 68.0% of non-Hispanic Black parents and 73.5% of non-Hispanic parents had heard of it.³ Given that Hispanic workers tend to have lower incomes, this knowledge barrier must be addressed.
- **Eligibility Rules.** Current law requires taxpayers to have a valid Social Security number, have earned income, have citizenship or resident alien status or be married to someone with that status, have a qualifying child, or meet other qualifications. Thus, immigration status can contribute to Latinos' uncertainty about qualifying for the EITC, which ultimately affects participation. Unfortunately, current efforts to strip tax benefits from legal immigrants have done little to respond to this concern. One study found that among low-income immigrant parents, naturalized citizens were more likely to know about the EITC than noncitizens (37.9% and 21.6%, respectively), but both groups were significantly less likely to know about the EITC when compared to native-born U.S. citizen parents (73.2%).⁴ Some reasons given by immigrants for not filing for the EITC include unfamiliarity with the tax benefits offered to low-income workers and fear that they will owe taxes to the government despite qualifying for tax refunds such as the EITC. Furthermore, limited English proficiency can also diminish the likelihood of participation by immigrant workers.⁵ Given that approximately 40% of the U.S. Latino population is made up of immigrants, it is clear that more emphasis must be placed on reaching Latino workers in a targeted fashion.⁶
- **Participation in Government Programs.** Take-up of the EITC benefit directly correlates with lower participation in anti-poverty programs. For working Hispanic families, the direct correlation between less knowledge of the EITC and less knowledge and use of other federal benefits programs for low-income families resonates strongly. Parents who have received federal benefits – such as Aid to Families with Dependent Children (AFDC)/ Temporary Assistance for Needy Families (TANF) or food stamps – even if they no longer use these programs, show a greater likelihood of knowledge of the EITC.⁷ However, Latinos who are eligible for these programs often are not accessing them, which leads to lower participation in the EITC. For example, data show that only half of eligible Latinos are accessing the Food Stamp Program, and, as one expert noted, 75.1% of past Food Stamp Program participants also received the EITC.⁸ It also should be noted that once a worker is enrolled in a federal assistance program, the case worker or others in the program may inform participants of other benefits, such as the EITC. The Hispanic experience

of not accessing programs, although eligible, paints a challenging picture in terms of expanding EITC outreach.

EITC Outreach Strategies that are Effective for Latinos

Latinos clearly benefit from the EITC, which can help them to save and pay off household debt, and EITC outreach strategies that target the Latino community can significantly contribute to closing the wealth gap. Some ways that have been effective in reaching Latinos include:

- **Partnerships on Outreach and Promotion with Community-Based Organizations.** Tax-related information is often not appropriately conveyed to Hispanic working families. Workers need to be able to ask questions about how the EITC works and whether they qualify – without fear of negative immigration consequences – and efforts should be made to inform Latino workers of benefits they may qualify for when filing their taxes.
- **Local CBOs are ideal partners.** These organizations are trusted sources of information within the community. To help build the capacity of CBOs to respond to requests for information, each year NCLR partners with the Center on Budget and Policy Priorities to mail the EITC campaign kit to NCLR's nearly 300 community-based Affiliates. These kits provide our Affiliates with basic knowledge about the EITC and how families can claim the benefit. In addition, within the NCLR Affiliate Network, some of the CBOs are engaged in tax preparation services precisely to help Latinos understand and access the tax system as a potential asset-building device. Working with CBOs in ways that are strategic and soliciting feedback from CBOs on how the EITC could work more effectively would go a long way in reaching more Latino workers.
- **Tax Preparation Sites.** The EITC has been criticized for the layer of complexity it adds to a complicated tax system, which leads to greater reliance on paid tax preparers and tax preparation sites.⁹ Yet, this presents a twofold challenge. The first is that the tax preparation site must be viewed as accessible to the Hispanic community. This requires having bilingual capacity, an understanding of how provisions in the tax code may apply to immigration status, and a site location in the community which has hours that are convenient for Latino workers beyond the traditional 9-5 business hours. The second is that tax preparers must have knowledge of the EITC and be able to explain how it works. One expert found that use of a preparer can increase knowledge of the EITC and other tax provisions, but could reduce knowledge if the preparer fails to share the information or the worker does not know about the credit to ask for it.¹⁰ Tax preparation sites should be on notice to ask questions governing EITC eligibility for working families in the community. It should also be noted that current efforts to simplify the EITC can have the adverse consequence of cutting more Latinos out of the program. Efforts should be undertaken not to place further barriers to Latino participation in the EITC.

Moreover, tax preparers should also be aware that qualifying for the EITC program may place workers squarely in the income bracket to qualify for other government programs and should provide that information as well.

- **Media Efforts and Strategies that Include Employers.** The power of Spanish radio cannot be underestimated for reaching the Hispanic community. However, brief announcements or advertisements will not engage workers enough to inquire about the EITC when preparing taxes. It is important to have someone available who can answer callers' questions and respond to specific concerns. Hispanics who are curious about the EITC and wish to learn more will want to be able to talk to an expert about how the EITC program works. The importance of having trained bilingual/ bicultural staff is critical to media outreach, but it must be substantive to engage people in talking about the potential tax benefits for low-income and Latino workers. Those who outreach to Hispanic media about the EITC will also need to be able to explain how the tax code applies to a household's immigration status.

In addition, it would be helpful to develop strategies that include employers since EITC receipt means that a family member is working. Thus, the workplace is an appropriate place to expand EITC outreach efforts. Specifically, it would be beneficial to reach out to industries where workers are likely to be earning a salary that might place them into the EITC eligibility bracket. Employers could share information when W-2s are distributed for tax purposes, or throughout the year. In this way, perhaps more employees would develop knowledge of the EITC and even take advantage of the Advanced EITC. Also, by increasing employees' awareness of availability of tax refunds based on income, employers also might experience better employee tenure.

Conclusion

The EITC is one of the most effective government anti-poverty efforts. It provides a strong incentive to work and, if the refund is saved, could potentially lead many working families to greater economic self-sufficiency. However, it remains a fairly complex part of the tax code, especially for a worker group with low tax liability who may not even file. As a result, more must be done to ensure that eligible people are claiming the EITC. Many eligible Latino families are foregoing this tax benefit; thus, more targeted outreach efforts should be undertaken to reach them. This means having the appropriate elements in place to address limited English proficiency and the intersection between the tax code and immigration status. NCLR looks forward to working to expand access and use of the EITC program.

¹ U.S. Department of Labor, Bureau of Labor Statistics, Table 3. Employment status of the civilian noninstitutional population by age, sex, and race. Household Data Annual Averages. Available at <http://www.bls.gov/cps/cpsaat3.pdf>; and U.S. Department of Labor, Bureau of Labor Statistics, Table 4. Employment status of the Hispanic or Latino population by age and sex. Household Data Annual Averages. Available at <http://www.bls.gov/cps/cpsaat4.pdf>.

² U.S. Census Bureau, *Facts for Features: Hispanic Heritage Month Sept. 15-Oct. 15, 2006*. Available at: http://www.census.gov/Press-Release/www/releases/archives/facts_for_features_special_editions/007173.html

³ Maag, Elaine, *Disparities in Knowledge of the EITC*. Washington, DC: Tax Policy Center, Urban Institute and Brookings Institution, 2005.

⁴ Phillips, Katherin Ross, *Who Knows About the Earned Income Tax Credit?* Washington, DC: Urban Institute, 2001. Series B, No. B-27.

⁵ Berube, Alan, *¿Tienes EITC? A Study of the Earned Income Tax Credit in Immigrant Communities*. Washington, DC: Brookings Institution, 2005.

⁶ *Facts for Features: Hispanic Heritage Month Sept. 15-Oct. 15, 2006, op. cit.* Calculation done by the National Council of La Raza.

⁷ *Who Knows About the Earned Income Tax Credit? op. cit.*

⁸ *Ibid.*

⁹ Maag, Elaine, *Tax Preparation for Low-Income Households, Knowledge of the EITC*. Washington, DC: Tax Policy Center, Urban Institute and Brookings Institution, 2004.

¹⁰ Maag, Elaine, *Paying the Price? Low-Income Parents and the Use of Paid Tax Preparers*. Washington, DC: Urban Institute, 2005. Series B, No. B- 64.