

EITC Funders Network

Funders Briefing and Luncheon

Sunday, August 30, 2009 ~ 12:00 pm – 5:00 pm ~ San Antonio, Texas

Meeting Notes

Developments in Tax-Based Strategies to Help More Low-Income Families Reach Economic Security—The EITC, Child Care Tax Credit, Making Work Pay Tax Credit and more

Elizabeth Kneebone, Senior Research Analyst, Brookings Institution

The Brookings Institution presented information on the substantial data resources they have available to help communities customize and maximize their EITC and free-tax preparation strategies. The data is hosted on the website: www.brookings.edu/metro.

Presentation Highlights

Background on EITC:

- With the growth of EITC, the tax code is becoming increasingly important as an anti-poverty tool. EITC has been expanded four times since it began in 1975—under both Democratic and Republican administrations—six including the temporary 2009 ARRA bill.
- Federal expenditures on the refundable EITC and CTC now surpass those for traditional anti-poverty programs.

Effects of the EITC:

- 2006 EITC filers claimed a total of \$43.7 billion through the credit. The majority of these filers are in the southern US.
- EITC dollars stimulate state and local economies through the “multiplier” effect— if for every \$1 in EITC funds received, \$1.50 ends up being generated locally, low-income neighborhoods are effectively gaining as much as \$18.4 billion annually through the EITC.

Maximizing the EITC’s Benefit:

- According to the most recent state estimates (based on 1996 data), only 75% of those eligible for EITC claim the credit. Many eligible filers don’t know about available credits, some low-income families may fear that they’ll owe taxes, and so don’t file, others may know about the credits, but fear that they’ll lose eligibility for other benefits.
- Compounding this is use of paid preparers, and the use of paid preparers remains high among low-income taxpayers—in Alabama, 77% of EITC filers used a paid preparer. Additionally, almost 29% of EITC filers also paid for a refund loan in 2006.
- Since 2000, the total number of filers using volunteer tax preparation services has grown by 112%, while the number of EITC filers increased 217%.
- Knowing the data on filers in your community can help with targeting, goal-setting, and outreach. Data posted on the Brookings’ website can be used to:
 - Explore tax return data from 1997-2006—the 2007 data will be available in late fall/early winter.
 - Explore data within a geographic area—based on zip data from the IRS. The data is presented at different geographic levels—zip area, town or city, county, metro area, and state. A new feature is the addition of state legislative districts (both upper and lower chambers) and congressional districts.

Visit us on the web: www.eitcfunders.org

- Once the geographic area has been selected, the data set is chosen. You can choose data on all tax filers or EITC filers and choose which variables to view. Options include EITC filers, new filers, CTC filers, returns with refund products and ACTC filers.
- One way to access a range of information on the tax filing population is through Brookings' EITC Interactive website, and now you can choose to see your data mapped for free through Policy Map's online mapping tool. Policy Map's tools will potentially help funders direct efforts to areas where most EITC-eligible families are living.
- You can also find state- and metro-level profiles of the EITC-eligible population on the Brookings Institute's website, which can further help inform targeting and outreach efforts.

Changes to the EITC:

- The American Recovery and Reinvestment Act made some important changes to the tax code that impact low-income workers and their communities:
 - Expansions to EITC: ARRA reduces the marriage penalty for married couples filing jointly by pushing the phase-out back \$2,000. It also creates a third tier for families with 3 or more children, boosting their maximum credit by \$600 to \$5,657.
 - Expansions to the Additional Child Tax Credit: ARRA lowers the income floor for the refundable portion of the CTC from \$8,500 to \$3,000, expanding eligibility and increasing the potential refundable credit amount for millions of low-income families
 - Creation of the Making Work Pay Credit: ARRA creates a new refundable tax credit available to most workers (though they must not be claimed as someone else's dependent and must have a valid social security number). The maximum benefit is \$400 for single workers and \$800 for married couples.
- One group is left out of the expansions—workers without children, approximately 17% of EITC filers.
- Brookings is also in the process of tracking recession data to see how eligibility pools are shifting—the Metro Monitor looks at foreclosures, employment, etc.
- ARRA strengthens the EITC in two important ways, but more can be done to make the EITC for workers without qualifying children more effective. Two proposals are on the table:
 - Proposal 1: Would boost the average benefit for existing EITC-eligible workers from \$254 to \$655, and newly eligible workers would see an average benefit of \$360. Enacting Proposal 1 would benefit 8.3 million tax filers in the U.S. and extend eligibility to 2.1 million filers.
 - Proposal 2: Would boost the average EITC for previously eligible workers to \$891 and give the newly eligible an average credit of \$699. Enacting proposal 2 for workers without qualifying children would benefit 13.3 million tax filers in the U.S. and extend eligibility to 7.1 million filers.
- The Brookings Institute believes that in addition to expanding the credit, the Advance EITC should be overhauled to make it a more viable option for low-income workers.

Philanthropy and Policy Change: What are the roles of charitable foundations? What are the rules for philanthropy and our nonprofit partners?

Abby Levine, Deputy Director of Advocacy Programs, The Alliance for Justice

As foundations examine the tools available to them and their grantees in order to reach their program goals, many struggle with the issues of advocacy and lobbying. The Alliance for Justice works to provide the information that people need so they can better support the issues they care about. Their presentation examined the rules of tax-exempt organizations and the boundaries of lobbying and advocacy. AFJ has many resources available on their website, <http://www.afj.org/>, and offers workshops, free TA with a toll

Visit us on the web: www.eitcfunders.org

free phone number and dedicated email address, and an online database of state-level rules on lobbying, ballot measures, etc.

Presentation Highlights

- There are two branches of 501(c)(3) organizations—the first branch is that of public charities and charitable foundations, the second is private foundations.
 - Public charities and charitable foundations—may engage in or fund lobbying (within limits). Advocacy is without limits.
 - Private Foundations—lobbying expenditures are subject to tax. However, they may engage in non-lobbying advocacy.
- Advocacy comes in many forms—public education efforts, non-partisan political activity, building relationships with legislators. These are allowed.
- How is lobbying defined? Very few activities are inherently defined as lobbying. What matters is how you structure the activities.
- There are two types of lobbying:
 - Direct—direct communication with a legislator expressing a view about specific legislation (this includes bills, pending bills and specific legislative solutions, it does not include talking about the success of existing legislation).
 - Grassroots—communication with the general public expressing a view about specific legislation, which includes a “call to action.” Without a “call to action,” it is not defined as lobbying. Calls to action include, contact your legislator language, provide contact information, provide a list of legislators, ask people to sign a petition, etc.
- The lack of clarity around lobbying makes people too cautious.
- The tax on lobbying for private foundations basically means that lobbying is impossible for them. However, there are many tools that a private foundation has available to them and roles that they can play in efforts to change policy. Private foundations need to be clear about what they are trying to accomplish and what strategies can be used aside from the very specific activities within the definition of lobbying. For example, if the same goals can be achieved through an executive order, this is not lobbying; if a bill passes and then goes to a specific agency for interpretation, this is not lobbying.
- Foundation funding:
 - Public charities, including public and community foundations, may lobby. However, this work must be proven to constitute an insubstantial part of their work. This insubstantial test can be completed by estimate (5% seems to be an accepted figure), or through a 501(h) expenditure test (the recommended process).
 - A grant earmarked for lobbying counts against a public foundation’s lobbying limits.
 - Private foundations can fund advocacy, but cannot earmark grants for lobbying.
- There are two ways that private foundations can fund organizations that lobby:
 - Through general support grants.
 - Through specific project grants—in this scenario, grants can be made for the non-lobbying portion of the program. They can be made by multiple foundations.