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**Metropolitan
Policy
Program**

Changes to Tax Code Would be Boon for Cities and Suburbs

*New Brookings Report Proposes EITC Expansions and
Provides First-Ever Estimates of How Changes Would Benefit Local Communities*

WASHINGTON, D.C. – An estimated 8.4 million lower-income American workers and families in the nation's 100 largest metropolitan areas would benefit from targeted changes to the Earned Income Tax Credit (EITC), the most effective federal policy tool for pulling working people out of poverty.

"Metro Raise: Boosting the Earned Income Tax Credit to Help Metropolitan Workers and Families," part of the Brookings Metropolitan Policy Program's *Blueprint for American Prosperity* initiative, provides first-ever estimates of how proposed changes to the federal EITC would benefit lower-income tax filers in local communities across the United States. The report calls on Congress and the administration to increase tax relief for certain categories of lower-income tax filers, including childless workers, dual-earner couples, and families with three or more children, who are currently underserved by the EITC. The report also calls for changes in the way EITC payments are made to provide tax relief throughout the year, rather than in a single payment.

The EITC, a federal income tax credit for low-income working individuals and families, has gained bipartisan support over the years largely due to the fact that it encourages work. Only workers are eligible to receive the EITC; more than 22 million lower-income working families claimed \$43 billion in credits in 2006. Research has found that the EITC also provides an economic stimulus to local communities as the refunds are spent and placed back into the economy. This is especially true in the large metropolitan area - collections of cities and suburbs - in which 60 percent of EITC filers live.

"The EITC is widely regarded as a success story for working low-income Americans. It encourages work, helps families make ends meet, and strengthens local communities," said Alan Berube of Brookings, lead author of the report. "However, the EITC could do much more for certain groups of low-wage workers. Making these expansions would help close the growing gap between wages and costs of living, which is most pronounced in America's major metropolitan areas."

The "Metro Raise" report recommends that Congress make the following expansions to the EITC:

- **Increase the EITC for Childless Workers**

Currently, workers without qualifying children (including many non-custodial parents) may qualify for an EITC only one-tenth the size of that for families with children (a maximum of \$438 in 2008). A larger EITC could help increase work among less-educated young men, whose employment rates have declined over the past 20 years. Boosting the EITC for these workers would also alleviate their federal tax burden. Single workers at the poverty line (about \$11,000) are actually taxed *deeper into poverty* by federal income and payroll taxes (approximately \$949 in 2008).

The proposal outlined in the report would effectively triple the size of the childless worker credit. An estimated 4.1 million workers in the nation's 100 largest metro areas (and 7.1 million nationwide) would benefit from this expansion. Metro areas including Madison, WI; Portland, OR;

Springfield, MA; and Buffalo, NY would see among the largest increases in EITC received by their populations.

- **Reduce Disparity for Dual-Earning Married Couples**

The current EITC can be a financial disincentive to marriage for low-income couples. For example, a married couple with two children filing jointly and earning \$30,000 qualifies for an EITC of \$2,453 in 2008. As two separate filers earning \$15,000 each, the parent with two children qualifies for a credit of \$4,824, nearly double what the married couple receives. By reducing or eliminating this “marriage penalty” in the EITC, more low-income workers may be encouraged to marry, which has shown to be an important factor in children’s long-term outcomes.

Allowing married couples to exclude half of a second earner’s income for purposes of calculating the EITC would benefit an estimated 1.8 million filers in the 100 largest metro areas (and 3.3 million nationwide). Under this proposal, metro areas including Oxnard, CA; Salt Lake City, UT; Omaha, NE; and Greensboro, NC would experience significant increases in the amount of EITC for which their residents qualify.

- **Provide Additional Benefits to Families with Three or More Children**

Working families with three or more children are twice as likely to have low incomes as working families with one or two children. Yet these larger families qualify for no additional EITC benefit despite the fact that their housing, food and child care expenses are generally greater, though their wages often are not.

An additional “tier” in the EITC for families with three or more children would benefit an estimated 2.9 million filers in the 100 largest metro areas (and 4.8 million nationwide). Riverside, CA; Phoenix, AZ; Houston, TX; and Lancaster, PA rank among the metro areas that would see the largest increase in EITC receipt under this proposal.

The report also calls for streamlining the distribution of the EITC. The majority of EITC recipients receive the credit in a one-time lump sum, which limits its utility for the majority of families who use the credit’s proceeds to catch up on ongoing expenses such as utilities or rent. The report recommends overhauling the existing Advance EITC program to provide recipients with direct access to up to half of their anticipated EITC over the course of the year.

To read the full report, visit www.blueprintprosperity.org.

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About the Metropolitan Policy Program at Brookings

Created in 1996, the Metropolitan Policy Program at Brookings (MPP) provides decision makers with cutting-edge research and policy ideas for improving the health and prosperity of metropolitan areas including their component cities, suburbs, and rural areas. To learn more visit www.brookings.edu/metro

About the Blueprint for American Prosperity

“Metro Raise: Boosting the Earned Income Tax Credit to Help Metropolitan Workers and Families” is part of MPP’s *Blueprint for American Prosperity*, a multi-year initiative to promote an economic agenda for the nation that builds on the assets and centrality of America’s metropolitan areas. Grounded in empirical research and analysis, the Blueprint offers an integrated policy agenda and specific federal reforms designed to give metropolitan areas the tools they need to generate economically productive growth, to build a strong and diverse middle class, and to grow in environmentally sustainable ways. Learn more at www.blueprintprosperity.org

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