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Tax Preparation for Low-Income Households, Knowledge of the EITC

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The Earned Income Tax Credit is the nation’s largest cash assistance program for working families. In 2003, families with two or more children could receive a credit worth up to \$4,200. Analysts often criticize the EITC for adding complexity to an already difficult to understand tax system, which may help to promote reliance on paid preparers.

The table below uses data from the 2001 National Survey of American’s Families (NSAF) to examine the patterns of use of tax assistance and people’s knowledge about the EITC. Parents who helped prepare the family tax return were asked whether a community service

group or paid preparer helped them complete their return. According to the IRS, most people who report help get it from a paid preparer. Respondents were also asked if they knew about the EITC.

The table shows that low-income families — those most likely to qualify for the EITC — are more likely to seek assistance filing their tax returns than higher-income families (more than 65 percent vs. less than 60 percent). The IRS reports similar patterns. Ironically, families with very low-incomes are less likely to know about the EITC than higher income families. There is, however, a correlation between knowledge of the EITC and other cash assistance programs. Almost all former welfare recipients know about the EITC (91.6 percent) and the percentage is almost as high for former food stamp recipients (85.3 percent).

Parents Under 65 Who File Tax Returns, Tax Year 2000		
Income (as % of federal poverty level)	Receive help preparing taxes	Heard about the EITC
< 50%	65.9%	66.6%
50-100%	70.6%	71.0%
100-150%	69.0%	73.9%
150-200%	68.0%	74.9%
200% or more	56.5%	77.8%
Received AFDC/TANF in the past	67.3%	91.6%
Received food stamps in the past	65.3%	85.3%
Total	60.0%	76.3%



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