
The Costs of Unclaimed Earned Income Tax Credits to California's Economy: Update of the "Left on the Table" Report

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EXECUTIVE SUMMARY

The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low to moderate income working households. The EITC is one of the federal government's largest resources to assist working low-income Americans. Over the years, the EITC program has earned the reputation of being one of the most efficient anti-poverty programs. Every year, millions of Californians claim billions of dollars as EITC refunds. The EITC credits claimed by California residents provide a substantial amount of dollars that benefit the State's economy as they are injected into the State's revenue stream.

For a variety of reasons, however, hundreds of thousands of Californians fail to claim EITC refunds every year. Since these unclaimed dollars are never spent at local businesses, fewer jobs are created or supported, fewer wages are paid, and eventually less tax revenue goes to state and local governments. Thus, these unclaimed refunds represent a foregone economic stimulus for California.

This report is an update of the "*Left on the Table*" report released on March 9, 2010, by the New America Foundation. The "*Left on the Table*" report, commissioned by the California Department of Community Services and Development (CSD), was the first attempt to assess the magnitude of the foregone losses associated with unclaimed EITC benefits in California. The main purpose of this updated report is to inform on the positive benefits of the EITC and the missed opportunities for California, its 58 counties and its residents.

Primary Findings

- From 2006 to 2012, for California as a whole, both EITC claims as a percentage of the total number of returns as well as the average size of the EITC credit claimed, grew more than the state population and also more than the total number of returns. This suggests a higher participation of California residents in the EITC program
- During the 2012 fiscal year, 3.2 million Californians claimed EITC refunds for a total of \$7.3 billion dollars. This number of claims is 33.6% higher than the 2.4 million claims made in the 2006 fiscal year, which then resulted in \$4.95 billion dollars in EITC refunds.
- Similar to the national trend since 2009, the number of total EITC claims as a percentage of total returns in California, has leveled off around 19%. This indicates that about 1 in every 5 people filing a tax return also claims EITC dollars.
- In general, states with low median household income level exhibit large EITC claims as a percentage of total returns. However, despite the relatively high median housing income in California, which conceals the household income level disparities across counties within the State, according to 2012 IRS data, with 19% California exhibited the 19th largest percentage (of EITC claims to total returns) in the nation. All 18 states with higher percentages also showed lower median household income, including states with large populations such as Florida (23.4%), Texas (23.3%) and New York (19.2%).
- EITC refunds vary significantly by county. In 2012, more than \$2.2 billion dollars in EITC payments went to Los Angeles County alone. In contrast, smaller counties such as Alpine, Sierra and Trinity claimed less than \$2.5 million dollars combined.
- From 2006 to 2012 some counties experienced a decline in population and thus a reduction in the total number of returns. Most of these counties however (Alpine, Amador, Lassen, Plumas, Trinity and Tuolumne) also experienced an increase in the number of EITC claims and an increase in the total EITC dollars claimed
- From 2006 to 2012, in five counties (Contra Costa, Marin, Napa, Orange and Placer) both the number of EITC claims and the total EITC dollars claimed significantly increased by more than 45% and 70% respectively. This indicates a significantly higher participation of California residents in the EITC program in these counties.
- The \$7.3 billion EITC dollars claimed in 2012 generated a total economic impact of \$8.6 billion in business sales (output), supported more than 55,000 jobs¹, and created more than \$3 billion in labor income.
- The multiplier effect of the federal EITC dollars spent in California's economy also generated more than \$548 million in state and local tax revenues in 2012; 36% of this amount from sales taxes alone.
- Between 2006 and 2012, the number of unclaimed EITC returns grew by 33.6%, unclaimed EITC payments grew by 61.2% and the average size of the unclaimed EITC payment grew by 20.6%. These growth rates surpassed California's population growth rate of 4.5% for the same period. This suggests

¹ Jobs include total wage and salary employees, including both full-time and part-time jobs.

that proportionally, a larger number of Californians are not claiming EITC payments.

- In 2012, 1.0 million Californians left on the table \$1.8 billion dollars in EITC payments, which is 61.2% higher than the \$1.1 billion dollars in EITC payments in 2006 unclaimed by 800,000 Californians.
- The proportion of those failing to claim the EITC credit is higher: (1) in areas of high concentration of Hispanics; (2) among individuals with lower incomes than eligible individuals who filed a tax return to get the EITC; (3) among

individuals who participated in food stamp assistance programs; and (4) among those with no qualifying children. In counties where the demographic profile indicates a prevalence of these factors, the actual non-filer rate is likely to be higher than 20%.

- The foregone economic impact of the unclaimed \$1.8 billion EITC dollars amount to over \$2.1 billion dollars in additional business sales (output), over 13,800 additional jobs, more than \$760 million dollars in wages or labor income, and more than \$137 million dollars in additional tax revenue for state, county and city governments

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I. Introduction

The Earned Income Tax Credit (EITC), created by the United States Congress in 1975, represents one of the federal government's largest resources to assist working low-income Americans. Every year, similar to what happens around the nation, millions of Californians claim billions of dollars as EITC benefits. The EITC dollars claimed by California residents provide a substantial amount of resources that benefit the State's economy as they are injected into the State's revenue stream. The economic stimulus is magnified beyond the original EITC payments because the spending of EITC refunds within California creates ripple effects as more dollars move among consumers, businesses and even among state and local governments, which capture higher tax revenue.

However, for a variety of reasons, more than a million Californians fail to claim EITC refunds every year. Besides, the individuals and households who miss claiming the benefits are not the only entities that lose. Since these unclaimed dollars are never spent at local businesses, fewer jobs are created, fewer wages are paid, and eventually less tax revenue goes to state and local governments. Thus, these unclaimed refunds represent a foregone economic stimulus for California.

On March 9, 2010 the New America Foundation released a report titled "*Left on the Table*" authored by Dr. Antonio Avalos and Dr. Sean Alley from the Department of Economics at California State University, Fresno.² Utilizing Internal Revenue Service (IRS) data for tax year 2006, the report assessed the costs to California's economy associated with the unclaimed earned income tax credits. Among others, the findings included that: 2.4 million California residents claimed \$4.95 billion in EITC

refunds; as these refunds were spent, they spurred \$5.5 billion in sales for California businesses, who in turn created or supported 33,000 jobs, paid \$1.32 billion in wages, and brought \$390.5 million in tax revenue to state and local governments. The report also reported that: an estimated 800,000 Californians failed to claim \$1.1 billion in EITC refunds; since these refunds went unclaimed, California businesses lost out \$1.4 billion in sales and 8,200 jobs were not created or supported.

The "*Left on the Table*" report was the first attempt to assess the magnitude of the foregone losses associated with unclaimed EITC benefits in California. As such, it gained national notice and was utilized as an effective tool in bringing attention to the EITC program. For example, on March 9, 2010, the findings of the report were used as testimony by the authors before the California Senate Human Services Committee.³ Also, the findings were used across the State to support EITC awareness campaigns and the report was featured in *The New York Times* on April 30, 2010.⁴

The report, however, was produced 4 years ago and used data for the 2006 tax year. Although still relevant in informing policy as well as EITC awareness campaigns, its findings are not as relevant today not only because considerable time has passed, but also because new IRS data has become available. In July 2014, officials from the California Department of Community Services & Development (CSD) and the University Business Center (UBC) at California State University, Fresno initiated a conversation about the need to update and expand the "*Left on the Table*" 2010 report. This report is the result of such conversation.

2

http://newamerica.net/publications/policy/left_on_the_table

³ <http://shum.senate.ca.gov/hearings>

4

<http://www.nytimes.com/2010/04/30/us/30sbriefs.html>

The fundamental purpose of this updated report is to inform on the positive benefits of the EITC and the missed opportunities for the California economy, its 58 counties and residents. Specifically, this report: 1) provides updated data on the number of unclaimed credits in California; 2) compares where California stands today compared to

the last report, which represents new information; 3) compares where California ranks in relation to the rest of the United States, which also represents new information; and 4) examines the main demographic characteristics associated with those taxpayers that fail to claim the tax credit

II. Overview of the Earned Income Tax Credit (EITC)

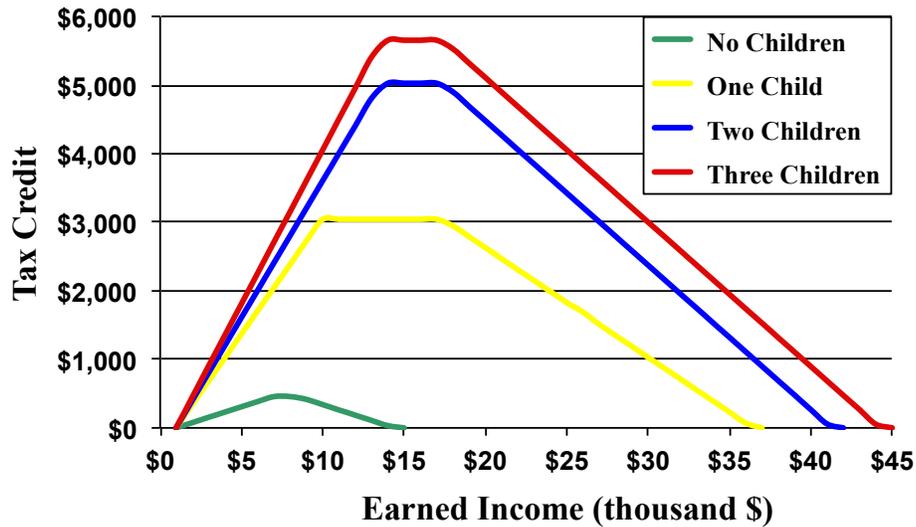
The EITC is a refundable federal income tax credit for low to moderate income working households. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of Social Security taxes and also to provide an incentive to work. When the EITC exceeds the amount of taxes owed, it results in a tax refund to those who qualify and claim 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.

Basically, 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 2012, the most current data for which EITC data are publicly available, a qualified claimant may have investment income of less than \$3,200 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:

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

Chart 1: EITC Structure for a Single, Head of Household, or Qualified Widow (2012)



SOURCE: Internal Revenue Service (IRS)

The maximum federal EITC credit for the 2012 Tax Year is \$5,891 for families with three children, \$5,236 for families with two children, and \$3,169 for families with one child. Although workers without a qualifying child also are eligible for EITC payments, the maximum credit for individuals or couples without children is \$475 in 2012, much lower than the credit for families with children.

It is worth highlighting that the EITC benefits have progressively increased since the inception of the program. For example in 2006, the tax year for which the most up to date IRS information was available for the “*Left on the Table*” report, the maximum federal EITC benefit was \$4,536 for families with two or more children, \$2,747 for families with one child, and \$412 for individuals or couples without children.⁵

Over the years, the EITC program has earned the reputation from both Democrats and Republicans of being an adequate policy instrument to address poverty. In March 2014, President Obama released a report where he calls for an expansion of the program.⁶ Similarly, in July 2014, Republican Senator Paul Ryan released another document where he also proposes an expansion of the EITC program.⁷ Although similar in most respects, the proposals also contain areas of disagreement that will need to be worked out. At the time this report was written, no legislative resolution had been passed. However, both initiatives illustrate the political willingness to augment this important program as well as the realization that it is an effective tool in lifting people out of poverty.

⁵ In 2009, the American Recovery and Reinvestment Act (ARRA) created a new category for three or more children, which also provided larger credits to larger families.

⁶ http://www.whitehouse.gov/sites/default/files/docs/eitc_report.pdf

⁷ http://budget.house.gov/uploadedfiles/expanding_opportunity_in_america.pdf

How to claim the EITC?

Qualifying workers must file a federal income tax return. This is the only way to receive the credit, even for those who don't make enough to be required to file. The IRS offers an EITC Assistant in English and Spanish here:

<http://www.irs.gov/Individuals/Free-Tax-Return-Preparation-for-You-by-Volunteers>

Filing for the credit can be complicated, but free, specialized community resources exist just to help people claim their refunds. To locate the nearest Volunteer Income Tax Assistance (VITA) site, call 800-906-9887 or visit:

<http://irs.treasury.gov/freetaxprep/>

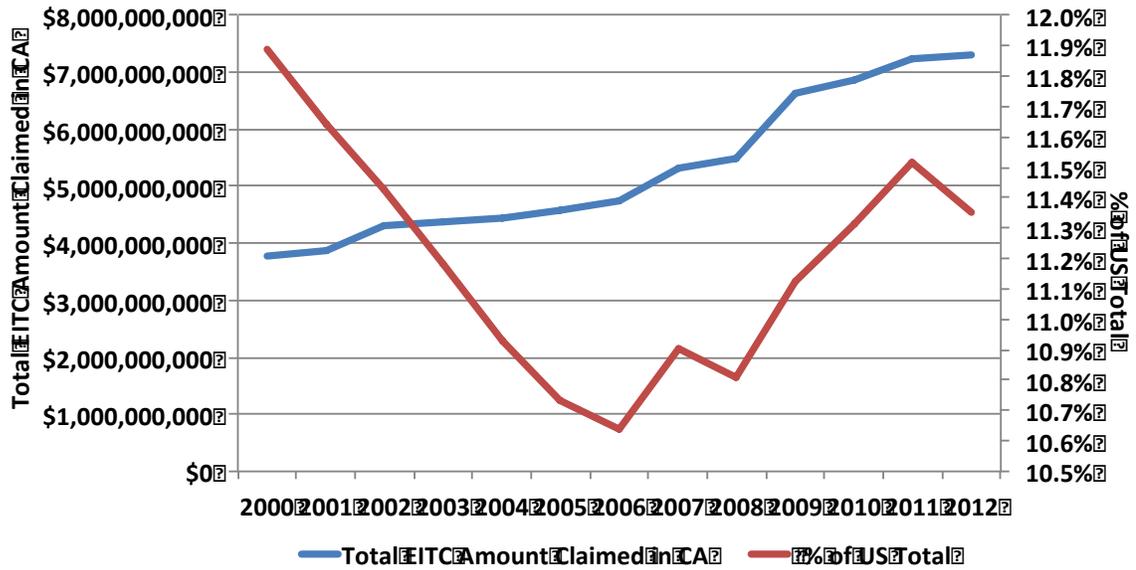
III. Claimed EITC Refunds in California and its Economic Impact

During the 2012 fiscal year, 3.2 million Californians claimed the EITC for a total of \$7.3 billion dollars. These amounts are

substantially higher than the 2.4 million claims made in the 2006 fiscal year, which resulted in \$4.95 billion dollars in EITC refunds as reported in the “*Left on the Table*” report. In fact, as shown in Chart 2, the amount of EITC refunds for California residents has been steadily increasing since at least 2000. However, it is worth noticing that as a percentage of the total EITC refunds in the United States, the California EITC refunds have moderately varied over time. Although consistently fluctuating since 2000 between a narrow range of 10% and 12%, California EITC refunds as a percent of total EITC dollars in the nation, exhibited a decline from 11.9% in 2000 to 10.6% in 2006. Since then, this indicator which roughly signals the relative participation of California in the Federal program, showed an upward trend until 2012, when it slightly fell again to 11.3%.

Other relevant indicators include the average EITC credit size and the total EITC claims as a percentage of the total returns filed in a given year. This information is shown in Chart 3. The average size credit claimed by California residents has gradually increased since 2000 to reach \$2,271 in fiscal year 2012. However, with the exception of years 2000, 2001, and 2007, for all other years since 2000, the California average credit size has been below the one for the country by an average of 2%.

Chart 2: EITC Dollars in California and Percent of Total EITC Dollars in the US



SOURCE: Internal Revenue Service (IRS)

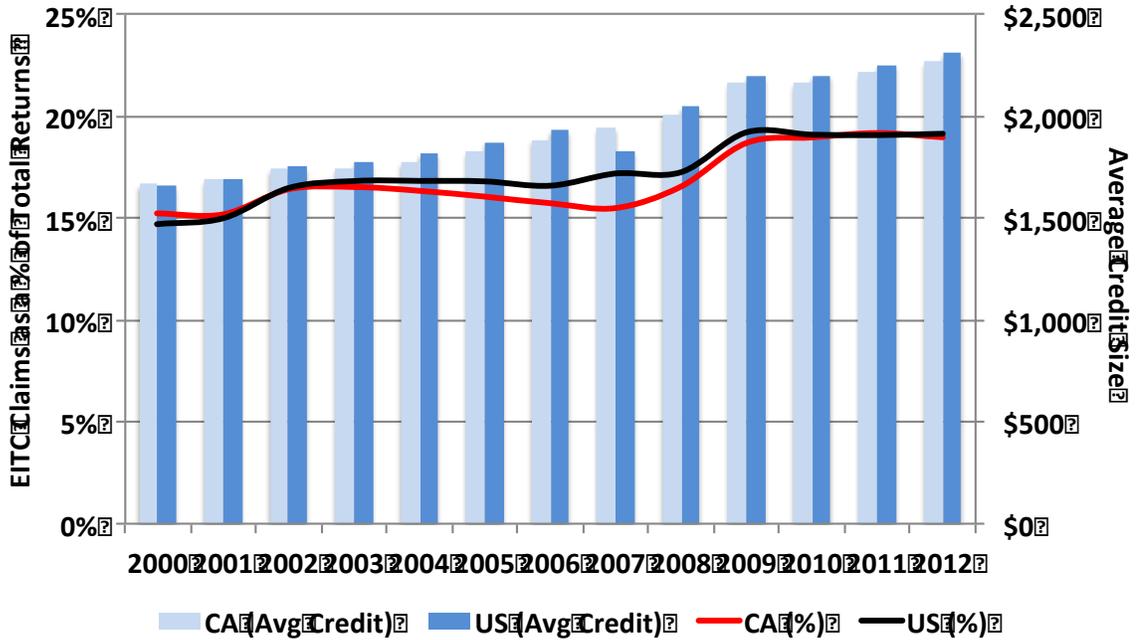
Finally, since 2000 the total EITC claims as a percentage of the total returns showed a slightly upward trend for both California and the United States until 2009, when this indicator seem to have leveled off around 19%. This indicates that around 1 in every 5 people filing a tax return also claims EITC dollars. It is also important to notice that although California has closely reflected this national trend, it deviated to some extent between the years 2004 and 2008 (see lines Chart 3), when this indicator for California declined below the one for the country by as much as 1.7 percentage points in 2007. More recently however (2009-2012), California has caught up with the national trend.⁸

2 shows the same indicators with data for 2006, which is the year examined in the “Left on the Table” report. Also, Table 3 shows the growth rate between 2006 and 2012 for each indicator contained in Tables 2 and 3. The data reveals several salient facts. First, for California as a whole, both EITC claims as a percentage of the total number of returns and the average EITC credit claimed grew more (21.9% and 20.6% respectively) than the state population (4.5%) and also more than the total number of returns (9.6%). This suggests a higher participation of California residents in the EITC program, which is not unexpected given that the state poverty rate increased from 12.2% in 2006 to 16.9% in 2011 as shown in Chart 4.

At the county level, the EITC claims made by California residents 2012 are shown in Table 1. For comparison purposes, Table

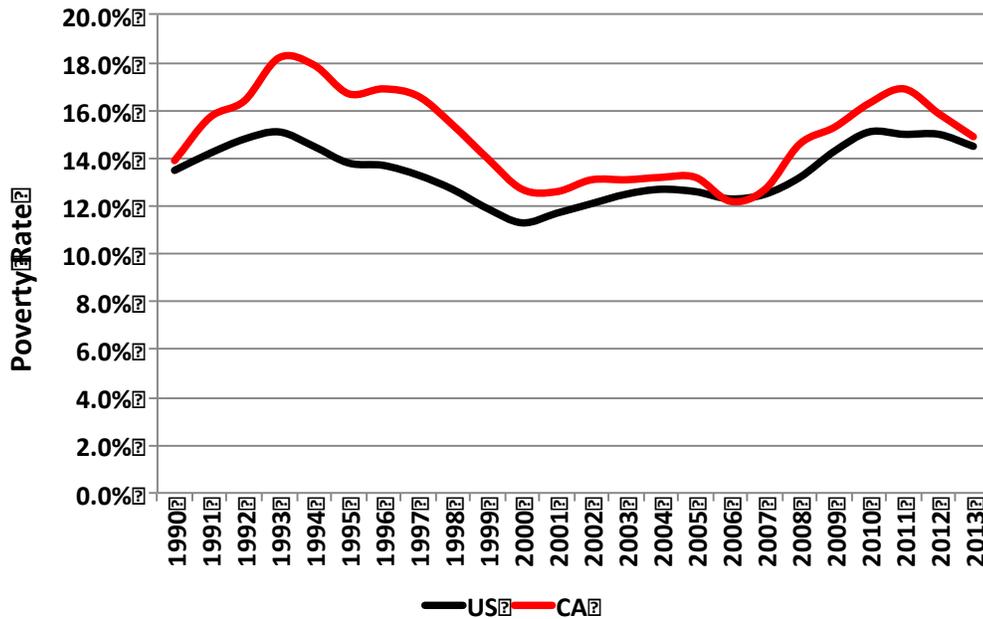
⁸ The trend analysis comparing California with the United States provides information that was not discussed in the original “Left on the Table” report.

Chart 3: Average Credit Size and EITC Claims as a Percentage of Total Returns



SOURCE: Internal Revenue Service (IRS)

Chart 4: California and United States Poverty Rate (1990-2013)



SOURCE: U.S. Census Bureau

Table 1: EITC Returns and EITC Dollars Claimed in 2012 by County

COUNTY	Total Returns	EITC Returns	Claimed EITC Payments	EITC Returns as % of Total	Average EITC Credit Claimed
Alameda	729,010	98,980	\$195,996,000	13.6%	\$1,980
Alpine	450	80	\$150,000	17.8%	\$1,875
Amador	15,890	2,170	\$4,075,000	13.7%	\$1,878
Butte	88,650	17,920	\$37,044,000	20.2%	\$2,067
Calaveras	19,580	2,950	\$5,724,000	15.1%	\$1,940
Colusa	9,410	2,020	\$4,507,000	21.5%	\$2,231
Contra Costa	508,860	59,750	\$121,899,000	11.7%	\$2,040
Del Norte	9,370	2,240	\$4,818,000	23.9%	\$2,151
El Dorado	84,100	10,430	\$18,825,000	12.4%	\$1,805
Fresno	375,680	110,430	\$286,326,000	29.4%	\$2,593
Glenn	11,570	2,790	\$6,360,000	24.1%	\$2,280
Humboldt	54,830	11,490	\$21,115,000	21.0%	\$1,838
Imperial	75,530	31,400	\$79,746,000	41.6%	\$2,540
Inyo	8,610	1,340	\$2,684,000	15.6%	\$2,003
Kern	324,830	88,730	\$233,380,000	27.3%	\$2,630
Kings	51,800	14,570	\$36,895,000	28.1%	\$2,532
Lake	24,790	5,880	\$12,867,000	23.7%	\$2,188
Lassen	9,880	1,710	\$3,442,000	17.3%	\$2,013
Los Angeles	4,452,130	984,640	\$2,264,079,000	22.1%	\$2,299
Madera	56,690	14,460	\$37,170,000	25.5%	\$2,571
Marin	131,020	9,620	\$15,138,000	7.3%	\$1,574
Mariposa	7,680	1,210	\$2,420,000	15.8%	\$2,000
Mendocino	37,810	8,010	\$16,291,000	21.2%	\$2,034
Merced	95,620	28,380	\$71,343,000	29.7%	\$2,514
Modoc	3,490	700	\$1,398,000	20.1%	\$1,997
Mono	6,220	910	\$1,537,000	14.6%	\$1,689
Monterey	191,030	36,660	\$86,667,000	19.2%	\$2,364
Napa	66,610	7,490	\$14,422,000	11.2%	\$1,926
Nevada	47,970	6,840	\$11,882,000	14.3%	\$1,737
Orange	1,433,010	212,990	\$451,757,000	14.9%	\$2,121
Placer	167,920	18,020	\$33,306,000	10.7%	\$1,848
Plumas	8,670	1,360	\$2,431,000	15.7%	\$1,788
Riverside	907,260	214,930	\$542,188,000	23.7%	\$2,523
Sacramento	633,820	127,480	\$293,694,000	20.1%	\$2,304
San Benito	25,110	4,550	\$10,075,000	18.1%	\$2,214
San Bernardino	834,700	222,660	\$575,378,000	26.7%	\$2,584
San Diego	1,484,020	253,840	\$547,959,000	17.1%	\$2,159
San Francisco	452,940	50,250	\$79,278,000	11.1%	\$1,578
San Joaquin	284,130	66,590	\$159,088,000	23.4%	\$2,389
San Luis Obispo	125,560	16,360	\$30,298,000	13.0%	\$1,852
San Mateo	369,170	32,340	\$57,937,000	8.8%	\$1,791
Santa Barbara	194,070	28,530	\$60,435,000	14.7%	\$2,118
Santa Clara	861,860	95,290	\$182,297,000	11.1%	\$1,913
Santa Cruz	126,370	18,790	\$36,920,000	14.9%	\$1,965
Shasta	75,210	15,330	\$31,930,000	20.4%	\$2,083
Sierra	1,260	200	\$380,000	15.9%	\$1,900
Siskiyou	18,480	3,980	\$8,045,000	21.5%	\$2,021
Solano	192,040	29,880	\$63,164,000	15.6%	\$2,114
Sonoma	236,540	28,470	\$51,348,000	12.0%	\$1,804
Stanislaus	208,850	51,030	\$119,972,000	24.4%	\$2,351
Sutter	37,910	8,780	\$20,088,000	23.2%	\$2,288
Tehama	24,130	5,530	\$12,247,000	22.9%	\$2,215
Trinity	4,840	1,030	\$1,916,000	21.3%	\$1,860
Tulare	169,170	55,060	\$146,626,000	32.5%	\$2,663
Tuolumne	23,400	3,820	\$7,305,000	16.3%	\$1,912
Ventura	396,800	58,050	\$119,949,000	14.6%	\$2,066
Yolo	82,700	13,150	\$27,343,000	15.9%	\$2,079
Yuba	27,160	7,360	\$17,347,000	27.1%	\$2,357
CALIFORNIA	16,906,210	3,209,450	\$7,288,901,000	19.0%	\$2,271

SOURCE: Internal Revenue Service (IRS)

Table 2: EITC Returns and EITC Dollars Claimed in 2006 by County

COUNTY	Total Returns	EITC Returns	Claimed EITC Payments	EITC Returns as % of Total	Average EITC Credit Claimed
Alameda	651,851	69,375	\$116,430,469	10.6%	\$1,678
Alpine	479	58	\$83,653	12.2%	\$1,432
Amador	15,969	1,601	\$2,481,383	10.0%	\$1,550
Butte	85,118	14,083	\$24,378,058	16.5%	\$1,731
Calaveras	21,740	2,439	\$4,031,883	11.2%	\$1,653
Colusa	8,865	1,569	\$2,857,822	17.7%	\$1,822
Contra Costa	474,582	40,047	\$67,357,249	8.4%	\$1,682
Del Norte	9,202	1,818	\$3,353,904	19.8%	\$1,845
El Dorado	79,019	7,204	\$11,285,381	9.1%	\$1,567
Fresno	330,517	85,970	\$182,253,755	26.0%	\$2,120
Glenn	11,076	2,298	\$4,245,879	20.7%	\$1,848
Humboldt	53,397	9,294	\$14,411,671	17.4%	\$1,551
Imperial	70,279	25,374	\$52,494,241	36.1%	\$2,069
Inyo	9,506	1,088	\$1,772,278	11.4%	\$1,630
Kern	290,522	71,296	\$151,589,072	24.5%	\$2,126
Kings	55,482	13,744	\$27,617,182	24.8%	\$2,009
Lake	24,578	4,499	\$7,794,325	18.3%	\$1,732
Lassen	11,145	1,502	\$2,627,290	13.5%	\$1,749
Los Angeles	4,018,309	769,347	\$1,480,043,437	19.1%	\$1,924
Madera	51,438	12,340	\$25,788,488	24.0%	\$2,090
Marin	125,019	6,574	\$8,066,684	5.3%	\$1,227
Mariposa	10,272	1,307	\$2,114,672	12.7%	\$1,618
Mendocino	36,705	6,238	\$10,458,578	17.0%	\$1,677
Merced	91,046	22,931	\$46,837,932	25.2%	\$2,043
Modoc	4,720	850	\$1,463,929	18.0%	\$1,722
Mono	10,843	1,148	\$1,714,888	10.6%	\$1,494
Monterey	188,717	32,429	\$64,629,771	17.2%	\$1,993
Napa	59,170	4,883	\$7,737,908	8.3%	\$1,585
Nevada	51,180	5,194	\$7,734,017	10.1%	\$1,489
Orange	1,280,238	144,964	\$253,495,035	11.3%	\$1,749
Placer	155,553	12,372	\$19,305,375	8.0%	\$1,560
Plumas	10,163	1,290	\$2,021,291	12.7%	\$1,567
Riverside	811,045	150,548	\$306,425,050	18.6%	\$2,035
Sacramento	582,724	88,283	\$165,278,992	15.2%	\$1,872
San Benito	22,956	3,143	\$5,721,480	13.7%	\$1,820
San Bernardino	771,063	164,217	\$339,692,704	21.3%	\$2,069
San Diego	1,316,627	175,693	\$310,665,093	13.3%	\$1,768
San Francisco	406,313	38,739	\$52,739,363	9.5%	\$1,361
San Joaquin	261,778	48,350	\$94,383,024	18.5%	\$1,952
San Luis Obispo	113,801	11,607	\$18,360,874	10.2%	\$1,582
San Mateo	337,503	22,814	\$33,950,497	6.8%	\$1,488
Santa Barbara	170,096	20,950	\$37,518,397	12.3%	\$1,791
Santa Clara	772,003	64,420	\$104,608,152	8.3%	\$1,624
Santa Cruz	118,678	14,772	\$25,340,068	12.4%	\$1,715
Shasta	76,567	12,538	\$21,849,985	16.4%	\$1,743
Sierra	2,266	335	\$488,300	14.8%	\$1,458
Siskiyou	19,100	3,385	\$5,570,710	17.7%	\$1,646
Solano	176,936	20,985	\$37,185,731	11.9%	\$1,772
Sonoma	216,781	18,984	\$28,164,818	8.8%	\$1,484
Stanislaus	194,970	36,579	\$70,466,031	18.8%	\$1,926
Sutter	38,920	6,949	\$12,927,316	17.9%	\$1,860
Tehama	26,222	5,081	\$9,262,145	19.4%	\$1,823
Trinity	5,092	874	\$1,404,593	17.2%	\$1,606
Tulare	182,161	56,865	\$124,947,518	31.2%	\$2,197
Tuolumne	24,928	3,113	\$4,957,903	12.5%	\$1,593
Ventura	370,370	42,507	\$75,267,327	11.5%	\$1,771
Yolo	76,613	9,285	\$16,094,460	12.1%	\$1,733
Yuba	27,242	5,812	\$11,028,586	21.3%	\$1,898
CALIFORNIA	15,419,437	2,401,947	\$4,522,770,000	15.6%	\$1,883

SOURCE: Internal Revenue Service (IRS)

Table 3: EITC Returns and EITC Dollars Claimed Growth Rate (2006-2012)

COUNTY	Population Growth	Poverty Rate (2013)	Total Returns Growth	EITC Returns Growth	Claimed EITC Payments Growth	EITC Returns as % of Total (Growth)	Avg EITC Credit Claimed Growth
Alameda	5.1%	12.5%	11.8%	42.7%	68.3%	27.6%	18.0%
Alpine	-11.9%	16.6%	-6.0%	36.9%	79.3%	45.7%	30.9%
Amador	-3.9%	12.6%	-0.5%	35.6%	64.2%	36.2%	21.1%
Butte	2.5%	20.4%	4.1%	27.2%	52.0%	22.2%	19.4%
Calaveras	0.8%	10.9%	-9.9%	21.0%	42.0%	34.3%	17.4%
Colusa	2.8%	12.5%	6.1%	28.8%	57.7%	21.3%	22.5%
Contra Costa	5.9%	10.5%	7.2%	49.2%	81.0%	39.2%	21.3%
Del Norte	0.7%	21.8%	1.8%	23.2%	43.7%	21.0%	16.6%
El Dorado	4.3%	9.0%	6.4%	44.8%	66.8%	36.0%	15.2%
Fresno	7.0%	26.0%	13.7%	28.5%	57.1%	13.0%	22.3%
Glenn	1.5%	18.8%	4.5%	21.4%	49.8%	16.2%	23.4%
Humboldt	1.8%	20.4%	2.7%	23.6%	46.5%	20.4%	18.5%
Imperial	9.6%	23.3%	7.5%	23.8%	51.9%	15.1%	22.8%
Inyo	2.6%	12.8%	-9.4%	23.2%	51.4%	36.0%	22.9%
Kern	8.9%	22.9%	11.8%	24.5%	54.0%	11.3%	23.7%
Kings	2.2%	21.0%	-6.6%	6.0%	33.6%	13.5%	26.0%
Lake	0.9%	25.0%	0.9%	30.7%	65.1%	29.6%	26.3%
Lassen	-4.7%	16.9%	-11.3%	13.8%	31.0%	28.4%	15.1%
Los Angeles	1.6%	17.8%	10.8%	28.0%	53.0%	15.5%	19.5%
Madera	5.4%	22.8%	10.2%	17.2%	44.1%	6.3%	23.0%
Marin	2.7%	7.7%	4.8%	46.3%	87.7%	39.6%	28.2%
Mariposa	0.6%	16.1%	-25.2%	-7.4%	14.4%	23.9%	23.6%
Mendocino	1.1%	20.0%	3.0%	28.4%	55.8%	24.7%	21.3%
Merced	6.3%	25.4%	5.0%	23.8%	52.3%	17.8%	23.1%
Modoc	-2.2%	21.0%	-26.1%	-17.6%	-4.5%	11.4%	16.0%
Mono	1.6%	8.5%	-42.6%	-20.7%	-10.4%	38.2%	13.1%
Monterey	3.8%	17.0%	1.2%	13.0%	34.1%	11.7%	18.6%
Napa	4.6%	10.1%	12.6%	53.4%	86.4%	36.3%	21.5%
Nevada	-0.4%	12.0%	-6.3%	31.7%	53.6%	40.5%	16.7%
Orange	4.0%	12.4%	11.9%	46.9%	78.2%	31.3%	21.3%
Placer	11.8%	8.7%	8.0%	45.6%	72.5%	34.9%	18.5%
Plumas	-5.6%	15.2%	-14.7%	5.4%	20.3%	23.6%	14.1%
Riverside	11.5%	16.2%	11.9%	42.8%	76.9%	27.6%	23.9%
Sacramento	4.6%	17.6%	8.8%	44.4%	77.7%	32.8%	23.1%
San Benito	3.5%	11.9%	9.4%	44.8%	76.1%	32.3%	21.6%
San Bernardino	4.4%	18.7%	8.3%	35.6%	69.4%	25.3%	24.9%
San Diego	5.7%	14.4%	12.7%	44.5%	76.4%	28.2%	22.1%
San Francisco	5.0%	13.5%	11.5%	29.7%	50.3%	16.4%	15.9%
San Joaquin	5.6%	18.2%	8.5%	37.7%	68.6%	26.9%	22.4%
San Luis Obispo	3.5%	14.3%	10.3%	40.9%	65.0%	27.7%	17.1%
San Mateo	5.2%	7.6%	9.4%	41.8%	70.7%	29.6%	20.4%
Santa Barbara	3.2%	16.0%	14.1%	36.2%	61.1%	19.4%	18.3%
Santa Clara	6.6%	10.2%	11.6%	47.9%	74.3%	32.5%	17.8%
Santa Cruz	5.2%	14.6%	6.5%	27.2%	45.7%	19.5%	14.5%
Shasta	1.9%	17.5%	-1.8%	22.3%	46.1%	24.5%	19.5%
Sierra	-9.1%	19.4%	-44.4%	-40.3%	-22.2%	7.4%	30.3%
Siskiyou	1.1%	21.0%	-3.2%	17.6%	44.4%	21.5%	22.8%
Solano	1.9%	13.0%	8.5%	42.4%	69.9%	31.2%	19.3%
Sonoma	3.9%	11.9%	9.1%	50.0%	82.3%	37.4%	21.6%
Stanislaus	3.9%	20.3%	7.1%	39.5%	70.3%	30.2%	22.0%
Sutter	6.7%	16.7%	-2.6%	26.3%	55.4%	29.7%	23.0%
Tehama	2.9%	19.7%	-8.0%	8.8%	32.2%	18.3%	21.5%
Trinity	-2.8%	19.2%	-4.9%	17.8%	36.4%	23.9%	15.8%
Tulare	8.7%	26.2%	-7.1%	-3.2%	17.4%	4.3%	21.2%
Tuolumne	-4.3%	14.5%	-6.1%	22.7%	47.3%	30.7%	20.1%
Ventura	4.0%	11.1%	7.1%	36.6%	59.4%	27.5%	16.7%
Yolo	7.5%	19.1%	7.9%	41.6%	69.9%	31.2%	20.0%
Yuba	5.7%	21.6%	-0.3%	26.6%	57.3%	27.0%	24.2%
CALIFORNIA	4.5%	15.9%	9.6%	33.6%	61.2%	21.9%	20.6%

SOURCE: Internal Revenue Service (IRS), CA Department of Finance Demographic Unit, U.S. Census Bureau

Second, during the period under examination (2006-2012) some counties experienced a decline in population and thus a reduction in the total number of returns. Most of these counties however (Alpine, Amador, Lassen, Plumas, Trinity and Tuolumne), despite the decline in the population, also experienced an increase in the number of EITC claims as well as an increase in the total EITC dollars claimed. Only two counties (Modoc and Sierra) registered a significant decline in both population and number of EITC claims. Third, in five counties (Contra Costa, Marin, Napa, Orange and Placer) both the number of EITC claims and the total EITC dollars claimed significantly increased by more than 45% and 70% respectively. This indicates that a significantly higher participation of California residents in the EITC program in these counties. Finally, similar to 2006, in 2012 Los Angeles County registered the largest amount of EITC dollars claimed, while Alpine showed the lowest. Also similar to 2006, despite the larger number of EITC claims in 2012, Marin County showed the lowest EITC returns as a percentage of total returns (since the total number of returns also increased), while Imperial County registered the highest. These observations are not unexpected giving the positive correlation between county population size and the number of EITC claims (more people implies more EITC claims), as well as the strong negative correlation between household income and EITC participation (higher household income implies less household EITC claims).

Table 4 shows that the \$7.3 billion EITC dollars claimed in 2012 generated a total economic impact of \$8.6 billion dollars in business sales (output), supported more than 55,000 jobs, and created more than \$3 billion dollars in labor income.

How does the economic impact work?

Imagine Linda is a single mother of three who lives in Los Angeles County. Linda makes \$16,000 a year working in a restaurant and has no significant investment income. Linda is eligible for an EITC payment of around \$5,800. Suppose Linda saves 10%, \$580, and spends the rest, \$5,220, on school clothes and supplies at Max's store in San Bernardino. This \$5,220 is income for Max. After Max withholds his income tax, he is left with \$4,000, which he uses for a down payment on a new car at Nell's Autos. This \$4,000 is income for Nell. After taxes, Nell spends \$3,000 on a new stereo at Ophelia's, who spends \$2,000 (her after-tax income) on tuition and books at Paula's Cosmetology school. Paula spends her after-tax income of \$1,000 on a vacation to Canada. In this simple illustrative exercise, the initial EITC payment of \$5,800 generated \$14,240 (\$5,240 + \$4,000 + \$3,000 + \$2,000) in new labor income in the State. The initial \$5,800 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.

Table 4: Estimated Economic Impact of the EITC in California by County (2012)

COUNTY	Claimed EITC Payments	80% Spent Locally	Economic Impact		
			Output	Employment	Labor Income
Alameda	\$195,996,000	\$156,796,800	\$232,996,385	1,494	\$82,018,478
Alpine	\$150,000	\$120,000	\$178,317	1	\$62,771
Amador	\$4,075,000	\$3,260,000	\$4,844,284	31	\$1,705,266
Butte	\$37,044,000	\$29,635,200	\$44,037,215	282	\$15,501,809
Calaveras	\$5,724,000	\$4,579,200	\$6,804,584	44	\$2,395,323
Colusa	\$4,507,000	\$3,605,600	\$5,357,837	34	\$1,886,045
Contra Costa	\$121,899,000	\$97,519,200	\$144,911,255	929	\$51,011,094
Del Norte	\$4,818,000	\$3,854,400	\$5,727,548	37	\$2,016,189
El Dorado	\$18,825,000	\$15,060,000	\$22,378,808	143	\$7,877,701
Fresno	\$286,326,000	\$229,060,800	\$340,379,002	2,182	\$119,818,888
Glenn	\$6,360,000	\$5,088,000	\$7,560,649	48	\$2,661,470
Humboldt	\$21,115,000	\$16,892,000	\$25,101,118	161	\$8,835,997
Imperial	\$79,746,000	\$63,796,800	\$94,800,556	608	\$33,371,322
Inyo	\$2,684,000	\$2,147,200	\$3,190,689	20	\$1,123,174
Kern	\$233,380,000	\$186,704,000	\$277,437,786	1,779	\$97,662,567
Kings	\$36,895,000	\$29,516,000	\$43,860,087	281	\$15,439,457
Lake	\$12,867,000	\$10,293,600	\$15,296,049	98	\$5,384,456
Lassen	\$3,442,000	\$2,753,600	\$4,091,785	26	\$1,440,374
Los Angeles	\$2,264,079,000	\$1,811,263,200	\$2,691,494,839	17,255	\$947,449,508
Madera	\$37,170,000	\$29,736,000	\$44,187,002	283	\$15,554,536
Marin	\$15,138,000	\$12,110,400	\$17,995,772	115	\$6,334,801
Mariposa	\$2,420,000	\$1,936,000	\$2,876,851	18	\$1,012,698
Mendocino	\$16,291,000	\$13,032,800	\$19,366,437	124	\$6,817,297
Merced	\$71,343,000	\$57,074,400	\$84,811,226	544	\$29,854,917
Modoc	\$1,398,000	\$1,118,400	\$1,661,916	11	\$585,021
Mono	\$1,537,000	\$1,229,600	\$1,827,157	12	\$643,189
Monterey	\$86,667,000	\$69,333,600	\$103,028,111	660	\$36,267,554
Napa	\$14,422,000	\$11,537,600	\$17,144,604	110	\$6,035,177
Nevada	\$11,882,000	\$9,505,600	\$14,125,100	91	\$4,972,262
Orange	\$451,757,000	\$361,405,600	\$537,040,286	3,443	\$189,046,825
Placer	\$33,306,000	\$26,644,800	\$39,593,551	254	\$13,937,567
Plumas	\$2,431,000	\$1,944,800	\$2,889,927	19	\$1,017,301
Riverside	\$542,188,000	\$433,750,400	\$644,542,970	4,132	\$226,889,501
Sacramento	\$293,694,000	\$234,955,200	\$349,137,943	2,238	\$122,902,176
San Benito	\$10,075,000	\$8,060,000	\$11,976,972	77	\$4,216,087
San Bernardino	\$575,378,000	\$460,302,400	\$683,998,623	4,385	\$240,778,525
San Diego	\$547,959,000	\$438,367,200	\$651,403,427	4,176	\$229,304,492
San Francisco	\$79,278,000	\$63,422,400	\$94,244,206	604	\$33,175,478
San Joaquin	\$159,088,000	\$127,270,400	\$189,120,844	1,212	\$66,573,581
San Luis Obispo	\$30,298,000	\$24,238,400	\$36,017,697	231	\$12,678,809
San Mateo	\$57,937,000	\$46,349,600	\$68,874,424	442	\$24,244,906
Santa Barbara	\$60,435,000	\$48,348,000	\$71,844,000	461	\$25,290,244
Santa Clara	\$182,297,000	\$145,837,600	\$216,711,270	1,389	\$76,285,855
Santa Cruz	\$36,920,000	\$29,536,000	\$43,889,807	281	\$15,449,918
Shasta	\$31,930,000	\$25,544,000	\$37,957,788	243	\$13,361,752
Sierra	\$380,000	\$304,000	\$451,737	3	\$159,019
Siskiyou	\$8,045,000	\$6,436,000	\$9,563,746	61	\$3,366,592
Solano	\$63,164,000	\$50,531,200	\$75,088,184	481	\$26,432,249
Sonoma	\$51,348,000	\$41,078,400	\$61,041,544	391	\$21,487,606
Stanislaus	\$119,972,000	\$95,977,600	\$142,620,473	914	\$50,204,702
Sutter	\$20,088,000	\$16,070,400	\$23,880,239	153	\$8,406,229
Tehama	\$12,247,000	\$9,797,600	\$14,559,005	93	\$5,125,004
Trinity	\$1,916,000	\$1,532,800	\$2,277,705	15	\$801,789
Tulare	\$146,626,000	\$117,300,800	\$174,306,251	1,117	\$61,358,606
Tuolumne	\$7,305,000	\$5,844,000	\$8,684,048	56	\$3,056,925
Ventura	\$119,949,000	\$95,959,200	\$142,593,131	914	\$50,195,078
Yolo	\$27,343,000	\$21,874,400	\$32,504,848	208	\$11,442,230
Yuba	\$17,347,000	\$13,877,600	\$20,621,790	132	\$7,259,202
CALIFORNIA	\$7,288,901,000	\$5,831,120,800	\$8,664,909,405	55,549	\$3,050,187,590

SOURCE: Internal Revenue Service (IRS), IMPLAN

Among the counties that experienced the largest impact, Los Angeles, Riverside and San Bernardino stand out with a combined employment impact of over 25,000 jobs. Other regions that registered high poverty rates, for example San Joaquin Valley counties (Fresno, Madera, Merced, Kern, Kings, San Joaquin, Stanislaus and Tulare), the data show a combined business sales (output) impact of more than \$1.2 billion dollars and a combined employment impact of over 8,000 jobs. If the EITC program did not exist (or if no state resident had claimed it), none of these impacts would occur.

The spending of EITC refunds eventually results in additional tax revenue for the

cities, counties and for the state as presented in Table 5. The multiplier effect of federal EITC dollars spent in California’s economy generates more than \$548 million in tax revenue, and 36% of this amount comes from sales taxes alone. The methodology employed to calculate the fiscal impact (IMPLAN) does not produce separate reports for the state and local governments. Thus, the estimates include total estimated tax revenue for all levels of government (state, county and city). However, the tax revenue produced by each county is proportional to the overall economic impact.

Table 5: Estimated Impact of the EITC on California State and Local Taxes (2012)

	Employee Compensation	Tax on Production and Imports	Households	Corporations	TOTAL
S t a t e a n d L o c a l T a x e s	Dividends			\$1,420,059	\$1,420,059
	Social Ins Tax- Employee Contribution	\$3,103,357			\$3,103,357
	Social Ins Tax- Employer Contribution	\$6,101,515			\$6,101,515
	Production & Imports: Sales Tax		\$198,976,210		\$198,976,210
	Production & Imports: Property Tax		\$175,685,957		\$175,685,957
	Production & Imports: Motor Vehicle Lic		\$4,348,531		\$4,348,531
	Production & Imports: Severance Tax		\$126,247		\$126,247
	Production & Imports: Other Taxes		\$29,682,058		\$29,682,058
	Production & Imports: S/L NonTaxes		\$2,729,543		\$2,729,543
	Corporate Profits Tax			\$29,807,660	\$29,807,660
	Personal Tax: Income Tax			\$80,281,012	\$80,281,012
	Personal Tax: NonTaxes (Fines- Fees			\$11,278,239	\$11,278,239
	Personal Tax: Motor Vehicle License			\$3,390,934	\$3,390,934
	Personal Tax: Property Taxes			\$1,271,843	\$1,271,843
Personal Tax: Other Tax (Fish/Hunt)			\$773,931	\$773,931	
TOTAL	\$9,204,872	\$411,548,546	\$96,995,959	\$31,227,719	\$548,977,096

SOURCE: Internal Revenue Service (IRS), IMPLAN

IV. Unclaimed EITC Refunds in California and the Foregone Economic Impact

Evidently, the economic impact of the claimed EITC refunds is significant. However, not all taxpayers who are eligible claim the credit and thus the

positive economic impact of the EITC could be larger than it is.⁹ As discussed in the “*Left on the Table*” report, sometimes

⁹ For a discussion on this topic see “Using the Earned Income Tax Credit to Stimulate Local Economies”, Alan Berube, 2007, The Brookings Institute.

taxpayers are not aware that the credit exists, face language or cultural barriers, or are afraid that by claiming the credit they will sacrifice their eligibility for other important income-support programs. Consequently, since some EITC refunds are not claimed, those unclaimed EITC dollars are not injected into the income stream of California's economy and thus the potential economic impact is larger than the actual one.

Although scholars and researchers concur that a large amount of EITC refunds go unclaimed, there is disagreement on the exact amount. While it is relatively easy to calculate the amount of EITC funds claimed by state residents, the ability to accurately estimate the EITC participation rate is limited and thus it is not possible to calculate with precision the amount of unclaimed EITC dollars. This impediment results primarily from two factors. First, some residents who claim the EITC refund are not technically eligible for it. And second, it is not possible to know how many eligible families there are at the county or state level, and therefore is impossible to calculate how many eligible families fail to claim the EITC. Thus, given that one of the goals of this report is to compare the actual and foregone 2012 economic impact of the EITC claimed and unclaimed refunds in California with those estimated in the *"Left of the Table"* report, this analysis employs the same assumptions to calculate the amount of unclaimed EITC dollars in 2006 as discussed next.

In 2001, the U.S. General Accounting Office (GAO) estimated that the average participation rate for the whole country is approximately 75% (thus 25% of the eligible population does not claim the EITC).¹⁰ However, some researchers

¹⁰ US General Accounting Office, 2001, "Earned Income Tax Credit Participation", GAO-02-290R.

argued that this estimate for the EITC participation rate was too low and contested GAO's methodology because the report was based on information from two mismatched databases.¹¹ 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).¹² Further, the same IRS report lists California as having the third highest EITC non-filer rate (24.9%) in the nation (after DC and Nevada). For comparison purposes, Table 6 shows the IRS-estimated EITC non-filer rates for all states supplemented by data by the U.S. Census Bureau. Notice that those states with low median household income levels exhibit the largest EITC claims as a fraction of total returns, and also tend to show low non-filer rates (Mississippi for instance).

¹¹ Burman, Leonard E., and Deborah Kobes. 2002. "Analysis of GAO Report of EITC Eligibility and Participation." Washington: Urban Institute.

¹² US Internal Revenue Service. 2002. "Participation in the Earned Income Tax Credit Program for Tax Year 1996." Small Business Self-Employed Research, Washington.

Table 6. Estimated EITC Non-filer Rates by State*

STATE	Population	Median Income	Total Returns	EITC Returns	Claimed EITC Credits (1,000)	EITC Returns as % of Total	& Rank	Average EITC Credit Claimed	Nonfiler Rate*
Mississippi	2,991,207	\$39,031	1,250,140	405,570	\$1,096,524	32.4%	1	\$2,704	13.4%
Louisiana	4,625,470	\$44,874	2,011,770	541,930	\$1,422,469	26.9%	2	\$2,625	14.1%
Alabama	4,833,722	\$43,253	2,050,890	537,470	\$1,417,969	26.2%	3	\$2,638	13.7%
Georgia	9,992,167	\$49,179	4,335,320	1,124,330	\$2,900,740	25.9%	4	\$2,580	19.6%
Arkansas	2,959,373	\$40,768	1,219,480	312,090	\$764,025	25.6%	5	\$2,448	14.5%
New Mexico	2,085,287	\$44,927	905,340	222,270	\$511,475	24.6%	6	\$2,301	14.1%
South Carolina	4,774,839	\$44,779	2,077,310	507,210	\$1,222,899	24.4%	7	\$2,411	13.0%
Florida	19,552,860	\$46,956	9,226,420	2,160,410	\$5,099,789	23.4%	8	\$2,361	18.4%
Tennessee	6,495,978	\$44,298	2,882,040	673,000	\$1,612,235	23.4%	9	\$2,396	7.7%
Texas	26,448,193	\$51,900	11,573,440	2,702,180	\$6,923,938	23.3%	10	\$2,562	21.5%
North Carolina	9,848,060	\$46,334	4,287,590	950,320	\$2,249,232	22.2%	11	\$2,367	18.6%
Kentucky	4,395,295	\$43,036	1,879,100	415,170	\$940,851	22.1%	12	\$2,266	14.7%
Oklahoma	3,850,568	\$45,339	1,618,460	350,380	\$822,032	21.6%	13	\$2,346	24.1%
Arizona	6,626,624	\$49,774	2,761,490	582,750	\$1,409,991	21.1%	14	\$2,420	18.3%
Idaho	1,612,136	\$46,767	679,220	140,040	\$308,166	20.6%	15	\$2,201	3.3%
West Virginia	1,854,304	\$41,043	788,490	159,830	\$341,134	20.3%	16	\$2,134	7.3%
Missouri	6,044,171	\$47,380	2,728,430	536,500	\$1,222,335	19.7%	17	\$2,278	8.2%
New York	19,651,127	\$58,003	9,363,750	1,797,030	\$3,989,000	19.2%	18	\$2,220	20.5%
California	38,332,521	\$61,094	16,906,210	3,209,450	\$7,288,901	19.0%	19	\$2,271	24.9%
Nevada	2,790,136	\$52,800	1,289,360	244,230	\$553,790	18.9%	20	\$2,267	31.3%
Indiana	6,570,902	\$48,248	3,029,600	564,020	\$1,273,387	18.6%	21	\$2,258	13.9%
Michigan	9,895,622	\$48,411	4,631,040	846,240	\$1,942,605	18.3%	22	\$2,296	22.3%
Ohio	11,570,808	\$48,308	5,507,560	982,370	\$2,236,340	17.8%	23	\$2,276	15.2%
Montana	1,015,165	\$46,230	485,250	85,000	\$169,861	17.5%	24	\$1,998	24.1%
Utah	2,900,872	\$58,821	1,174,090	202,600	\$456,422	17.3%	25	\$2,253	17.3%
Illinois	12,882,135	\$56,797	6,077,090	1,048,420	\$2,451,585	17.3%	26	\$2,338	15.4%
Hawaii	1,404,054	\$67,402	665,320	114,580	\$240,483	17.2%	27	\$2,099	19.4%
Delaware	925,749	\$59,878	434,150	74,540	\$165,527	17.2%	28	\$2,221	NA
DC	646,449	\$65,830	327,730	55,410	\$122,917	16.9%	29	\$2,218	26.4%
Maine	1,328,302	\$48,453	631,380	105,710	\$205,791	16.7%	30	\$1,947	14.0%
Kansas	2,893,957	\$51,332	1,323,740	221,240	\$487,372	16.7%	31	\$2,203	16.8%
Oregon	3,930,065	\$50,229	1,768,810	292,600	\$586,432	16.5%	32	\$2,004	10.8%
Rhode Island	1,051,511	\$56,361	512,930	84,090	\$181,446	16.4%	33	\$2,158	2.8%
Virginia	8,260,405	\$63,907	3,811,070	624,030	\$1,373,900	16.4%	34	\$2,202	16.3%
South Dakota	844,877	\$49,495	414,950	67,060	\$138,866	16.2%	35	\$2,071	2.8%
Nebraska	1,868,516	\$51,672	871,940	139,270	\$303,218	16.0%	36	\$2,177	20.1%
Pennsylvania	12,773,801	\$52,548	6,134,120	942,080	\$1,976,028	15.4%	37	\$2,098	12.5%
Colorado	5,268,367	\$58,433	2,450,150	372,800	\$775,244	15.2%	38	\$2,080	16.8%
Iowa	3,090,416	\$51,843	1,426,710	216,730	\$452,305	15.2%	39	\$2,087	12.6%
Maryland	5,928,814	\$73,538	2,860,930	425,080	\$930,605	14.9%	40	\$2,189	18.3%
Vermont	626,630	\$54,267	321,250	47,360	\$85,885	14.7%	41	\$1,813	14.0%
Wisconsin	5,742,713	\$52,413	2,778,100	400,280	\$833,561	14.4%	42	\$2,082	15.4%
Washington	6,971,406	\$59,478	3,244,400	464,370	\$957,018	14.3%	43	\$2,061	22.6%
Alaska	735,132	\$70,760	363,090	51,800	\$101,907	14.3%	44	\$1,967	10.1%
New Jersey	8,899,339	\$71,629	4,307,560	599,320	\$1,302,425	13.9%	45	\$2,173	21.4%
Wyoming	582,658	\$57,406	301,660	41,380	\$81,641	13.7%	46	\$1,973	2.8%
Minnesota	5,420,380	\$59,836	2,619,920	354,700	\$718,338	13.5%	47	\$2,025	18.2%
Connecticut	3,596,080	\$69,461	1,741,480	222,010	\$453,493	12.7%	48	\$2,043	19.9%
Massachusetts	6,692,824	\$66,866	3,264,490	413,580	\$809,976	12.7%	49	\$1,958	16.6%
North Dakota	723,393	\$53,741	353,830	44,410	\$87,796	12.6%	50	\$1,977	2.8%
New Hampshire	1,323,459	\$64,916	679,910	82,990	\$153,548	12.2%	51	\$1,850	7.9%
USA	316,128,839	\$53,046	145,025,450	27,788,100	\$64,221,884	19.2%	-	\$2,311	17.8%

SOURCES: Internal Revenue Service (IRS), U.S. Census Bureau.

* As reported in US Internal Revenue Service. 2002. "Participation in the Earned Income Tax Credit Program for Tax Year 1996." Small Business Self-Employed Research, Washington.

As discussed in the “*Left of the Table*” report, scholars have more confidence in the IRS estimate due to the methodology employed. However, in order to avoid overstating the economic impact of foregone EITC claims, this report conservatively assumes an EITC non-filer rate of 20% and uses this number to estimate the amount of unclaimed EITC payments.

In line with the “*Left of the Table*” report, it should be noted that the under-participation in the EITC program not only results in lost resources for California, but also entails social costs that are more difficult to measure. For example, some EITC recipients file their tax returns through a paid tax preparer and often pay large sums for this service.¹³ While this practice does not necessarily limit the amount of EITC resources that are injected into California’s revenue stream, it does represent an unintended use of public funds. In these situations, EITC resources that are aimed to help the working poor are diverted to financial professionals. This practice represents a social cost since, although difficult to quantify, these public funds are not being used as intended.

Further, the average credit owed to eligible EITC recipients who failed to claim the credit is likely lower than for the average actual claimant because these two groups of individuals have different characteristics. Similar to the assumption

made in “*Left of the Table*” and following what other researchers have done, 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.¹⁴

This calculation 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. Table 7 shows these calculations, which for comparison purposes, contains both the data for 2006 and also for 2012.

The data illustrate at least 3 salient facts. First, for California as a whole, between 2006 and 2012, the number of unclaimed EITC returns grew by 33.6% (from 800,649 to 1,069,817), unclaimed EITC payments grew by 61.2% (from \$1.1billion to \$1.8 billion), and the average size of the unclaimed EITC payment grew by 20.6% (from \$1,412 to \$1,703). These growth rates surpass California’s population growth rate, which suggests that a relatively larger number of Californians are not claiming EITC payments.

¹³ See “*Another Year of Losses: High-Priced Refund Anticipation Loans Continue To Take a Chunk Out Of Americans’ Tax Refunds*”, 2006, Chi Chi Wu, National Consumer Law Center and “*One Step Forward, One Step Back: Progress Seen in Efforts Against High-Priced Refund Anticipation Loans, but Even More Abusive Products Introduced*”, 2007, Chi Chi Wu, National Consumer Law Center and Jean Ann Fox, Consumer Federation of America.

¹⁴ See for example “EITC Interactive: User Guide and Data Dictionary”, Alan Berube, The Brookings Institution.

Table 7: Unclaimed EITC Returns and Payments (2006 vs. 2012)

COUNTY	2012			2006		
	EITC Returns Unclaimed	Unclaimed EITC Payments	Average EITC Credit Unclaimed	EITC Returns Unclaimed	Unclaimed EITC Payments	Average EITC Credit Unclaimed
Alameda	32,993	\$48,999,000	\$1,485	23,125	\$29,107,617	\$1,259
Alpine	27	\$37,500	\$1,406	19	\$20,913	\$1,074
Amador	723	\$1,018,750	\$1,408	534	\$620,346	\$1,163
Butte	5,973	\$9,261,000	\$1,550	4,694	\$6,094,515	\$1,298
Calaveras	983	\$1,431,000	\$1,455	813	\$1,007,971	\$1,240
Colusa	673	\$1,126,750	\$1,673	523	\$714,455	\$1,366
Contra Costa	19,917	\$30,474,750	\$1,530	13,349	\$16,839,312	\$1,261
Del Norte	747	\$1,204,500	\$1,613	606	\$838,476	\$1,384
El Dorado	3,477	\$4,706,250	\$1,354	2,401	\$2,821,345	\$1,175
Fresno	36,810	\$71,581,500	\$1,945	28,657	\$45,563,439	\$1,590
Glenn	930	\$1,590,000	\$1,710	766	\$1,061,470	\$1,386
Humboldt	3,830	\$5,278,750	\$1,378	3,098	\$3,602,918	\$1,163
Imperial	10,467	\$19,936,500	\$1,905	8,458	\$13,123,560	\$1,552
Inyo	447	\$671,000	\$1,502	363	\$443,069	\$1,222
Kern	29,577	\$58,345,000	\$1,973	23,765	\$37,897,268	\$1,595
Kings	4,857	\$9,223,750	\$1,899	4,581	\$6,904,296	\$1,507
Lake	1,960	\$3,216,750	\$1,641	1,500	\$1,948,581	\$1,299
Lassen	570	\$860,500	\$1,510	501	\$656,822	\$1,312
Los Angeles	328,213	\$566,019,750	\$1,725	256,449	\$370,010,859	\$1,443
Madera	4,820	\$9,292,500	\$1,928	4,113	\$6,447,122	\$1,567
Marin	3,207	\$3,784,500	\$1,180	2,191	\$2,016,671	\$920
Mariposa	403	\$605,000	\$1,500	436	\$528,668	\$1,214
Mendocino	2,670	\$4,072,750	\$1,525	2,079	\$2,614,644	\$1,257
Merced	9,460	\$17,835,750	\$1,885	7,644	\$11,709,483	\$1,532
Modoc	233	\$349,500	\$1,498	283	\$365,982	\$1,292
Mono	303	\$384,250	\$1,267	383	\$428,722	\$1,120
Monterey	12,220	\$21,666,750	\$1,773	10,810	\$16,157,443	\$1,495
Napa	2,497	\$3,605,500	\$1,444	1,628	\$1,934,477	\$1,189
Nevada	2,280	\$2,970,500	\$1,303	1,731	\$1,933,504	\$1,117
Orange	70,997	\$112,939,250	\$1,591	48,321	\$63,373,759	\$1,312
Placer	6,007	\$8,326,500	\$1,386	4,124	\$4,826,344	\$1,170
Plumas	453	\$607,750	\$1,341	430	\$505,323	\$1,175
Riverside	71,643	\$135,547,000	\$1,892	50,183	\$76,606,262	\$1,527
Sacramento	42,493	\$73,423,500	\$1,728	29,428	\$41,319,748	\$1,404
San Benito	1,517	\$2,518,750	\$1,661	1,048	\$1,430,370	\$1,365
San Bernardino	74,220	\$143,844,500	\$1,938	54,739	\$84,923,176	\$1,551
San Diego	84,613	\$136,989,750	\$1,619	58,564	\$77,666,273	\$1,326
San Francisco	16,750	\$19,819,500	\$1,183	12,913	\$13,184,841	\$1,021
San Joaquin	22,197	\$39,772,000	\$1,792	16,117	\$23,595,756	\$1,464
San Luis Obispo	5,453	\$7,574,500	\$1,389	3,869	\$4,590,218	\$1,186
San Mateo	10,780	\$14,484,250	\$1,344	7,605	\$8,487,624	\$1,116
Santa Barbara	9,510	\$15,108,750	\$1,589	6,983	\$9,379,599	\$1,343
Santa Clara	31,763	\$45,574,250	\$1,435	21,473	\$26,152,038	\$1,218
Santa Cruz	6,263	\$9,230,000	\$1,474	4,924	\$6,335,017	\$1,287
Shasta	5,110	\$7,982,500	\$1,562	4,179	\$5,462,496	\$1,307
Sierra	67	\$95,000	\$1,425	112	\$122,075	\$1,093
Siskiyou	1,327	\$2,011,250	\$1,516	1,128	\$1,392,678	\$1,234
Solano	9,960	\$15,791,000	\$1,585	6,995	\$9,296,433	\$1,329
Sonoma	9,490	\$12,837,000	\$1,353	6,328	\$7,041,205	\$1,113
Stanislaus	17,010	\$29,993,000	\$1,763	12,193	\$17,616,508	\$1,445
Sutter	2,927	\$5,022,000	\$1,716	2,316	\$3,231,829	\$1,395
Tehama	1,843	\$3,061,750	\$1,661	1,694	\$2,315,536	\$1,367
Trinity	343	\$479,000	\$1,395	291	\$351,148	\$1,205
Tulare	18,353	\$36,656,500	\$1,997	18,955	\$31,236,879	\$1,648
Tuolumne	1,273	\$1,826,250	\$1,434	1,038	\$1,239,476	\$1,195
Ventura	19,350	\$29,987,250	\$1,550	14,169	\$18,816,832	\$1,328
Yolo	4,383	\$6,835,750	\$1,559	3,095	\$4,023,615	\$1,300
Yuba	2,453	\$4,336,750	\$1,768	1,937	\$2,757,146	\$1,423
CALIFORNIA	1,069,817	\$1,822,225,250	\$1,703	800,649	\$1,130,692,500	\$1,412

SOURCE: Internal Revenue Service (IRS)

Second, for relatively small counties the number of unclaimed EITC returns increased significantly showing rates of around 50% (such as Contra Costa, Marin and Napa). Similarly, in small counties the number of unclaimed EITC returns increased only by a few percentage points (like Kings and Plumas) while in others it actually declined (like in Mariposa, Modoc, Mono and Sierra). Third, in the case of large counties, some of them experienced a substantial increase in the number of claimed EITC dollars of more than 70% (such as Riverside, Sacramento, San Diego and Santa Clara).

As discussed in the “*Left on the Table*” report, the proportion of individuals not claiming the EITC credit is unlikely to be 20% uniformly in all counties. This is due to the different characteristics among counties, particularly economic and demographic. The IRS identified that the proportion of those failing to claim the EITC credit is higher: (1) in areas of high concentration of Hispanics; (2) among individuals with lower incomes than eligible individuals who filed a tax return to get the EITC; (3) among individuals who participated in food stamp assistance programs; and (4) among those with no qualifying children. In counties where the demographic profile indicates a prevalence of these factors, the actual non-filer rate is likely to be higher than the assumed 20%.

Table 8 shows these characteristics by county. The numbers in **bold font** indicate that the given characteristic in that county is more prevalent than the average for the state. For example, in Fresno County, the concentration of

Hispanics, the proportion of households with no qualifying children and the percentage of households receiving food stamps are higher than the state average, while the household median income is lower. These numbers suggest that the proportion of eligible individuals not claiming the EITC credit in Fresno County is likely to be higher than 20%, the assumed average for the state. Thus, while it is not possible to accurately assess how much higher without resorting to arbitrary calculations, it is probably reasonable to assume a non-filer rate as high as 25% in the counties with prevalent non-filer characteristics, which is the rate reported as the state average by the IRS. Alameda County, on the other hand, which shows a lower concentration of Hispanics, a lower proportion of households with no qualifying children and a lower percentage of households receiving food stamps than the state average, the proportion of eligible individuals not claiming the EITC credit is likely to be closer to the 20% assumed average for the state.

As presented, a significant amount of unclaimed EITC payments are not injected into the state’s revenue stream when eligible residents fail to claim them. These foregone transfer payments represent a lost opportunity to generate new business sales, income and tax revenue, and also to support more jobs. Table 9 shows the foregone economic impact of the unclaimed EITC payments by county. These estimates illustrate the potential additional economic impact if all State eligible residents claimed the EITC payments.

Table 8: Characteristics Associated with High Rates of Unclaimed EITC Funds

COUNTY	Families with no children under 18 years		Hispanic Population		Median Income		Received Food Stamps	
	2006	2012	2006	2012	2006	2012	2006	2012
Alameda	39.2%	51.2%	21.4%	22.7%	\$70,079	\$71,516	3.4%	7.5%
Alpine	54.7%	NA	NA	NA	NA	\$59,931	NA	NA
Amador	54.7%	NA	10.6%	NA	\$56,258	\$53,462	3.8%	NA
Butte	46.1%	62.0%	12.6%	14.8%	\$41,569	\$43,339	8.1%	11.2%
Calaveras	55.7%	NA	NA	NA	\$57,703	\$54,686	3.6%	NA
Colusa	41.6%	NA	NA	NA	\$50,288	\$52,165	6.7%	NA
Contra Costa	42.2%	51.9%	22.4%	24.8%	\$78,619	\$78,187	2.9%	6.0%
Del Norte	46.3%	NA	NA	NA	\$35,861	\$39,626	15.3%	16.0%
El Dorado	47.5%	64.1%	11.3%	12.2%	\$70,022	\$70,117	3.1%	6.0%
Fresno	33.9%	57.6%	48.2%	51.2%	\$45,805	\$45,741	11.5%	20.2%
Glenn	39.6%	NA	NA	NA	\$40,284	\$42,641	7.1%	9.2%
Humboldt	44.2%	63.4%	8.2%	10.3%	\$40,515	\$40,830	7.2%	9.0%
Imperial	30.5%	53.6%	76.0%	81.2%	\$37,492	\$41,255	13.1%	20.9%
Inyo	NA	NA	NA	NA	NA	\$45,000	NA	NA
Kern	32.8%	54.5%	46.2%	50.3%	\$46,442	\$47,727	9.8%	15.3%
Kings	31.4%	53.4%	48.5%	52.0%	\$49,419	\$48,761	10.6%	16.7%
Lake	43.2%	67.7%	15.4%	18.0%	\$41,619	\$38,147	10.0%	12.7%
Lassen	43.7%	NA	15.3%	NA	\$50,077	\$51,921	8.2%	NA
Los Angeles	35.4%	52.0%	47.3%	48.2%	\$55,192	\$56,241	4.8%	8.6%
Madera	38.4%	59.6%	50.0%	55.2%	\$45,646	\$47,937	10.8%	16.3%
Marin	48.4%	54.6%	13.6%	15.7%	\$88,101	\$90,962	1.9%	3.9%
Mariposa	48.6%	NA	NA	NA	NA	\$52,584	NA	NA
Mendocino	48.6%	60.7%	20.1%	NA	\$43,307	\$43,721	6.2%	12.4%
Merced	31.4%	52.8%	52.4%	56.1%	\$44,338	\$43,565	12.2%	19.6%
Modoc	NA	NA	NA	NA	NA	\$37,482	NA	NA
Mono	NA	NA	NA	NA	NA	\$61,868	NA	NA
Monterey	38.3%	53.5%	52.2%	56.4%	\$59,140	\$60,143	4.5%	8.8%
Napa	45.5%	56.3%	29.3%	33.1%	\$67,484	\$69,571	2.0%	5.9%
Nevada	55.2%	68.1%	7.4%	8.9%	\$56,890	\$57,382	3.3%	5.9%
Orange	40.6%	52.3%	33.2%	34.1%	\$75,176	\$75,566	2.3%	6.1%
Placer	45.1%	60.8%	11.7%	13.3%	\$73,260	\$73,356	2.1%	5.8%
Plumas	61.5%	NA	NA	NA	\$50,817	\$45,358	1.3%	NA
Riverside	36.3%	53.9%	43.1%	46.5%	\$58,168	\$57,096	3.5%	10.5%
Sacramento	38.2%	56.0%	19.8%	22.0%	\$57,779	\$55,846	6.9%	11.9%
San Benito	33.4%	NA	53.0%	NA	\$72,228	\$63,939	5.1%	NA
San Bernardino	33.1%	52.6%	46.7%	50.5%	\$56,575	\$54,750	6.0%	14.7%
San Diego	41.0%	54.7%	30.4%	32.7%	\$63,727	\$63,373	2.7%	6.4%
San Francisco	48.0%	55.4%	14.0%	15.4%	\$71,957	\$73,802	2.4%	5.1%
San Joaquin	33.8%	54.2%	36.4%	39.7%	\$54,711	\$53,895	7.3%	13.5%
San Luis Obispo	50.2%	60.2%	18.8%	21.5%	\$57,722	\$59,628	2.9%	5.5%
San Mateo	44.1%	53.7%	23.1%	25.4%	\$84,684	\$87,751	1.2%	3.8%
Santa Barbara	41.6%	56.0%	38.7%	43.8%	\$59,850	\$62,723	3.8%	6.8%
Santa Clara	40.6%	49.1%	25.6%	26.9%	\$87,287	\$90,747	2.5%	5.4%
Santa Cruz	44.2%	56.6%	28.7%	32.7%	\$67,070	\$66,571	3.3%	7.9%
Shasta	46.6%	64.6%	7.8%	8.9%	\$43,836	\$44,396	6.7%	9.2%
Sierra	NA	NA	NA	NA	NA	\$42,500	NA	NA
Siskiyou	51.3%	NA	NA	NA	\$36,171	\$37,948	9.8%	NA
Solano	39.5%	57.8%	22.2%	24.8%	\$68,603	\$69,006	4.8%	8.9%
Sonoma	46.0%	58.1%	22.5%	25.5%	\$63,768	\$63,565	2.5%	7.5%
Stanislaus	36.8%	52.4%	38.9%	43.0%	\$51,601	\$49,866	7.0%	16.7%
Sutter	38.4%	57.2%	26.9%	29.3%	\$52,505	\$50,510	7.1%	11.4%
Tehama	42.7%	NA	19.9%	NA	\$36,731	\$40,307	11.3%	NA
Trinity	NA	NA	56.7%	NA	NA	\$36,569	NA	NA
Tulare	33.2%	52.1%	56.7%	61.8%	\$43,995	\$43,803	13.4%	21.5%
Tuolumne	55.1%	NA	9.7%	NA	\$47,466	\$48,169	6.3%	NA
Ventura	40.3%	54.1%	37.4%	41.2%	\$76,269	\$76,483	3.3%	7.5%
Yolo	39.6%	51.9%	28.2%	31.0%	\$58,851	\$57,260	3.8%	10.0%
Yuba	33.6%	57.5%	NA	26.2%	\$45,727	\$46,641	15.4%	16.4%
CALIFORNIA	38.5%	53.8%	36.1%	38.2%	\$61,154	\$61,400	4.6%	9.1%

SOURCE: U.S. Census Bureau

Table 9: Foregone Economic Impact in California by County (2012)

COUNTY	Unclaimed EITC Payments	80% Spent Locally	Foregone Economic Impact		
			Output	Employment	Labor Income
Alameda	\$48,999,000	\$39,199,200	\$58,249,086	373	\$20,504,616
Alpine	\$37,500	\$30,000	\$44,579	0	\$15,693
Amador	\$1,018,750	\$815,000	\$1,211,071	8	\$426,316
Butte	\$9,261,000	\$7,408,800	\$11,009,302	71	\$3,875,452
Calaveras	\$1,431,000	\$1,144,800	\$1,701,146	11	\$598,831
Colusa	\$1,126,750	\$901,400	\$1,339,459	9	\$471,511
Contra Costa	\$30,474,750	\$24,379,800	\$36,227,808	232	\$12,752,771
Del Norte	\$1,204,500	\$963,600	\$1,431,887	9	\$504,047
El Dorado	\$4,706,250	\$3,765,000	\$5,594,701	36	\$1,969,425
Fresno	\$71,581,500	\$57,265,200	\$85,094,736	546	\$29,954,717
Glenn	\$1,590,000	\$1,272,000	\$1,890,162	12	\$665,367
Humboldt	\$5,278,750	\$4,223,000	\$6,275,278	40	\$2,208,999
Imperial	\$19,936,500	\$15,949,200	\$23,700,135	152	\$8,342,829
Inyo	\$671,000	\$536,800	\$797,672	5	\$280,793
Kern	\$58,345,000	\$46,676,000	\$69,359,435	445	\$24,415,637
Kings	\$9,223,750	\$7,379,000	\$10,965,020	70	\$3,859,864
Lake	\$3,216,750	\$2,573,400	\$3,824,012	25	\$1,346,114
Lassen	\$860,500	\$688,400	\$1,022,946	7	\$360,094
Los Angeles	\$566,019,750	\$452,815,800	\$672,873,594	4,314	\$236,862,336
Madera	\$9,292,500	\$7,434,000	\$11,046,749	71	\$3,888,633
Marin	\$3,784,500	\$3,027,600	\$4,498,942	29	\$1,583,700
Mariposa	\$605,000	\$484,000	\$719,213	5	\$253,174
Mendocino	\$4,072,750	\$3,258,200	\$4,841,608	31	\$1,704,324
Merced	\$17,835,750	\$14,268,600	\$21,202,803	136	\$7,463,728
Modoc	\$349,500	\$279,600	\$415,479	3	\$146,255
Mono	\$384,250	\$307,400	\$456,789	3	\$160,797
Monterey	\$21,666,750	\$17,333,400	\$25,757,023	165	\$9,066,887
Napa	\$3,605,500	\$2,884,400	\$4,286,150	27	\$1,508,794
Nevada	\$2,970,500	\$2,376,400	\$3,531,274	23	\$1,243,065
Orange	\$112,939,250	\$90,351,400	\$134,260,048	861	\$47,261,698
Placer	\$8,326,500	\$6,661,200	\$9,898,386	63	\$3,484,391
Plumas	\$607,750	\$486,200	\$722,482	5	\$254,325
Riverside	\$135,547,000	\$108,437,600	\$161,135,715	1,033	\$56,722,365
Sacramento	\$73,423,500	\$58,738,800	\$87,284,471	560	\$30,725,539
San Benito	\$2,518,750	\$2,015,000	\$2,994,242	19	\$1,054,022
San Bernardino	\$143,844,500	\$115,075,600	\$170,999,626	1,096	\$60,194,621
San Diego	\$136,989,750	\$109,591,800	\$162,850,829	1,044	\$57,326,113
San Francisco	\$19,819,500	\$15,855,600	\$23,561,047	151	\$8,293,868
San Joaquin	\$39,772,000	\$31,817,600	\$47,280,203	303	\$16,643,392
San Luis Obispo	\$7,574,500	\$6,059,600	\$9,004,423	58	\$3,169,702
San Mateo	\$14,484,250	\$11,587,400	\$17,218,603	110	\$6,061,225
Santa Barbara	\$15,108,750	\$12,087,000	\$17,960,997	115	\$6,322,560
Santa Clara	\$45,574,250	\$36,459,400	\$54,177,808	347	\$19,071,461
Santa Cruz	\$9,230,000	\$7,384,000	\$10,972,450	70	\$3,862,479
Shasta	\$7,982,500	\$6,386,000	\$9,489,445	61	\$3,340,438
Sierra	\$95,000	\$76,000	\$112,934	1	\$39,755
Siskiyou	\$2,011,250	\$1,609,000	\$2,390,936	15	\$841,648
Solano	\$15,791,000	\$12,632,800	\$18,772,043	120	\$6,608,061
Sonoma	\$12,837,000	\$10,269,600	\$15,260,383	98	\$5,371,901
Stanislaus	\$29,993,000	\$23,994,400	\$35,655,112	229	\$12,551,173
Sutter	\$5,022,000	\$4,017,600	\$5,970,059	38	\$2,101,557
Tehama	\$3,061,750	\$2,449,400	\$3,639,751	23	\$1,281,251
Trinity	\$479,000	\$383,200	\$569,426	4	\$200,447
Tulare	\$36,656,500	\$29,325,200	\$43,576,555	279	\$15,339,649
Tuolumne	\$1,826,250	\$1,461,000	\$2,171,012	14	\$764,231
Ventura	\$29,987,250	\$23,989,800	\$35,648,277	229	\$12,548,767
Yolo	\$6,835,750	\$5,468,600	\$8,126,211	52	\$2,860,557
Yuba	\$4,336,750	\$3,469,400	\$5,155,447	33	\$1,814,800
CALIFORNIA	\$1,822,225,250	\$1,457,780,200	\$2,166,226,980	13,887	\$762,546,767

SOURCE: Internal Revenue Service (IRS), IMPLAN

The results show that if California residents fully participated in the EITC program and if they spent 80% of the EITC payments in California, then these EITC resources would create over \$2.1 billion dollars in additional business sales (output), support over 13,800 additional jobs and create more than \$760 million in wages or labor income.

Most of the foregone economic impact is concentrated in Los Angeles, Riverside and San Bernardino counties, with a combined foregone business sales (output) impact of over \$1 billion and a combined foregone employment impact of over 6,400 jobs. The San Joaquin Valley

counties (Fresno, Madera, Merced, Kern, Kings, San Joaquin, Stanislaus and Tulare) suffer a combined foregone business sales (output) impact of more than \$324 million dollars and a foregone employment impact of over 2,000 jobs due to low take-up of the credit.

Finally, if California residents claimed the estimated unclaimed EITC payments, more than \$137 million dollars in additional tax revenue would be generated at all levels of government (state, county and city). Table 10 shows the foregone impact of EITC refunds on state and local taxes, with separate totals of foregone revenue.

Table 10: Foregone Economic Impact of the EITC on California State and Local Taxes (2012)

		Employee Compensation	Tax on Production and Imports	Households	Corporations	TOTAL
S t a t e a n d L o c a l T a x e s	Dividends				\$355,015	\$355,015
	Social Ins Tax- Employee Contribution	\$775,839				\$775,839
	Social Ins Tax- Employer Contribution	\$1,525,378				\$1,525,378
	Production & Imports: Sales Tax		\$49,744,044			\$49,744,044
	Production & Imports: Property Tax		\$43,921,485			\$43,921,485
	Production & Imports: Motor Vehicle Lic		\$1,087,132			\$1,087,132
	Production & Imports: Severance Tax		\$31,562			\$31,562
	Production & Imports: Other Taxes		\$7,420,513			\$7,420,513
	Production & Imports: S/L NonTaxes		\$682,386			\$682,386
	Corporate Profits Tax				\$7,451,913	\$7,451,913
	Personal Tax: Income Tax			\$20,070,249		\$20,070,249
	Personal Tax: NonTaxes (Fines- Fees			\$2,819,559		\$2,819,559
	Personal Tax: Motor Vehicle License			\$847,733		\$847,733
Personal Tax: Property Taxes			\$317,961		\$317,961	
Personal Tax: Other Tax (Fish/Hunt)			\$193,483		\$193,483	
TOTAL		\$2,301,217	\$102,887,122	\$24,248,985	\$7,806,928	\$137,244,252

SOURCE: Internal Revenue Service (IRS), IMPLAN

V. Concluding Remarks

The federal EITC program represents an important source of business sales, revenue for state and local governments, and income for the working families who receive the EITC refunds. Using conservative data and assumptions, this report estimates that the \$7.3 billion EITC dollars claimed in 2012 generated a total economic impact of \$8.6 billion in business sales (output), supported more than 55,000 jobs, created more than \$3 billion in labor income and \$548 million in tax revenue.

Yet, many eligible families within California failed to claim these credits. Findings of this updated report suggest that despite the widespread and intensive efforts of recent years to raise awareness of the EITC program and its benefits, since 2006 the number of Californians failing to claim the EITC refunds has increased along with the number of dollars left on the table. Based on the data examined for tax year 2012, California residents failed to claim over \$1.8 billion in EITC payments for which they are eligible. If these payments had been claimed, economic activity resulting from the payments would have supported an additional 13,800 jobs and created more than \$760 million dollars in new labor

income each year. These foregone payments, if claimed, would have also generated more than \$137 million dollars in additional tax revenue for state and local governments.

However, it must be considered that from December 2007 to June 2009 the United States economy suffered from a severe and prolonged economic recession that considerably increased the number of poor households. In fact, along with several economic sectors at the national and state levels, many of these new and previously poor households have not fully recovered from the dire conditions they went through. Further, the data collected in this report show that the number of Californians claiming the EITC refunds has increased along with the number of dollars injected into the State's income stream. Both EITC claims as a percentage of the total number of returns as well as the average EITC credit claimed, grew more than the state population and also more than the total number of returns. This suggests that although the gap between potential EITC payments and actual EITC payments is still large, it could have been larger if all the efforts and awareness campaigns about this important federal program had not taken place.

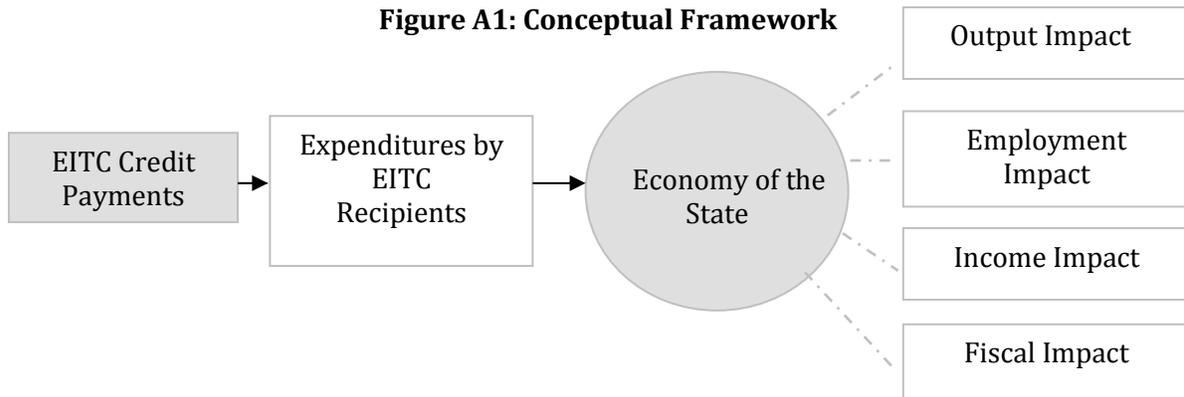
APPENDIX A: Data, Scope and Economic Impact Methodology

Using EITC payments data for the State (collected from the Internal Revenue Service (IRS)), and focusing on the State’s economy and on each of its 58 counties, the report: (a) assesses the economic impact of the EITC program as resources are injected into the State’s revenue stream; (b) estimates the amount of foregone EITC dollars that State residents leave unclaimed; and (c) assesses the foregone economic impact of unclaimed EITC dollars when the foregone resources never make it into the State’s revenue stream and, thus never

circulate in the State economy. In each region (State and counties), the economic impact (or lack thereof) of the EITC attributable to the tax credit payments is linked to the ways recipients spend this income. This report measures the impact of the EITC in four different areas: 1) Additional output (business sales); 2) Number of jobs that these benefits payments support directly and indirectly; 3) Additional labor income; and 4) Additional state tax revenue.

Figure A1 illustrates the conceptual framework of this economic impact analysis.

Figure A1: Conceptual Framework



The report calculates the economic impact of the federal EITC for 2012, the most recent year for which data is available. Since EITC eligibility is based on earned income, potential EITC payments and their associated economic impact in the State are likely to be different in 2014. However, due to data limitations derived from the fact that the IRS releases these data with a lag of at least one year, 2012 is the most up to date year for which the economic impact assessment can be performed.

Additionally, the calculation of the economic impact understates the potential impact of the EITC on low income families in the State 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).

The impact of the EITC dollars in California is smaller when there are income leakages mainly in the form of savings withheld and dollars spend outside the state’s economy. Accurately determining which fraction of the EITC payments is spent in California would probably require an expensive primary data collection instrument, such as a survey. Instead, following the methodology employed in the “*Left on the Table*” report to account for initial

expenditures leakages, it is assumed that 80% of the EITC payments made to California residents are spent within the state's economy.¹⁵ This assumption is a conservative one considering (1) the low mobility of low-income families, (2) empirical evidence showing the low savings rate (and negative in some cases) for low-income families, and (3) the geography of California, which is bounded on three sides by mountains, deserts and an ocean. This report also assumes that EITC dollars will be 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.

The analysis mainly relies on the use of input-output 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 report makes extensive use of IMPLAN.¹⁶ 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 residents when they spend their EITC payments. Due to the interactions between firms, industries, and social institutions that naturally occur within the regional and state 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 regional 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 regional and state economy as estimated by IMPLAN is larger than the initial expenditures.

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 regional 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.

¹⁵ The Jacob France Institute of the University of Baltimore in its 2004 report "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 report "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.

¹⁶ www.implan.com

About the University Business Center (UBC)

The University Business Center (UBC) serves as the outreach arm for the Craig School of Business at Fresno State by offering professional development programs and state-of-the-art meeting facilities. The UBC focuses on providing business and professionals with services and resources to foster growth, create jobs and develop a prosperous economy. The UBC's present facilities were built in 1987 with donations from private businesses. The UBC has an impressive history of serving private enterprises and public organizations throughout California's Central Valley.

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