

COMMONWEALTH INSIGHTS



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Massachusetts Nonprofit
Network
2017 First Edition

Doing More Good: Making the Most of the Earned Income Tax Credit (EITC)

Few issues cut across the nonprofit sector like the issue of opportunity, and few policies that increase opportunity are as impactful as the Earned Income Tax Credit (EITC). The federal and state EITCs provide a cash supplement to the income of low-wage workers. However, not everyone who is eligible for the EITC receives it.

That problem is especially acute during tax season, when people apply for and receive the EITC. This edition of Commonwealth Insights highlights the benefits of the EITC, the gap between actual and eligible recipients, EITC resources in Massachusetts, and the steps needed to spread its benefits to as many low-wage workers as possible.

Because of the work nonprofits do in communities, they are in a unique position to help make the most of the EITC. So this edition of Commonwealth Insights also represents a call to nonprofits—to scan the range of people they work with, identify those who might be eligible for the EITC, and direct them

What Needs To Be Done:

- Increased tax season outreach – By nonprofits, government offices, and civic-minded organizations
- Expanded availability to vulnerable populations
- Improved payment plans and state match

Why Is the EITC Important:

- It's one of the most powerful anti-poverty programs available
- In Massachusetts, over 100,000 who are eligible don't yet utilize the EITC
- Approximately 1 of every 3 children in Massachusetts lives in an EITC-eligible household

THE BENEFITS OF THE EITC

to resources to help them claim the credit.

The federal EITC has become a lifeline that millions of families depend on each tax season. As the table on page 2 indicates, it provides a powerful boost to income—as much as \$7,700 per year for a family with three children.

In addition to increasing earnings and encouraging employment, the EITC has been shown to boost Social Security benefits and improve health outcomes, particularly for children and mothers. People who receive the EITC often use it to pay bills, save for emergencies, buy food, and pay down debt.

The EITC is a refundable tax credit, so recipients benefit from it even if they have no tax liability. The amount of the credit depends on claimants' marital status, their income earned during the tax year, and their number of dependent children. In 2015, more than 26 million eligible workers and families received more than \$67 billion from the EITC program. Nationwide in 2015, the EITC lifted about 6.5 million



The United Way of Pioneer Valley (UWPV) works with local organizations to provide free tax assistance services

Massachusetts Eligibility for the EITC

Eligibility for the EITC and refund amount depends on family size and earned income:

If you or your family has:	With earnings less than:	Then you can receive up to:
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No "qualifying children"	\$20,430	\$622
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One qualifying child	\$44,846	\$4,149
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Two qualifying children	\$50,198	\$6,854
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Three or more qualifying children	\$53,505	\$7,711
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For more information on eligibility visit:
www.irs.gov/credits-deductions/individuals/earned-income-tax-credit

people out of poverty, including about 3.3 million children.

Massachusetts offers a state EITC credit equal to 23 percent of the federal amount. Enacted by Massachusetts in 1997, the EITC match operates under the same eligibility as the federal EITC and was increased on January 1, 2016 from 15 percent.

According to IRS data, in 2015, there were a total of 398,000 Massachusetts EITC claims totaling \$838 million, with an average EITC amount of \$2,107. In Massachusetts, approximately 1 out of every 3 children lives in an EITC-eligible household.

WHO IS NOT RECEIVING THE EITC?

The most recent IRS data on utilization rates shows that in 2013, 79.8% of those eligible for the EITC in Massachusetts took advantage of it. That is nearly the same as the national average of 80%. It means that each tax season, nearly 100,000 EITC claims go unfilled. So more than 100,000 Massachusetts residents miss out on EITC benefits (since many tax filings are for multi-person households). If the average benefit level of those residents is the same as people who receive the EITC, the result is at least \$200 million in uncollected EITC benefits in Massachusetts each year.

Studies and surveys have found a range of reasons why some who are eligible do not claim the EITC. They include lack of awareness of the EITC, not knowing of or being able to access assistance, misunderstanding of eligibility requirements, distrust in the IRS, limited English proficiency, and lack of a high school degree, among others. And because great strides have been made in closing the gap, the 15 to 20 percent who continue to not claim the EITC are often the most challenging to reach.

In addition, the use of paid "rapid refund" tax assistance costing hundreds of dollars can offset EITC benefits. While taxpayers are free to utilize any available assistance program, some aren't aware of free tax services—making it all the more important to let low-income residents know about them.

**MISSED
OPPORTUNITIES**

BY THE NUMBERS

**100,000 +
\$200 MILLION**

eligible Massachusetts residents **don't benefit from** the EITC each tax season

in EITC benefits go **uncollected** in Massachusetts each year

WHAT NEEDS TO BE DONE?

What can EITC supporters, the nonprofit sector, and government leaders do to help ensure that all who need it benefit from the EITC?

Increased Tax Season Outreach – By nonprofits, government offices and civic-minded organizations

There is considerable outreach done to promote the EITC—and more is needed, particularly during tax season.

MNN calls on nonprofits across the Commonwealth to think broadly about people who could benefit from the EITC, and alert them to it. Some nonprofits will have clients who are eligible for the EITC. Some will realize that people they interact with in other capacities (e.g. volunteers) are eligible. Nonprofits can connect both types of people with local coalitions and organizations that provide free tax assistance.

Tools that make it easy to find assistance are outlined in the “Keys to Success” box in this report. Broad-based, nonpartisan collaborations like the Healthy Families EITC Coalition bring together community-based agencies, legal advocates, nonprofits, and associations, to concentrate on increased impact of the EITC and improving the health and well-being of Massachusetts families. Other coalitions, such as the Boston Tax Help Coalition, maximize the impact of the EITC by bringing together nonprofits, businesses, and other community organizations in order to promote economic independence and financial empowerment. Similar coalitions exist across Massachusetts.

Government offices, including the Massachusetts Department of Revenue and other state agencies, play a key role in EITC outreach efforts. Many who are eligible for the EITC qualify for other state programs, which bring them into contact with state agencies. Information on EITC eligibility should be provided wherever possible. State and local elected officials can—and do—help maximize the impact of the EITC. This can include participation in district events leading up to the April 15th filing deadline, and providing constituents with eligibility information (including names and addresses of sites within the district providing free tax preparation services).

Civic-minded organizations, including many businesses, are also well-positioned to help spread



Keys to Success – EITC Resources in Massachusetts

There are many organizations across Massachusetts—in the nonprofit, government, civic and business sectors—that provide or can help people find EITC assistance. They include social service agencies, Community Action Councils, senior citizen centers, United Ways, and some public libraries, schools and community colleges.

One of the best tools for finding a free tax preparation site near you is on the web at <https://masscashback.ehs.state.ma.us/>. Just enter a town or zip code, and it provides a list of options with contact information for each one and a map.

There are great networks of free tax preparation services across the state, including the Volunteer Income Tax Assistance (VITA) program. It operates hundreds of sites throughout Massachusetts, offering free tax help to people who generally make \$54,000 or less, persons with disabilities, and limited English proficiency taxpayers who need assistance in preparing their own tax returns. VITA sites can be found by going to <http://irs.treasury.gov/freetaxprep/> or calling 800-906-9887.

the word about the EITC. Like nonprofits, many work with people who are eligible for the EITC. And various types of government-mandated workplace information (labor law posters, paycheck inserts, etc.) can provide vehicles for alerting people to the EITC opportunity.

All of the aforementioned parties are in tune with their communities' needs, have the trust of those they serve, and are capable of making a difference in the lives of people eligible to receive the EITC.

Expanded Availability to Vulnerable Populations

To qualify for the maximum refund under EITC, filers must be a head of household or filing jointly. This presents a safety issue for abandoned spouses and survivors of domestic violence. For them filing jointly, which requires joint spousal access to financial records and joint signatures on a return, can present a grave risk. It is essential that these especially vulnerable populations are able to safely access the EITC. A bill filed in the Massachusetts Legislature would ensure that abandoned spouses and survivors of domestic violence, who are typically unable to file joint tax returns, could still qualify for and benefit from the EITC program.

Improved Payment Plans and State Match

There are two ways to make EITC payments more impactful for those who receive them. First, mechanisms for periodic monthly or quarterly payment of EITC benefits should be developed. Today EITC benefits are distributed in a once-per-year lump sum. The option of periodic payments would match EITC benefits more closely to the ongoing needs that many recipients have as they live paycheck to paycheck. Second, as state revenues grow in the years ahead the state EITC match should be increased. The increase could be phased in or linked to economic growth benchmarks.

An enhanced EITC has widespread benefits—for recipients, and also for the economy and Commonwealth as a whole since it increases rewards



for work. It pulls more people into the labor force, strengthening families and communities alike.

CONCLUSION

The nonprofit sector is in a unique position to help make the most of the EITC. Every day nonprofits serve, and work with, residents who are eligible for the EITC but do not yet receive it. The immediate priority is outreach during tax season. In some cases, just letting people know about the EITC is sufficient. In other cases, helping people connect with free tax assistance services is the key.

The nonprofit sector should be a key player in this outreach. And partnerships between nonprofits, businesses, community organizations, and governments must be supported and expanded. MNN will continue to work with leaders in all sectors to help extend the EITC opportunity to everyone who is eligible.

About the Massachusetts Nonprofit Network

MNN is the only statewide organization that brings together nonprofits, funders, business leaders, and elected officials to strengthen nonprofits and raise the sector's voice on critical issues. The network has more than 650 nonprofit member organizations and more than 100 for-profit affiliate partners. To join visit massnonprofitnet.org/join.

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