



Center for Public Policy Priorities

**House Committee on Government Reorganization
HB 630, relating to the provision of federal earned income tax credit materials to certain health and human services and Texas Workforce Commission clients.**

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The Center for Public Policy Priorities offers the following comments in support of HB 630.

Importance of the Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) offers one of the best opportunities to increase the incomes of working families and help them be economically self-sufficient. At a time of enormous fiscal constraints on our state budget, the EITC stimulates hard-pressed urban and rural communities. The EITC can also provide an excellent opportunity for working families to invest in the future by saving for a home, a higher education, or a small business. Each of these families' investments is also an investment in the Texas economy.

In 2003, the Texas economy and working families lost out on nearly \$1.2 billion in unclaimed federal Earned Income Tax Credits (EITC). Although Texans claimed over \$4 billion through the EITC, nearly one-quarter of eligible workers—580,000 Texans—did not claim their refunds. Leaving \$1.2 billion in unclaimed EITC refunds in Washington is not just a huge loss for hard-working Texans; it is a missed opportunity to invest in Texas and to stimulate local economies. The following table shows the amount of EITC claimed in 2003 and the estimated unclaimed EITC by county.

County	Amount of EITC claimed	Estimated Unclaimed EITC	Percentage of EITC Not Claimed
Bexar	\$315,708,561	\$87,140,495	22%
Bowie	17,915,974	4,755,957	21%
Cass	6,418,735	1,690,490	21%
Dallas	384,237,358	118,412,447	24%
Hidalgo	268,138,895	55,794,708	17%
Liberty	13,536,663	4,210,643	24%
Marion	1,874,384	472,501	20%
Montgomery	38,582,395	12,923,872	25%
Morris	3,177,664	853,554	21%
Nolan	3,514,950	931,061	21%
Polk	8,041,795	2,357,410	23%
Taylor	24,202,152	6,944,702	22%

Free tax filing assistance and financial education is vital to maximize the impact of the EITC
 HB 630 will increase EITC filings by educating eligible taxpayers about the credit and directing them to free tax preparation assistance. IRS data indicate that more than 60 percent of individuals filing for the EITC use commercial tax filing services. In Texas, the percentage of EITC filers using paid tax preparers is higher, at 72%. For the nearly 1.5 million Texans who use EITC, the average tax preparation fee ranges from \$85-\$105. An estimated \$142 million is drained from working families for tax preparation fees alone.

County	Number of returns	Percentage of returns prepared by paid preparers
Bexar	158,991	67%
Bowie	8,943	71%
Cass	3254	76%
Dallas	201,645	73%
Hidalgo	108,645	80%
Liberty	7,092	71%
Marion	960	79%
Montgomery	20,390	66%
Morris	1,612	70%
Nolan	1,797	82%
Polk	4,172	77%
Taylor	12,762	72%

Of the approximately two million EITC returns statewide, over 900,000 filers (45%) used “refund anticipation loans”(RALs)—whereby a tax preparer loans a taxpayer his/her EITC refund in advance at a high interest rate. RAL fees can amount to as much as half of a taxpayer's total refund. The percentage of Texas EITC filers that used RALs in tax year 2002 was high compared to other states. Of the 10 most populous states, Texas had the second highest rate of RAL use, following Georgia. (Go to the website of the Brookings Institution at <http://www.brookings.edu/es/urban/eitc.htm> to view and download zip code-level information on the percentage of EITC filers who used RALs in tax year 2002.)

Get The Latest Texas EITC and Asset Building Information

Just in time for tax season, the Center for Public Policy Priorities announces its Family Asset Building Project, an effort to help low-and moderate-income families build financial security through assets, savings, and financial literacy. [Click here](#) to access our full line of publications.