

Asset Building at Tax Time in Minnesota: Scaling Up Volunteer Income Tax Assistance

The Earned Income Tax Credit (EITC) helps low-income families retain more of their hard earned wages by returning a portion of their taxes.

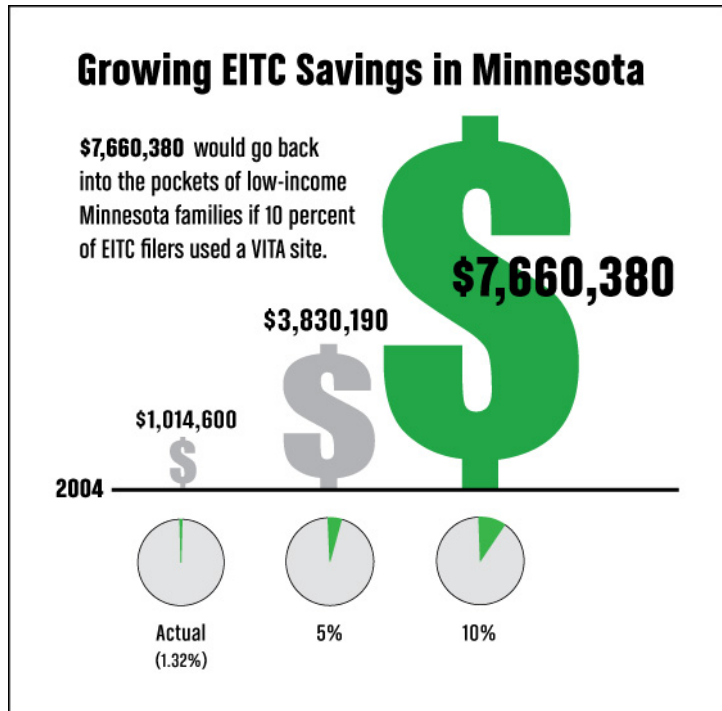
Most families that receive the EITC rely on commercial tax preparers. With the addition of a Refund Anticipation Loan (RAL), the cost of using a commercial preparer averages \$300.

Volunteer Income Tax Assistance (VITA) sites, authorized by IRS, prepare tax returns for low-income families for free, and this often includes rapid-refund service.

In 2004, community VITA sites around the United States provided free tax service to less than 1 percent of all people who receive the EITC, largely because sites do not have the resources to meet customer demand.

The following totals are for the 2004 Tax Year in Minnesota:

- \$402,592,545 was the total EITC benefits received by Minnesota taxpayers. **Nationwide, EITC benefits amounted to \$39.76 billion.**
- 11% of Minnesota taxpayers received the EITC.
 - 13.6% (avg.) of rural households received the EITC (\$1,604 per household avg.) **Nationwide, rural households received 20.4%/ \$1,850 per household.**
 - 9.8% (avg.) of urban household received the EITC (\$1,563 per household avg.) **Nationwide, urban households received 16.3%/ \$1,831 per household.**
- 65.4% of Minnesota taxpayers who received the EITC used a paid preparer. **Nationwide, 70.6% of taxpayers used paid preparers.**
- \$29,045,850 was spent by Minnesota EITC recipients on commercial tax preparation services. **Nationwide, EITC recipients spent \$2.9 billion on commercial tax preparation services.**
- 1.32% of EITC recipients in Minnesota used a community VITA site. **Nationwide, 0.96% of EITC recipients used a community VITA site.**
- \$1,014,600.00 was saved by Minnesota EITC recipients who used community VITA sites. **Nationwide, \$62.7 billion was saved by EITC recipients who used community VITA sites.**



Sources

Total EITC benefits received:

Brookings Institution, Metropolitan Policy Program, Interactive EITC:
<http://www.brookings.edu/projects/EITC.aspx>

Share of taxpayers receiving EITC:

Children's Defense Fund (2007), *Keeping What They've Earned: Tax Credits for Working Families*: http://www.childrensdefense.org/site/DocServer/RAL_report_US.pdf?docID=3945

Based on Internal Revenue Service SPEC Information Database

Rural and urban breakdown:

William O'Hare and Elizabeth Kneebone (2007), *EITC is Vital for Working Poor Families in Rural America*, Carsey Institute: http://www.carseyinstitute.unh.edu/FS_EITC_07.htm

Based on Brookings Institution analysis and Internal Revenue Service data

Percentage of EITC filers using tax preparation services:

Children's Defense Fund (2007), *Keeping What They've Earned: Tax Credits for Working Families*: http://www.childrensdefense.org/site/DocServer/RAL_report_US.pdf?docID=3945

Based on Internal Revenue Service SPEC Information Database

Money spent of tax preparation services:

Children's Defense Fund (2007), *Keeping What They've Earned: Tax Credits for Working Families*: http://www.childrensdefense.org/site/DocServer/RAL_report_US.pdf?docID=3945

Based on \$150 average tax preparation fee and a \$100 average RAL fee

Percent of EITC filers using VITA:

Brookings Institution analysis and Internal Revenue Service data

Savings based on scaling up VITA usage to 5-percent and 10-percent:

Bread for the World Institute calculation based on \$300 average tax preparation fees.