

# **Left on the Table in Contra Costa County**

## **Unclaimed Earned Income Tax Credit (EITC) Refunds Hurt Contra Costa's Economy and its Residents\***

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\* This study is based on the "Left on the Table" report authored in March 2010 by Dr. Antonio Avalos and Dr. Sean Alley and sponsored by the New America Foundation (NAF). This study was sponsored by the Family Economic Security Partnership (FESP) of Contra Costa County. The findings, interpretations, and conclusions are the author's own responsibility and do not necessarily represent any position of the California State University, Fresno, or the Family Economic Security Partnership (FESP) of Contra Costa County.

## EXECUTIVE SUMMARY

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low to moderate income working households. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. Research shows that the federal EITC is an effective tool for supporting work and alleviating poverty, contributing to significant increases in labor force participation among single mothers, and allowing EITC recipients to enhance economic security and promote economic opportunity.

The EITC program is important to Contra Costa County and its residents because large sums of EITC dollars claimed by residents of the county provide a substantial injection into the county's revenue stream. The stimulus is magnified beyond the original EITC payments because the spending of EITC refunds creates ripple effects as more dollars move among consumers, firms and even among county and local governments, which capture higher tax revenue.

For example, imagine Susan is a single mother of one who lives in Concord, California. Susan makes \$26,000 a year working in a restaurant and has no significant investment income. Susan is eligible for an EITC payment of around \$1,600. Suppose Susan saves 10%, \$160, and spends the rest, \$1,440, on school clothes and supplies at Max's store in the city. This \$1,440 is income for Max. After Max withholds his income tax, he is left with \$1,000, which he uses for a down payment on a new car at Nell's Autos. This \$1,000 is income for Nell. After taxes, Nell spends \$600 on a new stereo at Ophelia's, who spends \$400 (her after-tax income) on tuition and books at Paula's Cosmetology school. Paula spends her after-tax income of \$200 on a vacation to Washington, D.C. In this simple illustrative exercise, the initial EITC payment of \$1,600 generated \$3,440 ( $\$1,440 + \$1,000 + \$600 + \$400$ ) in new labor income in Contra Costa County. The initial \$1,600 also generated new economic output and tax revenue each time it was re-spent, so the economic impact of the EITC revenue was much larger over time than the initial payment. This phenomenon is known as the multiplier effect of the EITC payment. The magnitude of the multiplier effect depends on the savings rate of the economic participants and the amount of resources that leave the county during each round of spending. The \$160 that Susan saved and the \$200 that Paula spent on her vacation represent "leakages" from the county economic stream.

Unfortunately, many EITC dollars never make it to the county economy because they go unclaimed by eligible county residents. Therefore, the positive economic impact of the EITC could be even larger than it is. Not all taxpayers who are eligible claim the credit, so some EITC resources never make it into the county's revenue stream. Sometimes taxpayers are not aware that the credit exists, face language or cultural barriers, or some may be afraid that by claiming the credit they will sacrifice their eligibility for other important income-support programs. In other words, the actual EITC participation rate is known to be lower than what it could be.

Furthermore, this under-participation in the EITC program not only results in lost resources for Contra Costa County, but also entails social costs that are more difficult to measure. For instance, many EITC recipients file their tax returns through a paid tax preparer and often pay large sums for this service. While this practice does not necessarily limit the amount of EITC resources that are injected into the county's revenue stream, it does represent an unintended use of public funds. In these situations, EITC resources that are intended to help the working poor are diverted to financial professionals. This is a true social cost, although difficult to quantify, because these public funds are not being used as intended. It is precisely because of this that programs such as the Contra Costa's Earn It! Keep It! Save It! Campaign (EKS), which provides free tax assistance to low-income workers and helps them to receive their full tax refunds and credits, are so important for the county. Thus, this report understates the true social cost of the current EITC payment regime because it ignores the social impact of these diverted funds and estimates only the amount and impact of funds that go entirely unclaimed.

This report serves four purposes:

1. to assess the economic impact of the EITC program when EITC resources are injected into the county's revenue stream;
2. to estimate the amount of unclaimed EITC dollars; and
3. to assess the foregone economic impact of unclaimed EITC dollars when the unclaimed resources never make it into the county's revenue stream, and therefore never circulate in the county economy.
4. to assess the economic impact of the EITC program, the amount of unclaimed EITC dollars and the foregone economic impact of unclaimed EITC dollars in Contra Costa County by zip code and by cities.

## Primary Findings

- ❖ **The economic impact of the EITC program is large.** Contra Costa County residents claimed over \$77 million in EITC payments in 2007, the last year for which data are available. These payments contributed over \$81 million in output, close to \$20 million in labor income, and nearly 400 jobs to the county economy. These impacts were likely 10-15% higher during the recession of 2009.
- ❖ **The foregone economic impact of unclaimed payments is substantial.** Around one in five eligible EITC claimants fail to file claims. These foregone claims are estimated to total more than \$19 million in 2007. If these payments had been claimed, they would have contributed nearly \$21 million in output, close to \$5 million in labor income, and nearly 100 jobs to the county economy (and \$1,200 to the average family claiming the credit). These impacts also were likely 10-15% higher during the 2009 recession.
- ❖ **The foregone economic impact of the EITC program is not spread uniformly across zip codes, but is felt more acutely in counties where the presence of likely non-claimants is higher.** According to IRS reports, these are zip codes and cities where the following characteristics are prevalent: (1) families with no qualifying children; (2) areas of high concentration of Hispanics; (3) areas with many low income individuals; and (4) areas where food stamp assistance programs are well-subscribed.

**Federal EITC Payments to Contra Costa Residents, Cities (TX 2007)**

<b>CITY</b>	<b>Total Returns</b>	<b>EITC Returns</b>	<b>EITC Returns as % of Total</b>	<b>Claimed EITC Payments</b>	<b>Avg EITC Credit Claimed</b>
Antioch	44,256	6,111	13.8%	\$11,862,000	\$1,941
Brentwood	22,401	1,986	8.9%	\$3,728,000	\$1,877
Clayton	6,296	221	3.5%	\$286,000	\$1,294
Concord	59,496	5,632	9.5%	\$9,363,000	\$1,662
Danville	26,624	654	2.5%	\$858,000	\$1,312
El Cerrito	13,512	938	6.9%	\$1,174,000	\$1,252
Hercules	11,981	955	8.0%	\$1,547,000	\$1,620
Lafayette	14,147	442	3.1%	\$497,000	\$1,124
Martinez	24,681	1,823	7.4%	\$2,673,000	\$1,466
Moraga	7,590	181	2.4%	\$196,000	\$1,083
Oakley	14,549	1,694	11.6%	\$3,245,000	\$1,916
Orinda	9,358	208	2.2%	\$224,000	\$1,077
Pinole	9,693	916	9.5%	\$1,565,000	\$1,709
Pittsburg	35,866	5,880	16.4%	\$11,646,000	\$1,981
Pleasant Hill	17,236	980	5.7%	\$1,321,000	\$1,348
Richmond	35,295	5,759	16.3%	\$11,283,000	\$1,959
San Pablo	25,723	4,079	15.9%	\$7,522,000	\$1,844
San Ramon	34,174	1,158	3.4%	\$1,614,000	\$1,394
Walnut Creek	46,848	1,673	3.6%	\$1,881,000	\$1,124

**SOURCE:** Internal Revenue Service (IRS) and author's calculations

**Estimated Unclaimed EITC Payments to Contra Costa Residents, Cities (TX 2007)**

<b>CITY</b>	<b>EITC Returns Unclaimed</b>	<b>Unclaimed EITC Payments</b>	<b>Avg EITC Credit Unclaimed</b>
Antioch	2,037	\$2,965,500	\$1,456
Brentwood	662	\$932,000	\$1,408
Clayton	74	\$71,500	\$971
Concord	1,877	\$2,340,750	\$1,247
Danville	218	\$214,500	\$984
El Cerrito	313	\$293,500	\$939
Hercules	318	\$386,750	\$1,215
Lafayette	147	\$124,250	\$843
Martinez	608	\$668,250	\$1,100
Moraga	60	\$49,000	\$812
Oakley	565	\$811,250	\$1,437
Orinda	69	\$56,000	\$808
Pinole	305	\$391,250	\$1,281
Pittsburg	1,960	\$2,911,500	\$1,485
Pleasant Hill	327	\$330,250	\$1,011
Richmond	1,920	\$2,820,750	\$1,469
San Pablo	1,360	\$1,880,500	\$1,383
San Ramon	386	\$403,500	\$1,045
Walnut Creek	558	\$470,250	\$843

**SOURCE:** Internal Revenue Service (IRS) and author's calculations

**Estimated Economic Impact of the Federal EITC Program in Contra Costa County,  
Cities (TX 2007)**

CITY	Claimed EITC Payments	80% Spent Locally	Economic Impact		
			Output	Employment	Labor Income
Antioch	\$11,862,000	\$9,489,600	\$14,716,374	63.2	\$1,852,606
Brentwood	\$3,728,000	\$2,982,400	\$4,550,291	18.5	\$453,137
Clayton	\$286,000	\$228,800	\$281,045	0.5	\$11,005
Concord	\$9,363,000	\$7,490,400	\$11,374,155	50.0	\$1,258,692
Danville	\$858,000	\$686,400	\$915,713	3.1	\$68,975
El Cerrito	\$1,174,000	\$939,200	\$1,370,611	5.8	\$130,701
Hercules	\$1,547,000	\$1,237,600	\$1,592,802	3.6	\$83,302
Lafayette	\$497,000	\$397,600	\$562,068	2.2	\$55,699
Martinez	\$2,673,000	\$2,138,400	\$3,500,790	15.8	\$465,248
Moraga	\$196,000	\$156,800	\$200,128	0.5	\$12,323
Oakley	\$3,245,000	\$2,596,000	\$3,329,934	8.9	\$168,412
Orinda	\$224,000	\$179,200	\$233,670	0.5	\$15,822
Pinole	\$1,565,000	\$1,252,000	\$1,869,781	8.4	\$194,411
Pittsburg	\$11,646,000	\$9,316,800	\$13,607,381	50.8	\$1,176,970
Pleasant Hill	\$1,321,000	\$1,056,800	\$1,856,413	11.1	\$297,219
Richmond	\$11,283,000	\$9,026,400	\$13,623,352	54.5	\$1,460,587
San Pablo	\$7,522,000	\$6,017,600	\$10,159,329	52.1	\$1,444,939
San Ramon	\$1,614,000	\$1,291,200	\$2,263,081	10.0	\$336,909
Walnut Creek	\$1,881,000	\$1,504,800	\$2,524,104	12.6	\$369,118

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations

**Estimated Foregone Economic Impact of the Federal EITC Program in  
Contra Costa County, Cities (TX 2007)**

CITY	Unclaimed EITC Payments	80% Spent Locally	Foregone Economic Impact		
			Output	Employment	Labor Income
Antioch	\$2,965,500	\$2,372,400	\$3,679,094	15.8	\$463,152
Brentwood	\$932,000	\$745,600	\$1,137,573	4.6	\$113,284
Clayton	\$71,500	\$57,200	\$70,261	0.1	\$2,751
Concord	\$2,340,750	\$1,872,600	\$2,843,539	12.5	\$314,673
Danville	\$214,500	\$171,600	\$228,928	0.8	\$17,244
El Cerrito	\$293,500	\$234,800	\$342,653	1.5	\$32,675
Hercules	\$386,750	\$309,400	\$398,201	0.9	\$20,826
Lafayette	\$124,250	\$99,400	\$140,517	0.5	\$13,925
Martinez	\$668,250	\$534,600	\$875,198	4.0	\$116,312
Moraga	\$49,000	\$39,200	\$50,032	0.1	\$3,081
Oakley	\$811,250	\$649,000	\$832,484	2.2	\$42,103
Orinda	\$56,000	\$44,800	\$58,418	0.1	\$3,956
Pinole	\$391,250	\$313,000	\$467,445	2.1	\$48,603
Pittsburg	\$2,911,500	\$2,329,200	\$3,401,845	12.7	\$294,243
Pleasant Hill	\$330,250	\$264,200	\$464,103	2.8	\$74,305
Richmond	\$2,820,750	\$2,256,600	\$3,405,838	13.6	\$365,147
San Pablo	\$1,880,500	\$1,504,400	\$2,539,832	13.0	\$361,235
San Ramon	\$403,500	\$322,800	\$565,770	2.5	\$84,227
Walnut Creek	\$470,250	\$376,200	\$631,026	3.1	\$92,280

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations

## I. Introduction

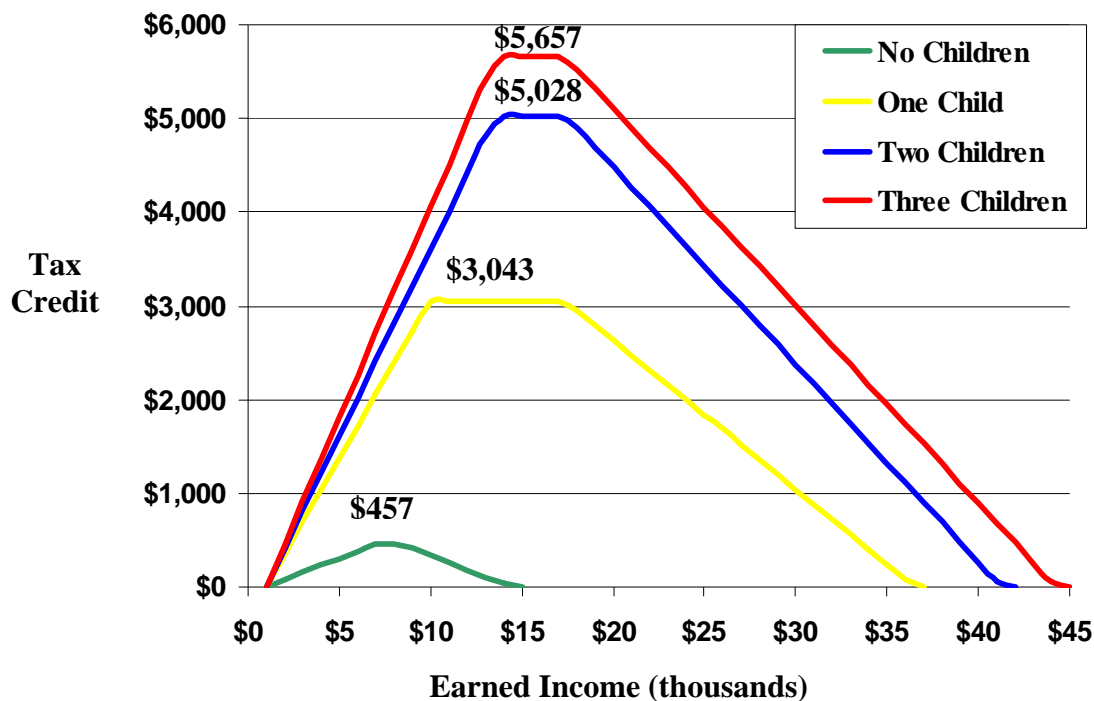
### I.1 The Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low to moderate income working households. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who claim and qualify for the credit. As a refundable credit, the EITC provides assistance to families even if they do not face any tax liability. EITC payments have no effect on welfare benefits and are not used to determine eligibility for Medicaid, Supplemental Security Income (SSI), food stamps, low-income housing or nearly all Temporary Assistance for Needy Families (TANF) payments.

To receive the federal EITC, an individual must have earned income, be a U.S. citizen or legal resident, and have a valid social security number. For tax year 2009, a qualified claimant may have investment income of less than \$3,100 and a maximum annual earned income of varying levels based on the number of qualifying children. For example, for a single head of household or qualified widow, the EITC structure has three distinct ranges to determine the precise amount of the tax credit (refund) as illustrated in Chart 1:

- Increasing range: amount of the credit increases with worker's earned income.
- Plateau range: amount of the credit is constant regardless of changes in income level.
- Decreasing range: amount of the credit decreases as the worker's earned income increases.

**Chart 1. 2009 EITC structure for a single, head of household or qualified widow**



SOURCE: Internal Revenue Service (IRS)

The maximum federal EITC benefit for the 2009 Tax Year is \$5,657 for families with three children, \$5,028 for families with two children, and \$3,043 for families with one child. The maximum credit for individuals or couples without children is \$457 in 2009, much lower than for families with children.

The EITC program is not free for the government and taxpayers, of course, and some of the burden would fall on California taxpayers. However, the EITC program is widely considered to be cheaper and even more efficient than other programs designed to alleviate poverty, without producing many of the negative incentives that other traditional welfare programs can produce (such as discouraging employment).

In 2007, the EITC resulted in over \$5 billion in federal outlays to California residents due to the lower (often negative) tax payments made by EITC eligible taxpayers. On the other hand, the total cost of the EITC program is partially offset by a number of factors. The EITC program reduces the number of single mothers receiving welfare, generates new payroll taxes when previously unemployed workers are drawn into the labor force by the EITC and results in additional tax revenue when EITC claimants spend the credits and inject money into the local economy. Estimates in most reports indicate that the additional tax revenue generated by the EITC is significant.

## **I.2 The Benefits of the EITC Federal Program to the Economy of California**

Research shows that the federal EITC is an effective tool for supporting work and alleviating poverty, contributing to significant increases in labor force participation among single mothers, and allowing EITC recipients to make investments that enhance economic security and promote economic opportunity.<sup>1</sup> One way the EITC reduces poverty for example, is by supplementing the earnings of minimum-wage workers.<sup>2</sup> Further, the beneficial impact of the EITC program mainly occurs by inducing labor market entry in families that initially do not have an adult in the workforce.<sup>3</sup>

Also, the large sums of EITC dollars claimed by residents of California provide a substantial amount of resources that are injected into the state's revenue stream. California greatly benefits from this annual infusion of money, as resident recipients spend the extra money. The new spending represents new business sales and a significant stimulus to the state's economy. The stimulus is magnified beyond the original EITC payments because the spending of EITC refunds creates ripple effects as more dollars move among consumers, firms and even among state and local governments, which capture higher tax revenue.<sup>4</sup>

Unfortunately, the positive economic impact of the EITC could be even larger than it is.<sup>5</sup> Not all taxpayers who are eligible claim the credit, so some EITC resources never make

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<sup>1</sup> "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty", Nicholas Johnson, 2001, Center on Budget and Policy Priorities.

<sup>2</sup> "Policy Basics: The Earned Income Tax Credit", 2009, Center on Budget and Policy Priorities.

<sup>3</sup> "Using the EITC to Help Poor Families: New Evidence and a Comparison with the Minimum Wage", David Neumark and William Wascher, 2000, NBER Working Paper No. W7599.

<sup>4</sup> "How Do EITC Recipients Spend Their Refunds?", Andrew Goodman-Bacon, and Leslie McGranahan, *Federal Reserve Bank of Chicago Economic Perspectives*, 2nd Quarter 2008, 32(2): 17-32

<sup>5</sup> "Using the Earned Income Tax Credit to Stimulate Local Economies", Alan Berube, 2007, The Brookings Institute.

it into the state's revenue stream. Sometimes taxpayers are not aware that the credit exists, face language or cultural barriers, or some may be afraid that by claiming the credit they will sacrifice their eligibility for other important income-support programs. In other words, the actual EITC participation rate is known to be lower than what it could be.

This under-participation in the EITC program not only results in lost resources for California and its counties, but also entails social costs that are more difficult to measure. For instance, many EITC recipients file their tax returns through a paid tax preparer and often pay large sums for this service. While this practice does not necessarily limit the amount of EITC resources that are injected into the state's revenue stream, it does represent an unintended use of public funds. In these situations, EITC resources that are intended to help the working poor are diverted to financial professionals. This is a true social cost, although difficult to quantify, because these public funds are not being used as intended. It is precisely because of this that programs such as the Contra Costa's Earn It! Keep It! Save It! Campaign (EKS), which provides free tax assistance to low-income workers and helps them to receive their full tax refunds and credits, are so important for the county. Thus, this report understates the true social cost of the current EITC payment regime because it ignores the social impact of these diverted funds and estimates only the amount and impact of funds that go entirely unclaimed.

## **II. Purpose, Scope and Methodology**

The methodology used in this report employs exactly the same methodology used in the New America Foundation's report entitled "Left on the table".<sup>6</sup> Using EITC payments data for Contra Costa County (collected from the Internal Revenue Service (IRS)), this report focuses on the county's economy, each of its 52 zip codes as well as the main cities: Antioch, Brentwood, Clayton, Concord, Danville, El Cerrito, Hercules, Lafayette, Martinez, Moraga, Oakley, Orinda, Pinole, Pittsburg, Pleasant Hill, Richmond, San Pablo, San Ramon and Walnut Creek.

The primary goals of this report are threefold: First, to assess the economic impact of the EITC program when EITC resources are injected into the county's revenue stream; second, to estimate the amount of foregone EITC dollars that county residents leave unclaimed; and third, to assess the foregone economic impact of unclaimed EITC dollars that never make it into the county's revenue stream, and therefore never circulate in the county economy. In each location, the economic impact (or lack of) of the EITC attributable to the tax credit payments is obviously linked to the ways recipients spend this income in the state, in the counties and in the cities. This report measures the impact of the EITC in three different areas:

- 1) Additional output (business sales);
- 2) Number of jobs that these benefits payments support directly and indirectly; and
- 3) Additional labor income.

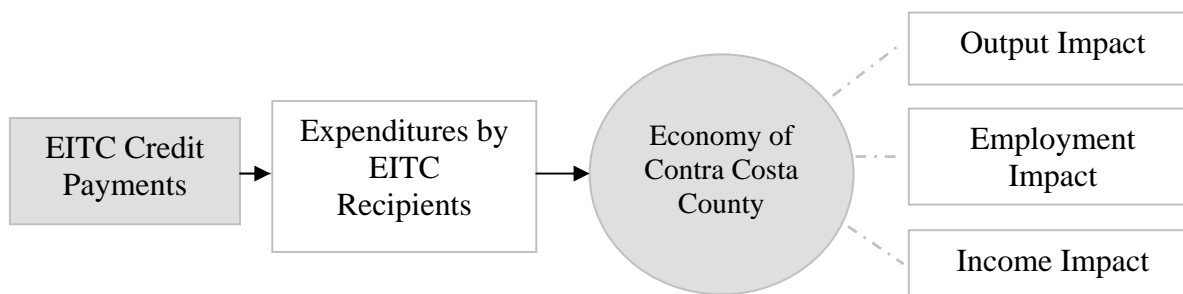
Figure 1 illustrates the conceptual framework of this economic impact analysis.

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<sup>6</sup> "Left on the table: Unclaimed Earned Income Tax Credits cost California's economy and low-income residents \$1 billion annually", 2010, Antonio Avalos and Sean Alley, New America Foundation.



**Figure 1: Conceptual Framework**



The report calculates the economic impact of the federal EITC for 2007, the most recent tax year for which data is available. Since EITC eligibility is based on income, potential EITC payments and their associated economic impact in California are likely to be much higher in 2009 when unemployment was higher and income was lower due to the recession. So, the estimations for 2007 likely understate the *current* economic impact of the EITC. Extrapolation techniques are employed to estimate the economic impact of the federal EITC for the most recent tax year, 2009.

Additionally, the calculation of the economic impact in the next section understates the potential impact of the EITC on low income families in California for two reasons: (1) not all eligible taxpayers claim the credit; and (2) not all taxpayers claiming the EITC credit get the entire amount for which they are eligible (mainly because they use the services of a professional tax preparer, sometimes for a very high fee). Nevertheless, for reasons outlined in the introduction, this report focuses on the loss of EITC payments to the county economy resulting from eligible families' failure to claim the credit.

The analysis mainly relies on the use of input-output (IO) models and associated databases, which are techniques for quantifying interactions among firms, industries, and social institutions within a regional economy. IO models are the standard techniques that regional economists use to conduct economic impact analysis. In particular, the study makes extensive use of IMPLAN, a computer software package produced by the Minnesota IMPLAN Group, Inc. and used widely around the world.<sup>7</sup> IMPLAN allows users to build economic models to estimate the impacts of economic changes in their states, counties or communities.

The total economic impact (also known as the multiplier effect) of the EITC is equal to the sum of three components: the *direct* effect, the *indirect* effect and the *induced* effect. The direct effect is the immediate upshot caused by county residents when they spend their

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<sup>7</sup> Minnesota IMPLAN Group, Inc. was founded in 1993 by Scott Lindall and Doug Olson as an outgrowth of their work at the University of Minnesota starting in 1984. This developmental work closely involved the U.S. Forest Service's Land Management Planning Unit in Fort Collins and Dr. Wilbur Maki at the University of Minnesota. Currently, there are over 1,500 active users of IMPLAN databases and software globally.

EITC payments. Due to the interactions between firms, industries, and social institutions that naturally occur within the county economy, the direct effect initiates a series of iterative rounds of income creation, spending and re-spending that result in indirect and induced effects. The indirect effects are changes in production, employment and income that result from the inter-industry purchases triggered by the direct effect. Finally, induced effects arise due to changes in household income and spending patterns caused by direct and indirect effects. Since the total impact of the EITC payments that are spent within the county economy is a multiple of the initial expenditures, the total effect is expressed as a multiplier effect. Therefore, the total impact of the EITC payments spent within the city and county economy as estimated by IMPLAN is larger than the initial expenditures.

For example, imagine Susan is a single mother of one who lives in Concord, California. Susan makes \$26,000 a year working in a restaurant and has no significant investment income. Susan is eligible for an EITC payment of around \$1,600. Suppose Susan saves 10%, \$160, and spends the rest, \$1,440, on school clothes and supplies at Max's store in the city. This \$1,440 is income for Max. After Max withholds his income tax, he is left with \$1,000, which he uses for a down payment on a new car at Nell's Autos. This \$1,000 is income for Nell. After taxes, Nell spends \$600 on a new stereo at Ophelia's, who spends \$400 (her after-tax income) on tuition and books at Paula's Cosmetology school. Paula spends her after-tax income of \$200 on a vacation to Washington, D.C.

In this simple illustrative exercise, the initial EITC payment of \$1,600 generated \$3,440 ( $\$1,440 + \$1,000 + \$600 + \$400$ ) in new labor income in Contra Costa County. The initial \$1,600 also generated new economic output and tax revenue each time it was re-spent, so the economic impact of the EITC revenue was much larger over time than the initial payment. This phenomenon is known as the multiplier effect of the EITC payment. The magnitude of the multiplier effect depends on the savings rate of the economic participants and the amount of resources that leave the county during each round of spending. The \$160 that Susan saved and the \$200 that Paula spent on her vacation represent "leakages" from the county economic stream.

The increases in economic activity resulting from the multiplier process become smaller with each round due to leakages from the spending stream. Furthermore, spending on goods and services that are not produced within the county economy do not generate additional regional spending. Therefore, the multiplier process traces the flows of spending and re-spending until the initial expenditures have completely leaked out to other regions. To properly estimate the effects at the regional level, an adjustment known as the regional purchase coefficient is implemented within the IMPLAN system.

Successfully assessing the economic impact of the EITC in a region depends on two basic sets of data. First, the IMPLAN data comprises the input-output table of the regional economy of the impact region, in this case the county, its 52 zip codes and multiple cities. This data was purchased from IMPLAN Group, Inc. and was used to trace the impact of EITC payments. Second, individual income tax data by zip code is produced by the Internal Revenue Service (IRS) for the entire state of California. This data was purchased and was used to calculate the EITC payments received as well as unclaimed EITC payments by county residents.

### III. The Claimed and Unclaimed EITC Funds by California Residents

Given available data, it is relatively simple to calculate the amount of EITC funds claimed by county residents, even by zip code. However, the ability to accurately estimate the EITC participation rate is extremely limited and therefore it is not possible to calculate with precision the amount of unclaimed EITC dollars. This difficulty results primarily from two factors. First, some residents who claim the EITC refund are not technically eligible for it. Second, it is impossible to know how many eligible families there are at the city or county level, thus it is impossible to calculate how many eligible families fail to claim the EITC.

In 2001, the US General Accounting Office (GAO) estimated that the average participation rate for the whole country is approximately 75% (25% of the eligible population does not claim the EITC).<sup>8</sup> However, some researchers argued that this estimate for the EITC participation rate was too low and contested GAO's methodology on the grounds that the study was based on information from two mismatched databases.<sup>9</sup> Alternatively, in 2002 the Internal Revenue Service (IRS) released a report estimating the national EITC non-filer rate to be 17.8% using the Census Bureau's Survey of Income and Program Participation (SIPP).<sup>10</sup> In general, scholars have more confidence in the IRS estimate due to the methodology employed. The same report lists California as having the highest EITC non-filer rate (24.9%) in the nation. In order to avoid overstating the economic impact of foregone EITC claims, this study assumes an EITC non-filer rate of 20% and uses this number to estimate the amount of unclaimed EITC payments in the county and its zip codes.

Table 1 presents the federal EITC payments made to Contra Costa County residents by zip code. Table 3 shows the same indicator for those cities composed by 2 or more zip codes.<sup>11</sup> In both tables the first column shows the total number of Individual Income Tax Returns as reported by the IRS for the 2007 tax year, and the second column shows the total number of EITC claims. The third column results from dividing the second column by the first to calculate the EITC returns as a percentage of the total Individual Income Tax Returns. Similarly, to calculate the average EITC credit, the total amount of EITC payments is divided by the total number of EITC claims.

In 2007, residents of Contra Costa County claimed more than \$77 million in EITC payments. In terms of sheer EITC dollars claims, the County shows significant variation among zip codes and cities. For example, Concord and Richmond alone, when combined account for more than a fourth of the total EITC funds claimed in Contra Costa (more \$20 million). Smaller cities such as Danville and Orinda, claim slightly more than \$2 million added together.

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<sup>8</sup> US General Accounting Office, 2001, "Earned Income Tax Credit Participation", GAO-02-290R.

<sup>9</sup> "Analysis of GAO Study of EITC Eligibility and Participation", Leonard E. Burman and Deborah Kobes, 2002, Urban Institute.

<sup>10</sup> "Participation in the Earned Income Tax Credit Program For Tax Year 1996", IRS - Small Business Self Employed Research, 2002, Internal Revenue Service.

<sup>11</sup> Due to the population size of some zip codes, the IRS does not disclose tax return information and thus it is not possible to estimate anything in such zip codes. These are indicated by an asterisk ("\*") in all tables.

Table 2 presents the estimated unclaimed EITC payments by zip code in Contra Costa County. Table 4 shows the same indicator for those cities composed by 2 or more zip codes. Based on the assumed 20% EITC non-filer rate, the federal unclaimed EITC payments to Contra Costa residents are estimated to total slightly less than \$20 million. Arguably, the average credit owed to eligible EITC recipients who failed to claim the credit is not the same as that for the average actual claimant because these two groups of individuals have different characteristics. One of the goals of the aforementioned IRS study was to identify the composition and characteristics of individuals who were eligible for the EITC but did not file a tax return to obtain the credit. They found that the proportion of EITC non-filers was higher: (1) among those with no qualifying children; (2) in areas of high concentration of Hispanics; (3) among individuals with lower incomes than eligible individuals who filed a tax return to get the EITC; and (4) among individuals that participated in food stamp assistance programs. So, if eligible non-claimants are less likely, for instance, to have qualifying children, then the average non-claimant will be owed a smaller credit than the average recipient. Several possibilities have been offered to explain the low EITC participation rates, which include the following: sometimes taxpayers are not aware that the credit exists, face language or cultural barriers, or some may be afraid that by claiming the credit they will sacrifice their eligibility for other important income-support programs.

Thus, following what other researchers have done to account for these issues, the average received credit is multiplied by 75% to obtain a more accurate picture of the average credit owed to eligible EITC recipients who failed to claim the credit.<sup>12</sup> This calculation is shown in the last column of Tables 2 and 4 and is then used to estimate the number of unclaimed EITC returns (an estimate of the number of individuals that fail to claim the credit). The estimate of unclaimed EITC returns is obtained by dividing the total amount of unclaimed EITC payments by the estimated average credit owed to eligible EITC recipients who failed to claim the credit. These estimates indicate that approximately 16,000 Contra Costa County residents failed to claim close to \$20 million in EITC refunds in 2007.

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<sup>12</sup> See for example “EITC Interactive: User Guide and Data Dictionary”, Alan Berube, The Brookings Institution, <http://www.brookings.edu/metro/EITC/EITC-Data.aspx> [accessed February 2010].

**Table 1: Federal EITC Payments to Contra Costa Residents, Zip Codes (TX 2007)**

<b>ZIP</b>	<b>CITY</b>	<b>Total Returns</b>	<b>EITC Returns</b>	<b>EITC Returns as % of Total</b>	<b>Claimed EITC Payments</b>	<b>Avg EITC Credit Claimed</b>
94505	Discovery Bay	5,070	339	6.7%	\$606,000	\$1,788
94506	Danville	10,545	214	2.0%	\$263,000	\$1,229
94507	Alamo	7,669	170	2.2%	\$184,000	\$1,082
94509	Antioch	27,325	4,099	15.0%	\$7,813,000	\$1,906
94511	Bethel Island	1,180	120	10.2%	\$177,000	\$1,475
94513	Brentwood	22,401	1,986	8.9%	\$3,728,000	\$1,877
94514	Byron	1,207	102	8.5%	\$154,000	\$1,510
94516	Canyon	*	*	*	*	*
94517	Clayton	6,296	221	3.5%	\$286,000	\$1,294
94518	Concord	13,140	1,068	8.1%	\$1,785,000	\$1,671
94519	Concord	8,991	874	9.7%	\$1,439,000	\$1,646
94520	Concord	15,594	2,035	13.0%	\$3,553,000	\$1,746
94521	Concord	20,759	1,535	7.4%	\$2,412,000	\$1,571
94522	Concord	343	43	12.5%	\$66,000	\$1,535
94523	Pleasant Hill	17,236	980	5.7%	\$1,321,000	\$1,348
94524	Concord	490	59	12.0%	\$85,000	\$1,441
94525	Crockett	1,725	161	9.3%	\$208,000	\$1,292
94526	Danville	16,079	440	2.7%	\$595,000	\$1,352
94527	Concord	179	18	10.1%	\$23,000	\$1,278
94528	Diablo	571	13	2.3%	\$10,000	\$769
94529	Concord	*	*	*	*	*
94530	El Cerrito	13,512	938	6.9%	\$1,174,000	\$1,252
94531	Antioch	16,931	2,012	11.9%	\$4,049,000	\$2,012
94547	Hercules	11,981	955	8.0%	\$1,547,000	\$1,620
94548	Knightsen	435	45	10.3%	\$79,000	\$1,756
94549	Lafayette	14,147	442	3.1%	\$497,000	\$1,124
94553	Martinez	24,681	1,823	7.4%	\$2,673,000	\$1,466
94556	Moraga	7,590	181	2.4%	\$196,000	\$1,083
94561	Oakley	14,549	1,694	11.6%	\$3,245,000	\$1,916
94563	Orinda	9,358	208	2.2%	\$224,000	\$1,077
94564	Pinole	9,693	916	9.5%	\$1,565,000	\$1,709
94565	Pittsburg	35,866	5,880	16.4%	\$11,646,000	\$1,981
94569	Port Costa	*	*	*	*	*
94570	Moraga	*	*	*	*	*
94572	Rodeo	4,021	543	13.5%	\$1,043,000	\$1,921
94575	Moraga	*	*	*	*	*
94582	San Ramon	13,375	469	3.5%	\$679,000	\$1,448
94583	San Ramon	20,799	689	3.3%	\$935,000	\$1,357
94595	Walnut Creek	10,377	167	1.6%	\$179,000	\$1,072
94596	Walnut Creek	11,498	571	5.0%	\$613,000	\$1,074
94597	Walnut Creek	11,173	524	4.7%	\$617,000	\$1,177
94598	Walnut Creek	13,800	411	3.0%	\$472,000	\$1,148
94801	Richmond	10,681	2,069	19.4%	\$4,241,000	\$2,050
94802	Richmond	458	103	22.5%	\$205,000	\$1,990
94803	El Sobrante	11,983	1,168	9.7%	\$1,855,000	\$1,588
94804	Richmond	17,150	2,849	16.6%	\$5,659,000	\$1,986
94805	Richmond	6,632	711	10.7%	\$1,136,000	\$1,598
94806	San Pablo	25,723	4,079	15.9%	\$7,522,000	\$1,844
94807	Richmond	224	13	5.8%	\$9,000	\$692
94808	Richmond	150	14	9.3%	\$33,000	\$2,357
94820	El Sobrante	447	43	9.6%	\$72,000	\$1,674
94850	Richmond	*	*	*	*	*
	<b>Contra Costa</b>	<b>504,392</b>	<b>48,221</b>	<b>9.6%</b>	<b>\$77,072,000</b>	<b>\$1,598</b>

**SOURCE:** Internal Revenue Service (IRS) and author's calculations ("\*" = not disclosed by IRS)

**Table 2: Estimated Unclaimed EITC Payments to Contra Costa Residents, Zip Codes (TX 2007)**

<b>ZIP</b>	<b>CITY</b>	<b>EITC Returns Unclaimed</b>	<b>Unclaimed EITC Payments</b>	<b>Avg EITC Credit Unclaimed</b>
94505	Discovery Bay	113	\$151,500	\$1,341
94506	Danville	71	\$65,750	\$922
94507	Alamo	57	\$46,000	\$812
94509	Antioch	1,366	\$1,953,250	\$1,430
94511	Bethel Island	40	\$44,250	\$1,106
94513	Brentwood	662	\$932,000	\$1,408
94514	Byron	34	\$38,500	\$1,132
94516	Canyon	*	*	*
94517	Clayton	74	\$71,500	\$971
94518	Concord	356	\$446,250	\$1,254
94519	Concord	291	\$359,750	\$1,235
94520	Concord	678	\$888,250	\$1,309
94521	Concord	512	\$603,000	\$1,179
94522	Concord	14	\$16,500	\$1,151
94523	Pleasant Hill	327	\$330,250	\$1,011
94524	Concord	20	\$21,250	\$1,081
94525	Crockett	54	\$52,000	\$969
94526	Danville	147	\$148,750	\$1,014
94527	Concord	6	\$5,750	\$958
94528	Diablo	4	\$2,500	\$577
94529	Concord	*	*	*
94530	El Cerrito	313	\$293,500	\$939
94531	Antioch	671	\$1,012,250	\$1,509
94547	Hercules	318	\$386,750	\$1,215
94548	Knightsen	15	\$19,750	\$1,317
94549	Lafayette	147	\$124,250	\$843
94553	Martinez	608	\$668,250	\$1,100
94556	Moraga	60	\$49,000	\$812
94561	Oakley	565	\$811,250	\$1,437
94563	Orinda	69	\$56,000	\$808
94564	Pinole	305	\$391,250	\$1,281
94565	Pittsburg	1,960	\$2,911,500	\$1,485
94569	Port Costa	*	*	*
94570	Moraga	*	*	*
94572	Rodeo	181	\$260,750	\$1,441
94575	Moraga	*	*	*
94582	San Ramon	156	\$169,750	\$1,086
94583	San Ramon	230	\$233,750	\$1,018
94595	Walnut Creek	56	\$44,750	\$804
94596	Walnut Creek	190	\$153,250	\$805
94597	Walnut Creek	175	\$154,250	\$883
94598	Walnut Creek	137	\$118,000	\$861
94801	Richmond	690	\$1,060,250	\$1,537
94802	Richmond	34	\$51,250	\$1,493
94803	El Sobrante	389	\$463,750	\$1,191
94804	Richmond	950	\$1,414,750	\$1,490
94805	Richmond	237	\$284,000	\$1,198
94806	San Pablo	1,360	\$1,880,500	\$1,383
94807	Richmond	4	\$2,250	\$519
94808	Richmond	5	\$8,250	\$1,768
94820	El Sobrante	14	\$18,000	\$1,256
94850	Richmond	*	*	*
	<b>Contra Costa</b>	<b>16,074</b>	<b>\$19,268,000</b>	<b>\$1,199</b>

SOURCE: Internal Revenue Service (IRS) and author's calculations ("\*" = not disclosed by IRS)

**Table 3: Federal EITC Payments to Contra Costa Residents, Cities (TX 2007)**

CITY	Total Returns	EITC Returns	EITC Returns as % of Total	Claimed EITC Payments	Avg EITC Credit Claimed
Antioch	44,256	6,111	13.8%	\$11,862,000	\$1,941
Brentwood	22,401	1,986	8.9%	\$3,728,000	\$1,877
Clayton	6,296	221	3.5%	\$286,000	\$1,294
Concord	59,496	5,632	9.5%	\$9,363,000	\$1,662
Danville	26,624	654	2.5%	\$858,000	\$1,312
El Cerrito	13,512	938	6.9%	\$1,174,000	\$1,252
Hercules	11,981	955	8.0%	\$1,547,000	\$1,620
Lafayette	14,147	442	3.1%	\$497,000	\$1,124
Martinez	24,681	1,823	7.4%	\$2,673,000	\$1,466
Moraga	7,590	181	2.4%	\$196,000	\$1,083
Oakley	14,549	1,694	11.6%	\$3,245,000	\$1,916
Orinda	9,358	208	2.2%	\$224,000	\$1,077
Pinole	9,693	916	9.5%	\$1,565,000	\$1,709
Pittsburg	35,866	5,880	16.4%	\$11,646,000	\$1,981
Pleasant Hill	17,236	980	5.7%	\$1,321,000	\$1,348
Richmond	35,295	5,759	16.3%	\$11,283,000	\$1,959
San Pablo	25,723	4,079	15.9%	\$7,522,000	\$1,844
San Ramon	34,174	1,158	3.4%	\$1,614,000	\$1,394
Walnut Creek	46,848	1,673	3.6%	\$1,881,000	\$1,124

SOURCE: Internal Revenue Service (IRS) and author's calculations

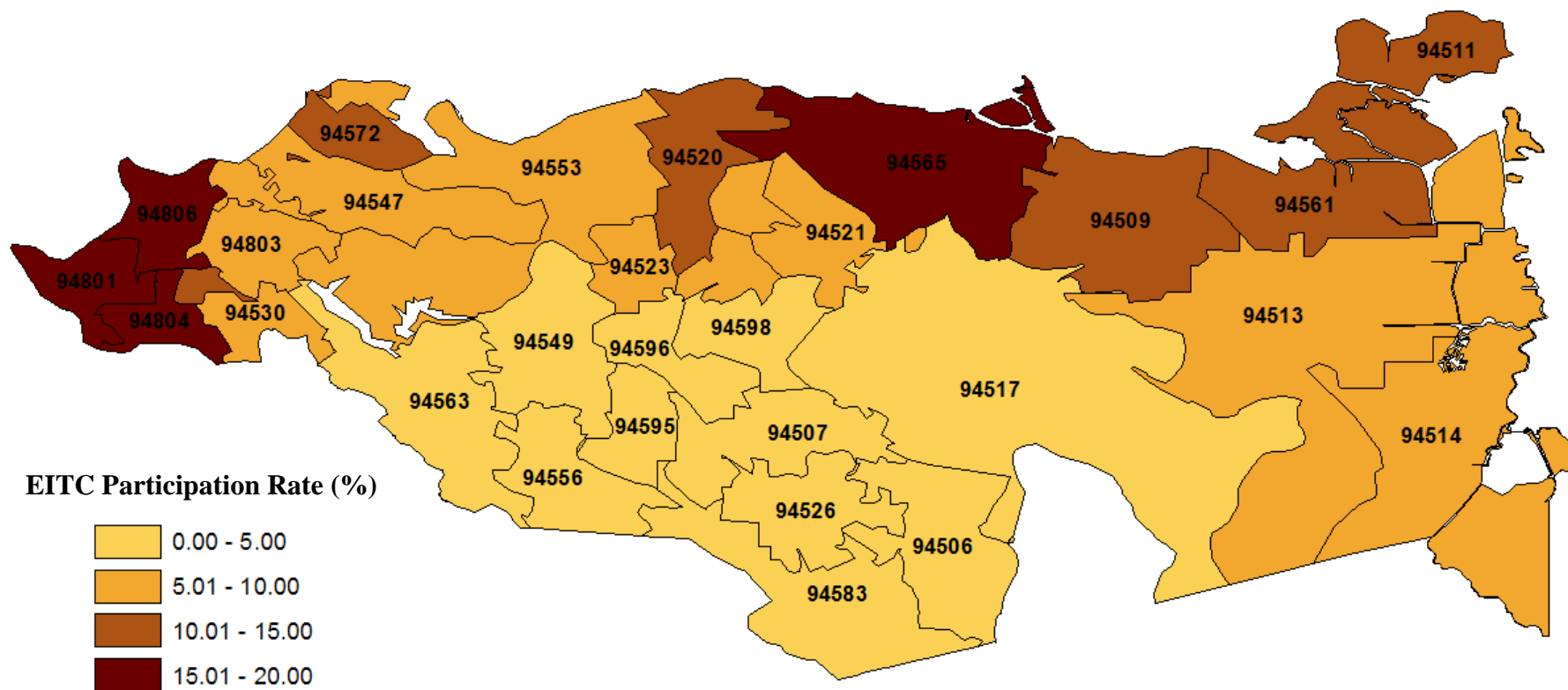
**Table 4: Estimated Unclaimed EITC Payments to Contra Costa Residents, Cities (TX 2007)**

CITY	EITC Returns Unclaimed	Unclaimed EITC Payments	Avg EITC Credit Unclaimed
Antioch	2,037	\$2,965,500	\$1,456
Brentwood	662	\$932,000	\$1,408
Clayton	74	\$71,500	\$971
Concord	1,877	\$2,340,750	\$1,247
Danville	218	\$214,500	\$984
El Cerrito	313	\$293,500	\$939
Hercules	318	\$386,750	\$1,215
Lafayette	147	\$124,250	\$843
Martinez	608	\$668,250	\$1,100
Moraga	60	\$49,000	\$812
Oakley	565	\$811,250	\$1,437
Orinda	69	\$56,000	\$808
Pinole	305	\$391,250	\$1,281
Pittsburg	1,960	\$2,911,500	\$1,485
Pleasant Hill	327	\$330,250	\$1,011
Richmond	1,920	\$2,820,750	\$1,469
San Pablo	1,360	\$1,880,500	\$1,383
San Ramon	386	\$403,500	\$1,045
Walnut Creek	558	\$470,250	\$843

SOURCE: Internal Revenue Service (IRS) and author's calculations

Figure 1 below shows an estimate of the EITC participation rate measured as the ratio of EITC returns to the total returns for tax year 2007. The most salient fact is that the estimated EITC participation rate tends to be higher in the northern region of the county. Similarly, Figure 2 shows that the average EITC returns claimed by Contra Costa County residents tends to be higher in the same areas of high EITC participation rate.

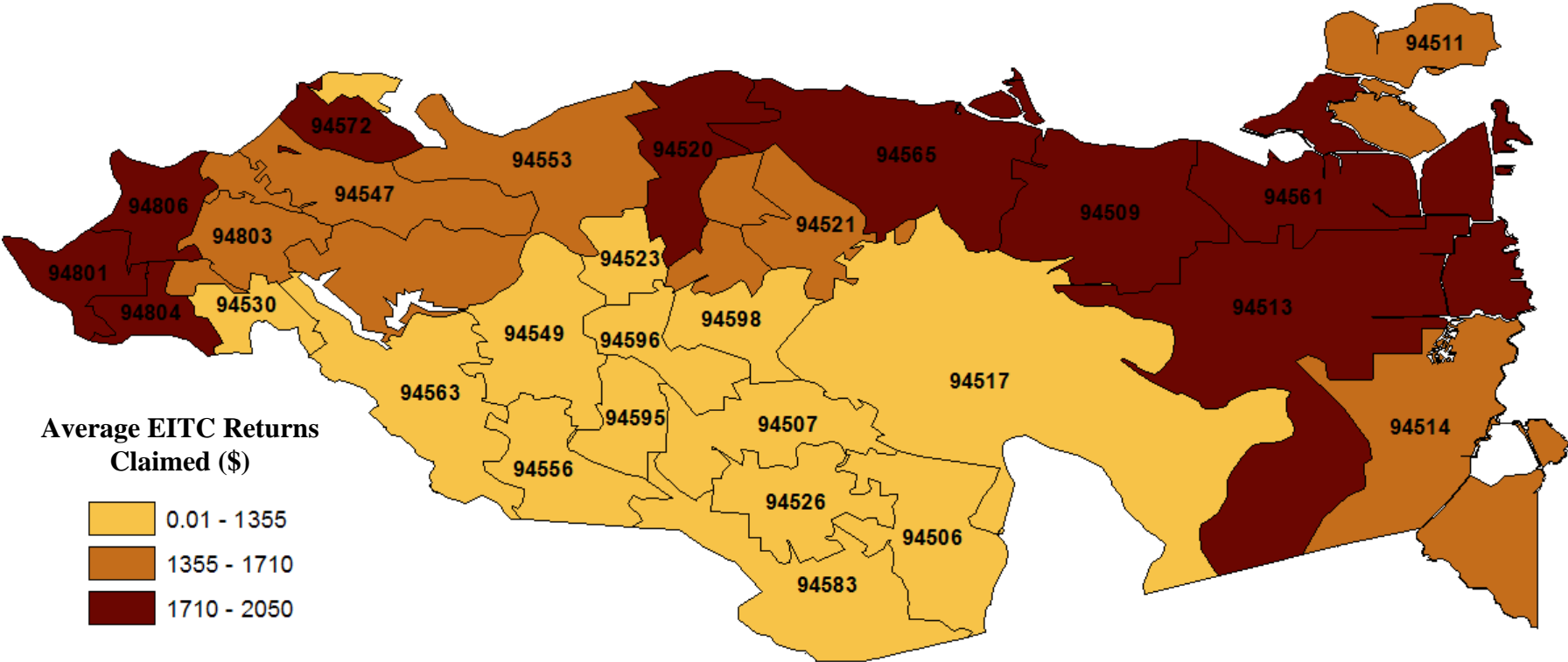
Figure 1: EITC Returns as a Percentage of Total Returns in Contra Costa County by Zip Code, TY 2007



SOURCE: Internal Revenue Service (IRS) and author's calculations



Figure 2: Average EITC Returns Claimed in Contra Costa County by Zip Code, TY 2007



SOURCE: Internal Revenue Service (IRS) and author's calculation

#### IV. The Economic Impact of the Federal EITC Program

EITC payments to Contra Costa County residents are injected into the county's economy when they are spent. Due to the interactions between firms, industries, and social institutions that naturally occur within the regional economy, the expenditures of EITC payments now circulating within the county revenue stream initiates a series of iterative rounds of income creation, spending and re-spending that result in multiplicative effects. Thus, EITC payments spent in the county's economy become income for residents, business and local government.

The impact of EITC dollars in the county is made smaller when there are leakages, mainly savings withheld and dollars spent outside the county's economy. Determining exactly which fraction of the EITC payments is spent within the county would probably require expensive primary data collection, such as a survey.

Following what other researchers have done in similar studies to account for initial expenditure leakages, it is assumed that only 80% of the EITC payments made to county residents were spent within the county's economy.<sup>13</sup> This assumption is a conservative one considering (1) the low mobility of low-income families and (2) empirical evidence showing the low savings rate (and negative in some cases) for low-income families. This study also assumes that EITC dollars are spent following a typical pattern for households with incomes between \$15,000 and \$25,000. In other words, it is assumed that the spending profile of EITC recipients resembles one of typical families earning this income level.

An additional issue when calculating the economic impact of the EITC program is that not all taxpayers who claim the EITC are technically eligible to receive the credit. In other words, there are a number of individuals that claim and receive the credit but do not meet all of the eligibility requirements. The "error rate" of ineligible EITC claimants is, according to IRS calculations for the tax year 1999, between 27% and 32% of EITC claims nationwide.<sup>14</sup> Some researchers have argued that the IRS study has significant methodological shortcomings that likely result in an overstatement of the error rate.<sup>15</sup> Even if the error rate of the program was accurately known, it would probably be inaccurate to assume that such error rate applied to every county in California.<sup>16</sup> Importantly, this study employs IRS data reporting the actual dollars received as EITC credits in the county. Although some of these funds were surely obtained by error or fraud, the fact is that they made it to the county and produced an economic impact. Assuming the IRS audits and

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<sup>13</sup> The Jacob France Institute of the University of Baltimore in its 2004 study "The Importance of the Earned Income Tax Credit and Its Economic Effects in Baltimore City" assumes that two-thirds of the payments made to city residents were re-spent within the City. Similarly, John Haskell at Vanderbilt University in his 2006 study "The State of the Earned Income Tax Credit in Nashville: An Analysis of Economic Impacts and Geographic Distribution of the 'Working Poor' Tax Credit, TY 1997-2004" assumes that 87% of the EITC disbursements would be spent within the Nashville region.

<sup>14</sup> Internal Revenue Service, "Compliance Estimates for Earned Income Tax Credit Claimed on 1999 Returns", 2002. <http://www.irs.gov/pub/irs-soi/02compeitc.pdf> [accessed February 2010]

<sup>15</sup> "What is the Magnitude of EITC Overpayments?", Robert Greenstein, 2003, Center on Budget and Policy Priorities. <http://www.cbpp.org/archiveSite/5-20-03eitc3.pdf> [accessed February 2010]

<sup>16</sup> "Earned Income Credit Participation—What We (Don't) Know", Alan Berube, 2007, The Brookings Institute. <http://www.brookings.edu/metro/eitcparticipation.pdf> [accessed February 2010]

catches some ineligible claimants, and assuming further that corrected returns and penalties are assessed, the re-payment of any ill-gotten EITC payment would occur years after the funds were injected into the county's economy, producing an economic impact. A completely accurate picture of the economic impact would include a lagged leakage of the amount later collected by the IRS. Given low audit rates and the likelihood that the perpetrators will be unable to repay or will have left the county, this leakage is likely to be very small relative to the initial payment.

Table 5 shows the estimated economic impact of EITC payments by zip code while Table 6 shows the same estimate for those cities composed by 2 or more zip codes. Estimates indicate that spending resulting from Contra Costa county residents' receipt of the federal EITC creates a total of over \$80 million in business sales in the county (output), supports almost 400 jobs and creates close to \$20 million in labor income.<sup>17</sup> If the EITC program did not exist (or if no county resident claimed it), none of these impacts would occur.

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<sup>17</sup> Employment includes total wage and salary employees as well as self-employed jobs, including both full-time and part-time jobs.

**Table 5: Estimated Economic Impact of the Federal EITC Program in Contra Costa County, Zip Codes (TX 2007)**

ZIP	CITY	Claimed EITC Payments	80% Spent Locally	Economic Impact		
				Output	Employment	Labor Income
94505	Discovery Bay	\$606,000	\$484,800	\$600,430	4.2	\$95,002
94506	Danville	\$263,000	\$210,400	\$267,428	0.7	\$15,584
94507	Alamo	\$184,000	\$147,200	\$191,272	0.5	\$12,024
94509	Antioch	\$7,813,000	\$6,250,400	\$9,749,162	41.7	\$1,222,185
94511	Bethel Island	\$177,000	\$141,600	\$183,193	0.7	\$8,975
94513	Brentwood	\$3,728,000	\$2,982,400	\$4,550,291	18.5	\$453,137
94514	Byron	\$154,000	\$123,200	\$183,200	0.4	\$30,922
94516	Canyon	*	*	*	*	*
94517	Clayton	\$286,000	\$228,800	\$281,045	0.5	\$11,005
94518	Concord	\$1,785,000	\$1,428,000	\$2,011,904	7.1	\$154,692
94519	Concord	\$1,439,000	\$1,151,200	\$1,545,023	4.7	\$100,194
94520	Concord	\$3,553,000	\$2,842,400	\$5,081,832	29.4	\$818,198
94521	Concord	\$2,412,000	\$1,929,600	\$2,555,915	8.4	\$168,466
94522	Concord	\$66,000	\$52,800	\$74,903	0.2	\$7,002
94523	Pleasant Hill	\$1,321,000	\$1,056,800	\$1,856,413	11.1	\$297,219
94524	Concord	\$85,000	\$68,000	\$80,278	0.2	\$8,100
94525	Crockett	\$208,000	\$166,400	\$202,053	0.4	\$7,015
94526	Danville	\$595,000	\$476,000	\$648,285	2.4	\$53,391
94527	Concord	\$23,000	\$18,400	\$24,300	0.0	\$2,040
94528	Diablo	\$10,000	\$8,000	\$9,720	0.0	\$400
94529	Concord	*	*	*	*	*
94530	El Cerrito	\$1,174,000	\$939,200	\$1,370,611	5.8	\$130,701
94531	Antioch	\$4,049,000	\$3,239,200	\$4,967,212	21.5	\$630,421
94547	Hercules	\$1,547,000	\$1,237,600	\$1,592,802	3.6	\$83,302
94548	Knightsen	\$79,000	\$63,200	\$81,034	0.2	\$8,222
94549	Lafayette	\$497,000	\$397,600	\$562,068	2.2	\$55,699
94553	Martinez	\$2,673,000	\$2,138,400	\$3,500,790	15.8	\$465,248
94556	Moraga	\$196,000	\$156,800	\$200,128	0.5	\$12,323
94561	Oakley	\$3,245,000	\$2,596,000	\$3,329,934	8.9	\$168,412
94563	Orinda	\$224,000	\$179,200	\$233,670	0.5	\$15,822
94564	Pinole	\$1,565,000	\$1,252,000	\$1,869,781	8.4	\$194,411
94565	Pittsburg	\$11,646,000	\$9,316,800	\$13,607,381	50.8	\$1,176,970
94569	Port Costa	*	*	*	*	*
94570	Moraga	*	*	*	*	*
94572	Rodeo	\$1,043,000	\$834,400	\$1,011,601	1.6	\$33,149
94575	Moraga	*	*	*	*	*
94582	San Ramon	\$679,000	\$543,200	\$998,023	3.8	\$144,503
94583	San Ramon	\$935,000	\$748,000	\$1,265,058	6.2	\$192,406
94595	Walnut Creek	\$179,000	\$143,200	\$182,514	0.5	\$11,095
94596	Walnut Creek	\$613,000	\$490,400	\$872,373	4.9	\$144,395
94597	Walnut Creek	\$617,000	\$493,600	\$880,278	4.9	\$150,231
94598	Walnut Creek	\$472,000	\$377,600	\$588,939	2.2	\$63,397
94801	Richmond	\$4,241,000	\$3,392,800	\$5,191,592	21.5	\$646,678
94802	Richmond	\$205,000	\$164,000	\$196,700	0.5	\$16,003
94803	El Sobrante	\$1,855,000	\$1,484,000	\$1,995,166	5.6	\$124,476
94804	Richmond	\$5,659,000	\$4,527,200	\$6,968,290	28.7	\$709,406
94805	Richmond	\$1,136,000	\$908,800	\$1,225,060	3.6	\$85,000
94806	San Pablo	\$7,522,000	\$6,017,600	\$10,159,329	52.1	\$1,444,939
94807	Richmond	\$9,000	\$7,200	\$8,008	0.0	\$300
94808	Richmond	\$33,000	\$26,400	\$33,702	0.2	\$3,200
94820	El Sobrante	\$72,000	\$57,600	\$68,920	0.4	\$7,345
94850	Richmond	*	*	*	*	*
	<b>Contra Costa</b>	<b>\$77,072,000</b>	<b>\$61,657,600</b>	<b>\$81,512,810</b>	<b>395.0</b>	<b>\$19,892,327</b>

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations ("\*" = not disclosed by IRS)

**Table 6: Estimated Economic Impact of the Federal EITC Program in Contra Costa County, Cities (TX 2007)**

CITY	Claimed EITC Payments	80% Spent Locally	Economic Impact		
			Output	Employment	Labor Income
Antioch	\$11,862,000	\$9,489,600	\$14,716,374	63.2	\$1,852,606
Brentwood	\$3,728,000	\$2,982,400	\$4,550,291	18.5	\$453,137
Clayton	\$286,000	\$228,800	\$281,045	0.5	\$11,005
Concord	\$9,363,000	\$7,490,400	\$11,374,155	50.0	\$1,258,692
Danville	\$858,000	\$686,400	\$915,713	3.1	\$68,975
El Cerrito	\$1,174,000	\$939,200	\$1,370,611	5.8	\$130,701
Hercules	\$1,547,000	\$1,237,600	\$1,592,802	3.6	\$83,302
Lafayette	\$497,000	\$397,600	\$562,068	2.2	\$55,699
Martinez	\$2,673,000	\$2,138,400	\$3,500,790	15.8	\$465,248
Moraga	\$196,000	\$156,800	\$200,128	0.5	\$12,323
Oakley	\$3,245,000	\$2,596,000	\$3,329,934	8.9	\$168,412
Orinda	\$224,000	\$179,200	\$233,670	0.5	\$15,822
Pinole	\$1,565,000	\$1,252,000	\$1,869,781	8.4	\$194,411
Pittsburg	\$11,646,000	\$9,316,800	\$13,607,381	50.8	\$1,176,970
Pleasant Hill	\$1,321,000	\$1,056,800	\$1,856,413	11.1	\$297,219
Richmond	\$11,283,000	\$9,026,400	\$13,623,352	54.5	\$1,460,587
San Pablo	\$7,522,000	\$6,017,600	\$10,159,329	52.1	\$1,444,939
San Ramon	\$1,614,000	\$1,291,200	\$2,263,081	10.0	\$336,909
Walnut Creek	\$1,881,000	\$1,504,800	\$2,524,104	12.6	\$369,118

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations

## V. The Foregone Economic Impact of Under-utilizing the Federal EITC Program

A significant amount of unclaimed EITC payments (estimated to total near \$20 million) are never injected into the county's revenue stream when eligible residents fail to claim the EITC. These foregone transfer payments represent a lost opportunity to generate new business sales, jobs, income and tax revenue. Table 7 shows the foregone economic impact of the unclaimed EITC payments by zip code, while Table 8 shows the same estimate for those cities composed by 2 or more zip codes. These estimates illustrate the potential economic impact if all county residents claimed the EITC payments to which they were eligible.

The results show that if Contra Costa county residents fully participated in the EITC program and if they spent 80% of the EITC payments within the county, then these EITC resources would create over \$20 million in additional business sales (output), support an additional (almost) 100 jobs and create near \$5 million in labor income.

**Table 7: Estimated Foregone Economic Impact of the Federal EITC Program in Contra Costa County, Zip Codes (TX 2007)**

ZIP	CITY	Unclaimed EITC Payments	80% Spent Locally	Foregone Economic Impact		
				Output	Employment	Labor Income
94505	Discovery Bay	\$151,500	\$121,200	\$150,108	1.0	\$23,751
94506	Danville	\$65,750	\$52,600	\$66,857	0.2	\$3,896
94507	Alamo	\$46,000	\$36,800	\$47,818	0.1	\$3,006
94509	Antioch	\$1,953,250	\$1,562,600	\$2,437,291	10.4	\$305,546
94511	Bethel Island	\$44,250	\$35,400	\$45,798	0.2	\$2,244
94513	Brentwood	\$932,000	\$745,600	\$1,137,573	4.6	\$113,284
94514	Byron	\$38,500	\$30,800	\$45,800	0.1	\$7,731
94516	Canyon	*	*	*	*	*
94517	Clayton	\$71,500	\$57,200	\$70,261	0.1	\$2,751
94518	Concord	\$446,250	\$357,000	\$502,976	1.8	\$38,673
94519	Concord	\$359,750	\$287,800	\$386,256	1.2	\$25,049
94520	Concord	\$888,250	\$710,600	\$1,270,458	7.3	\$204,550
94521	Concord	\$603,000	\$482,400	\$638,979	2.1	\$42,117
94522	Concord	\$16,500	\$13,200	\$18,726	0.0	\$1,751
94523	Pleasant Hill	\$330,250	\$264,200	\$464,103	2.8	\$74,305
94524	Concord	\$21,250	\$17,000	\$20,070	0.0	\$2,025
94525	Crockett	\$52,000	\$41,600	\$50,513	0.1	\$1,754
94526	Danville	\$148,750	\$119,000	\$162,071	0.6	\$13,348
94527	Concord	\$5,750	\$4,600	\$6,075	0.0	\$510
94528	Diablo	\$2,500	\$2,000	\$2,430	0.0	\$100
94529	Concord	*	*	*	*	*
94530	El Cerrito	\$293,500	\$234,800	\$342,653	1.5	\$32,675
94531	Antioch	\$1,012,250	\$809,800	\$1,241,803	5.4	\$157,605
94547	Hercules	\$386,750	\$309,400	\$398,201	0.9	\$20,826
94548	Knightsen	\$19,750	\$15,800	\$20,259	0.0	\$2,056
94549	Lafayette	\$124,250	\$99,400	\$140,517	0.5	\$13,925
94553	Martinez	\$668,250	\$534,600	\$875,198	4.0	\$116,312
94556	Moraga	\$49,000	\$39,200	\$50,032	0.1	\$3,081
94561	Oakley	\$811,250	\$649,000	\$832,484	2.2	\$42,103
94563	Orinda	\$56,000	\$44,800	\$58,418	0.1	\$3,956
94564	Pinole	\$391,250	\$313,000	\$467,445	2.1	\$48,603
94565	Pittsburg	\$2,911,500	\$2,329,200	\$3,401,845	12.7	\$294,243
94569	Port Costa	*	*	*	*	*
94570	Moraga	*	*	*	*	*
94572	Rodeo	\$260,750	\$208,600	\$252,900	0.4	\$8,287
94575	Moraga	*	*	*	*	*
94582	San Ramon	\$169,750	\$135,800	\$249,506	1.0	\$36,126
94583	San Ramon	\$233,750	\$187,000	\$316,265	1.5	\$48,102
94595	Walnut Creek	\$44,750	\$35,800	\$45,629	0.1	\$2,774
94596	Walnut Creek	\$153,250	\$122,600	\$218,093	1.2	\$36,099
94597	Walnut Creek	\$154,250	\$123,400	\$220,070	1.2	\$37,558
94598	Walnut Creek	\$118,000	\$94,400	\$147,235	0.5	\$15,849
94801	Richmond	\$1,060,250	\$848,200	\$1,297,898	5.4	\$161,670
94802	Richmond	\$51,250	\$41,000	\$49,175	0.1	\$4,001
94803	El Sobrante	\$463,750	\$371,000	\$498,792	1.4	\$31,119
94804	Richmond	\$1,414,750	\$1,131,800	\$1,742,073	7.2	\$177,352
94805	Richmond	\$284,000	\$227,200	\$306,265	0.9	\$21,250
94806	San Pablo	\$1,880,500	\$1,504,400	\$2,539,832	13.0	\$361,235
94807	Richmond	\$2,250	\$1,800	\$2,002	0.0	\$75
94808	Richmond	\$8,250	\$6,600	\$8,426	0.0	\$800
94820	El Sobrante	\$18,000	\$14,400	\$17,230	0.1	\$1,836
94850	Richmond	*	*	*	*	*
	<b>Contra Costa</b>	<b>\$19,268,000</b>	<b>\$15,414,400</b>	<b>\$20,378,203</b>	<b>98.8</b>	<b>\$4,973,082</b>

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations ("\*" = not disclosed by IRS)

**Table 8: Estimated Foregone Economic Impact of the Federal EITC Program in Contra Costa County, Cities (TX 2007)**

CITY	Unclaimed EITC Payments	80% Spent Locally	Foregone Economic Impact		
			Output	Employment	Labor Income
Antioch	\$2,965,500	\$2,372,400	\$3,679,094	15.8	\$463,152
Brentwood	\$932,000	\$745,600	\$1,137,573	4.6	\$113,284
Clayton	\$71,500	\$57,200	\$70,261	0.1	\$2,751
Concord	\$2,340,750	\$1,872,600	\$2,843,539	12.5	\$314,673
Danville	\$214,500	\$171,600	\$228,928	0.8	\$17,244
El Cerrito	\$293,500	\$234,800	\$342,653	1.5	\$32,675
Hercules	\$386,750	\$309,400	\$398,201	0.9	\$20,826
Lafayette	\$124,250	\$99,400	\$140,517	0.5	\$13,925
Martinez	\$668,250	\$534,600	\$875,198	4.0	\$116,312
Moraga	\$49,000	\$39,200	\$50,032	0.1	\$3,081
Oakley	\$811,250	\$649,000	\$832,484	2.2	\$42,103
Orinda	\$56,000	\$44,800	\$58,418	0.1	\$3,956
Pinole	\$391,250	\$313,000	\$467,445	2.1	\$48,603
Pittsburg	\$2,911,500	\$2,329,200	\$3,401,845	12.7	\$294,243
Pleasant Hill	\$330,250	\$264,200	\$464,103	2.8	\$74,305
Richmond	\$2,820,750	\$2,256,600	\$3,405,838	13.6	\$365,147
San Pablo	\$1,880,500	\$1,504,400	\$2,539,832	13.0	\$361,235
San Ramon	\$403,500	\$322,800	\$565,770	2.5	\$84,227
Walnut Creek	\$470,250	\$376,200	\$631,026	3.1	\$92,280

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations

## VI. The Foregone Economic Impact in 2009

Sections one through five of this report calculate the foregone economic impact of the federal EITC for 2007, the most recent year for which data is available. There is a time lag of basically two years because the IRS does not make the data available for the current tax year.<sup>18</sup> Since EITC eligibility is based on income, potential EITC payments and their associated economic impact in the Contra Costa County were likely to be much higher in 2009 when unemployment was higher and income was lower due to the economic recession. Therefore, the 2007 estimates likely understate the *current* foregone economic impact of the EITC program.

One way to estimate the *current* foregone impact is to look at the historical relationship between EITC claims and unemployment rates in the whole State of California, extrapolate the data for 2009 and assume that this relationship holds true for individual counties within the state, including Contra Costa County. Table 9 shows this relationship over the last 10 years where at least four things stand out. First, the accumulated amount of estimated unclaimed EITC dollars between 1997 and 2006 is large, adding up to almost \$10 billion. Second, the number of total tax returns has grown more rapidly (1.8% annually) than the number of EITC returns (0.8% annually). Consequently, EITC returns as a percentage of the total returns have declined. Third, the average EITC return has steadily increased by close to 23% during the 1997-2006 period, which may reflect both inflation adjustments and efforts to building a more generous EITC program. The recent evolution of the EITC program indicates that such efforts to build a more generous EITC program have been

<sup>18</sup> The IRS will release the data for tax year 2008 in the spring of 2011.

underway. For example, for tax year 2000, the maximum credit for a family with no qualifying children was \$353, with one qualifying child was \$2,353 and with two or more qualifying children was \$3,888. Six years later, the maximum credits were \$412, \$2,747 and \$4,536 respectively. Further, for tax year 2009, the federal government increased the credit and dependent allowances. So, if a family has 3 or more children, it can qualify for an even larger tax credit, which eliminates the two-child credit cap. Fourth, there is small but positive correlation (0.33) between the unemployment rate and the number of EITC returns, which supports the notion that more State residents claim the EITC credit when unemployment is high.

**Table 9: Historical EITC Data and Unemployment Rates in California**

Tax year	Total Returns	EITC Returns	EITC Returns as % of Total	Claimed EITC Payments	Unclaimed EITC Payments	Average EITC Credit	Unemployment Rate
1997	13,136,556	2,238,370	17.04%	\$3,436,211,994	\$859,052,999	\$1,535	6.4%
1998	13,576,420	2,232,825	16.45%	\$3,612,096,985	\$903,024,246	\$1,618	6.0%
1999	13,930,437	2,208,165	15.85%	\$3,696,392,424	\$924,098,106	\$1,674	5.3%
2000	14,289,773	2,198,596	15.39%	\$3,685,090,381	\$921,272,595	\$1,676	4.9%
2001	14,470,542	2,175,394	15.03%	\$3,713,183,870	\$928,295,968	\$1,707	5.4%
2002	14,493,603	2,364,922	16.32%	\$4,158,763,563	\$1,039,690,891	\$1,759	6.7%
2003	14,440,197	2,384,703	16.51%	\$4,205,930,878	\$1,051,482,720	\$1,764	6.9%
2004	14,592,665	2,378,695	16.30%	\$4,273,588,132	\$1,068,397,033	\$1,797	6.3%
2005	14,796,934	2,376,646	16.06%	\$4,397,875,497	\$1,099,468,874	\$1,850	5.4%
2006	15,419,437	2,401,947	15.58%	\$4,522,770,000	\$1,130,692,500	\$1,883	4.9%

**SOURCE:** Internal Revenue Service (IRS), California Employment Development Department (EDD)

Based on these data, it is possible to estimate the foregone economic impact of the EITC program for the year 2009 under two scenarios: a conservative scenario and a less conservative one. The conservative scenario assumes that both total EITC returns and the average EITC credit will continue growing at the average annual rate observed for the last 10 years of available data. Under these assumptions, Table 10 shows that the total amount of unclaimed EITC payments would amount to approximately \$1.24 billion for 2009.

**Table 10: Unclaimed 2009 EITC Payments under the Conservative Scenario for the State of California**

Tax year	EITC Returns	Claimed EITC Payments	Unclaimed EITC Payments	Average EITC Credit	Unemployment Rate
2007	2,421,883	\$4,665,652,129	\$1,166,413,032	\$1,926	5.4%
2008	2,441,985	\$4,813,048,151	\$1,203,262,038	\$1,971	7.2%
2009	2,462,253	\$4,965,100,669	\$1,241,275,167	\$2,016	11.7%

**SOURCE:** Internal Revenue Service (IRS), IMPLAN and author's calculations

The less conservative scenario assumes the total number of EITC returns will increase with unemployment, and that average EITC credit will continue growing at the average annual rate observed for the last 10 years of available data (similar to the conservative scenario). The measured correlation between EITC returns and the unemployment rate for the 1997-2006 period implies that for every 1 percent increase in the unemployment rate, the number of EITC returns increases by 25,000. Table 11 shows that the total amount of unclaimed EITC payments would be approximately \$1.29 billion for 2009.



**Table 11: Unclaimed 2009 EITC Payments under the Less Conservative Scenario for the State of California**

Tax year	EITC Returns	Claimed EITC Payments	Unclaimed EITC Payments	Average EITC Credit	Unemployment Rate
2007	2,414,447	\$4,651,326,691	\$1,162,831,673	\$1,926	5.4%
2008	2,459,447	\$4,847,465,424	\$1,211,866,356	\$1,971	7.2%
2009	2,571,947	\$5,186,296,615	\$1,296,574,154	\$2,016	11.7%

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations

If 80% of the EITC payments are spent within the State, unclaimed EITC payments will result in the 2009 foregone economic impact shown in Table 12. Under the conservative scenario, the output impact would be \$1.40 billion and the employment impact would be 8,237 jobs, implying a 2009 impact that is approximately 10% larger than 2006. Under the less conservative scenario, the output impact would be close to \$1.45 billion and the employment impact would reach 8,575 jobs, implying a foregone economic impact in 2009 that is approximately 15% larger than 2006.

Thus, assuming that this relationship holds true for Contra Costa County as well, the estimated foregone economic impact in 2009 for the county is shown in Table 13 under both scenarios. The foregone economic impact in 2009 can be estimated for either the zip codes or the cities examined in previous sections by multiplying the estimated numbers for output, employment or labor income for 2007 by 10% under conservative assumptions or 15% under less conservative assumptions.

**Table 12: Estimated Foregone Economic Impact for 2009 for the State of California**

Scenario	Unclaimed EITC Payments	80% Spent Locally	Foregone Economic Impact		
			Output	Employment	Labor Income
CONSERVATIVE	\$1,241,275,167	\$993,020,134	\$1,401,160,725	8,237	\$342,780,027
LESS CONSERVATIVE	\$1,296,574,154	\$1,037,259,323	\$1,458,657,289	8,575	\$356,845,989

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations

**Table 13: Estimated Foregone Economic Impact for 2009 for Contra Costa County**

Scenario	Unclaimed EITC Payments	80% Spent Locally	Foregone Economic Impact		
			Output	Employment	Labor Income
CONSERVATIVE	\$21,194,800	\$16,955,840	\$22,416,023	109	\$5,470,390
LESS CONSERVATIVE	\$22,158,200	\$17,726,560	\$23,434,933	114	\$5,719,044

SOURCE: Internal Revenue Service (IRS), IMPLAN and author's calculations

## **VII. Concluding Remarks**

The federal EITC program represents an important source of revenue for residents, businesses and local governments of Contra Costa County as working families receive and spend EITC payments. For a variety of reasons, many eligible families within the county fail to claim these credits. In fact, it is estimated that (at the state level) around one out of every five eligible families fails to take advantage of this program. Efforts that successfully close the gap between potential EITC payments and actual EITC payments would help reduce poverty, increase labor force participation rates and provide a substantial injection of resources into the county's revenue stream.

Using conservative data and assumptions, this report estimates that Contra Costa County residents fail to claim over \$20 million annually in EITC payments for which they are eligible. If these payments were claimed, economic activity resulting from the payments would support near 100 additional jobs and create close to \$5 million in new labor income each year. There are reasons to believe that these numbers understate the current impact of these foregone payments. Using simple assumptions based on the historical relationship between EITC participation and unemployment at the state level, it is likely that the current impact of county under-participation in the EITC is 10-15% higher than the 2007 estimates featured in this report, which amounts to more than 18,000 EITC unclaimed returns.

Contra Costa County and its residents lose out on a great deal of resources by not fully exploiting the federal EITC program. The eligible residents lose out on money to which they are entitled by the Internal Revenue Code. Also, other county beneficiaries lose when that money is not spent and re-circulated through the county economy. Using conservative estimates, the county economy would have created more than \$22 million in new output and more than 100 new jobs in 2009 alone if the EITC were fully exploited.