



# RESEARCH BRIEF

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## Earned Income Tax Credit (EITC) Utilization in Native Communities

By Kristen Wagner & Amy Locklear Hertel

### Context

The EITC is a refundable federal income tax credit targeted to low-to-moderate-income individuals and families and is regarded as one of the most effective tools to supplement low-to-moderate-income workers' earnings (IRS, 2008). It is estimated that this benefit lifts over four million people out of poverty each year (The Annie E. Casey Foundation, 2007; Holt, 2006). The EITC is often a sizable sum of money. For the 2008 tax year, the maximum credit for a childless filer for EITC was \$438; a filer with one qualifying child could receive a maximum credit of \$2,917; for individuals with two or more qualifying children, it was \$4,824 (IRS, 2008). For the 2008 tax year, 23.1 million eligible individuals and families claimed EITC and approximately \$44.6 billion were returned to eligible tax filers (The Center on Budget and Policy Priorities, 2009).

### Research Methods

During tax season 2007, a collaboration of fourteen VITA sites in Native communities worked in partnership with the Center for Social Development (CSD) and the Buder Center for American Indian Studies (BCAIS) at Washington University's Brown School to gain a better understanding of ways in which EITC receipt might better assist Native families and communities to meet economic needs.<sup>1</sup> A total of 1,847 American Indian/Alaskan

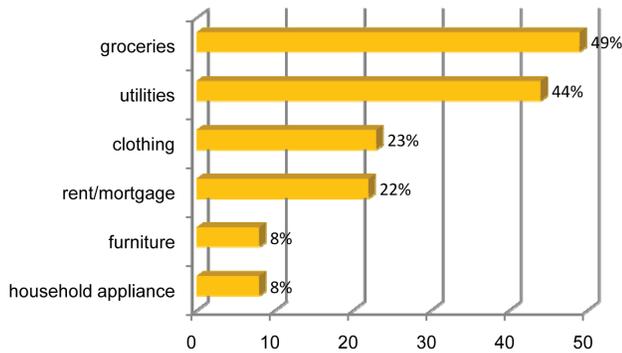
Natives/Native Hawaiians, living both on and off reservations, were included in this study. The respondent sample was comprised of 81% individual filers (42% female and 39% male) and 18% joint married filers. EITC recipients in this study claimed approximately \$4,000,000 in refundable tax credits.

The primary goal of the study was to explore potential economic benefits of EITC for Native individuals and communities. A better understanding of EITC receipt in Native communities can provide important answers to the questions of "Who receives EITC?" and "How do low-income families utilize this resource?" These are critical pieces of data for more effective policy making.

### Findings

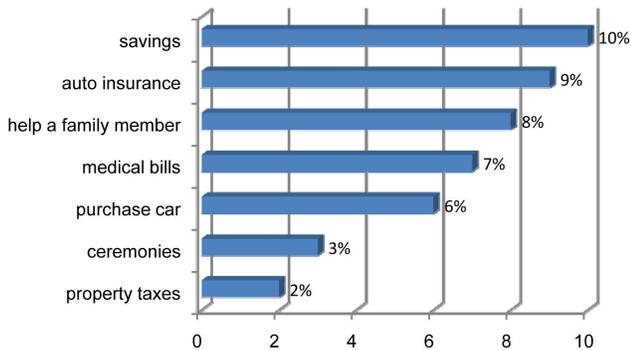
Survey respondents were asked to indicate how they planned to use their tax refund. Among respondents, 18% indicated that they would use all of their refund to cover basic living expenses such as groceries, utilities, and clothing. Another 22% of respondents planned to allocate at least three-quarters of their refund for this purpose. It is important to note that although the EITC provides a substantial income boost for working families, many low-income households must still rely on public benefits to make ends meet. Among respondents, approximately 40% indicated that they received or qualified for welfare benefits in 2007.

## Refund use: Basic needs



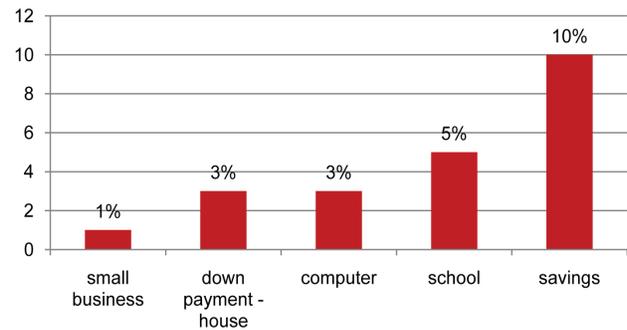
Respondents also indicated that their refund contributes to financial security for their families. Notably, 10% of recipients hope to save their tax return dollars. In addition to saving, respondents also used their refund to pay on auto insurance, keep up with medical bills, purchase a vehicle, and pay off property taxes. Social capital can also take the form of financial security. Expectations to help family (8%) highlight the communal assets approach that thrives in many American Indian cultures. Each of these strategies can be viewed as attempts to ensure protection from financial shocks and build greater financial security.

## Refund use: Financial security



A number of respondents indicated specific short-term and long-term asset-building goals for which they were saving, including education for themselves or a family member (5%), a computer for both education and small business purposes (3%), downpayment on a home (3%), and investment in a small business (1%). Approximately 18% of respondents indicated that they will invest at least half of their tax refund dollars in income-generating items and activities, including small business start-up and maintenance and investment in subsistence-related items such as tools, hunting and fishing gear, and vehicles.

## Refund use: Asset building



## Conclusions and Implications

Information gained through this study provides a glimpse into the benefits of EITC dollars for low-income individuals and households in Native communities. Findings suggest that there are a number of ways that EITC dollars can be leveraged to further benefit working families.

Respondents' desire to save and invest their EITC dollars for financial security and asset-building goals suggests a need for more financial institutions in or near Native communities, access to credit, and the development of savings programs. Saving mechanisms that could be paired with EITC receipt should be further explored and instituted. The split refund option may be a place to start, but this study suggests that greater outreach and education must be pursued in order to create access to this opportunity.

Data from this study indicate a need for the development of a variety of Native-focused financial products and services that enable low-income EITC-eligible families to build assets while building or repairing credit and reducing debt levels. These products and services should be designed to be accessible to the Native communities they serve and should be tailored to community needs. Such initiatives may include financial education programs, home ownership programs and services, credit counseling, reasonably-priced small loans, or small business development.

Turning to policy implications, the benefit of the federal EITC for low-income households is clear. Although this study focuses on low-income households in Native communities, some findings can be generalized to all low-income households in the US. One implication of this study is that low-income households nationwide would also benefit from state EITCs, although only 24 states currently offer EITC. If offered nationwide, state EITCs

could further supplement wages and help the most vulnerable families. Not only would these additional income supports help low-income working families, but research shows that a substantial portion of these dollars circulate through local economies, providing a much needed stimulus in challenging economic times.

## Endnotes

1. The data presented in this brief is part of a larger research project, titled [Contributions of the Earned Income Tax Credit to Community Development in Indian Country](#).

## References

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## Authors

Kristen Wagner, Project Manager  
[kwagner@wustl.edu](mailto:kwagner@wustl.edu)

Amy Locklear Hertel, Research Manager  
[alocklear@gwbmail.wustl.edu](mailto:alocklear@gwbmail.wustl.edu)

## Contact Us

Kristen Wagner  
[kwagner@wustl.edu](mailto:kwagner@wustl.edu)  
(314) 935-7076

Center for Social Development  
George Warren Brown School of Social Work  
Washington University in St. Louis  
Campus Box 1196  
One Brookings Drive  
St. Louis, MO 63130

[csd.wustl.edu](http://csd.wustl.edu)

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Washington University in St. Louis

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### CENTER FOR SOCIAL DEVELOPMENT

George Warren Brown School of Social Work  
Campus Box 1196  
One Brookings Drive  
St. Louis, Missouri 63130-4899