



Department of Administration
Budget and Management Division

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Director

Joseph J. Czarnecki
Budget and Management Director

October 13, 2003

Ref: 04BF, 3-D

Alderman Fredrick G. Gordon, Chairperson
Committee on Finance and Personnel

Subject: Information Requested at Finance Committee Review of the Mayor's Office 2004
Proposed Budget

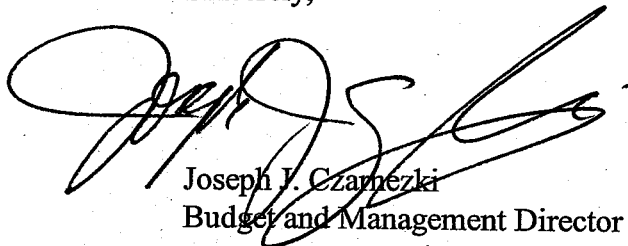
Dear Alderman Gordon:

During the Finance Committee review of the 2004 proposed budget, the following question was directed to this office:

What has been the 2002 activity of the Milwaukee Asset Building Coalition initiative?

The attached memo contains our response.

Sincerely,



Joseph J. Czarnecki
Budget and Management Director

cc: Members, Finance and Personnel Committee
Jennifer Meyer, Mayor's Office
Marianne Walsh, Fiscal Review Manager

ECP:dmr
Coverletter MABC SDC Mayor.doc



**City of Milwaukee
Budget and Management
Intra-Office Memo**

To: Joseph J. Czarnecki
From: Eric C. Pearson
Date: October 10, 2003
File Ref: 04BF, 3-D
Subject: Milwaukee Asset Building Coalition

The Social Development Commission (SDC) manages the Milwaukee Asset Building Coalition (MABC). The Mayor's Office has worked with MABC to support low-income families. The goal of the initiative is to help families build assets, provide financial literacy training, and help families move beyond poverty.

Mr. Jim Milner of the SDC provided us with a summary of the 2002 Tax Filing Season activities for the MABC. Mr. Milner did not have detailed data on MABC activities by aldermanic district. Table 1 shows the general numbers on MABC activities.

MABC also had the University of Wisconsin-Milwaukee Center for Urban Initiatives and Research prepare a report on the Earned Income Tax Credit. A copy of this report is attached.

EP:dmr

Followup for MABC SDC Mayor.doc

Table 1

MABC Activities, 2002 Tax Filing Season	
Activity	Amount
Tax Sites	20
Hotline Calls	3,150
Printed Materials Distributed	18,150
Home Visits for Outreach	8,000
Tax Filers Receiving Assistance	12,050
2002 Tax Filers	8,593
Bank Accounts opened for Direct Deposit	108
Financial Literacy Instruction Sessions	1,150
Total Tax Credits	\$5,332,789

Milwaukee Asset Building Coalition
2002 Tax Filing Season
As of April 30, 2003

General Information

Total number of Tax Sites	20
Total number of Volunteers	465
Number of Hotline Calls	3,150
Number of Printed Materials Distributed	18,150
Number of home Visits for Outreach	8,000
Tax Filers Receiving Assistance	12,050
2002 Tax Filers (Represents 1/3 of State's federal returns)	8,593
Number of Bank Accounts Opened for Direct Deposit	108
Number of Financial Literacy Instruction Introductory Sessions	1,150
Total Tax Credits	\$5,332,789

**The Earned Income Tax Credit in Milwaukee:
Its Impact and the Value of Increased Participation**

Prepared for the Milwaukee Asset Building Coalition

**Prepared by: University of Wisconsin-Milwaukee
Center for Urban Initiatives and Research**

July 2003

The Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) is a refundable tax credit for low-income working families and individuals with limited assets. Initially approved by Congress in 1975 to help offset the burden of social security tax and provide an incentive to work, the EITC reduces the amount of tax owed.

The EITC is relatively easy to claim; it also produces a tangible economic benefit to low-income households because it is *refundable*. In other words, if the allotted credit exceeds the taxes owed, the taxpayer is given a refund for the difference. The additional income gained by EITC recipients translates to a considerable impact on the local economy. Using Regional Input-Output Modeling System II (RIMS II) multipliers provided by the Bureau of Economic Analysis, the following study will demonstrate that while the amount of federal and state EITC claimed by low-income workers residing in the City of Milwaukee has a significant impact on the local economy, it behooves the city to capture the estimated unclaimed EITC as well.

Structure of the EITC

To qualify for the EITC, a household must have labor earnings and a modified adjusted gross income less than a specified ceiling. Credit eligibility also depends on the number of children in the household. The federal credit is allocated to two household categories: childless or having one or more children. The amount of credit a household can receive increases for each qualifying child up to a limit of two children. The Wisconsin EITC is based on a percentage of the federal credit due. Unlike the federal EITC, households with three or more qualifying children are eligible for additional EITC.

The federal EITC is ordered with a phase-in, plateau, and phase out range. Throughout the phase-in range, the lowest end of the income spectrum, the credit rises with income level until it plateaus. During the phase-out range, the highest end of the income spectrum, the credit decreases as income increases. For the 2001 tax year federal credit, a household with two or more children can claim the maximum credit of \$4,008 if earnings were between \$10,020 and \$13,090; the credit phases down to \$1,500 when income reaches \$25,000; and phases out to \$0 when income reaches \$32,121¹.

¹ Laurence S. Seidman and Saul D. Hoffman (2002). *The Earned Income Tax Credit, The Child Tax Credit, and The Income Tax, Under the Act of 2001*. See: <http://www.buec.udel.edu/hoffmans/Research/taxnotes%20article.pdf>.

The EITC in Milwaukee

EITC Distribution in Metro Milwaukee

Due to the concentration of low-income families in the central city, the distribution of EITC is not equal throughout metro Milwaukee. Studies conducted by the Brookings Institute on the distribution of federal EITC in large metropolitan areas demonstrate that in tax years 1998 and 2000, slightly more than one-fifth (22%) of families living in Milwaukee's central city claimed federal EITC in 2000, compared to 6% of families living in the metro area suburbs. Furthermore, while central city residents account for slightly more than one-third of the metro Milwaukee population, they claimed nearly 7 of every 10 federal EITC dollars in the metro area.

Federal EITC in the City of Milwaukee

In tax year 2001, low-income families living in the City of Milwaukee claimed 28% of the \$382 million federal EITC paid to Wisconsin residents. A total of 61,756 low-income City of Milwaukee residents received \$106.6 million in federal EITC. The average refund to City of Milwaukee EITC claimants totaled \$1,727, 15% higher than the state and 2.5% higher than the national average².

Wisconsin EITC

In addition to the federal EITC, low-income families paying Wisconsin state income taxes can apply for the state EITC, which is a calculated percentage of the federal EITC. Wisconsin Department of Revenue 2001 tax year data indicate that Milwaukee County residents constituted 28% of all state EITC recipients, and received nearly one-third of \$19.6 million credits paid, with the average refund totaling \$370. Ninety percent (90%) of this population lives in the City of Milwaukee. Consequently, low-income households living in the City of Milwaukee who received both federal and state EITC boosted their 2001 incomes by an average of \$2,097.

Table 1 below illustrates the amount of federal and state EITC returned to low-income taxpayers in Wisconsin and the City of Milwaukee.

² Federal EITC data provided by the Internal Revenue Service. Wisconsin EITC data provided by the Wisconsin Department of Revenue.

Table 1: 2001 Federal and State EITC to Wisconsin and City of Milwaukee Residents

	Wisconsin	City of Milwaukee	Milwaukee EITC recipients as a percent (%) of the state total
Federal EITC	\$382,085,632	\$106,646,337	27.9%
Credit Recipients ³	254,108	61,756	24.3%
Average Refund	\$1,504	\$1,727	NA
State EITC	\$60,346,729	\$18,324,892	30.3%
Credit Recipients	189,586	47,815	25.2%
Average Refund	\$318	\$370	NA
Federal and State EITC	\$442,432,361	\$124,971,229	28.2%
Average Refund	\$1,822	\$2,097	NA

Economic Impact of the EITC in the City of Milwaukee

The \$125 million City of Milwaukee taxpayers received in EITC is primarily an increase in personal income, and secondarily an addition to the local economy. With any such influx of dollars, ripple effects occur throughout the economy as many of these new dollars are spent and re-spent. Survey results from a sample population of EITC recipients indicate that a majority of refund dollars are spent locally to meet immediate needs such as paying rent or utilities (16%), purchasing clothing (13%), general living expenses (12%), household items (11%), paying bills (9%), car expenses (6%), medical services (4%) and school supplies (4%)⁵.

RIMS II (Regional Input-Output Modeling System) Analysis

EITC Received in 2001

The RIMS II model employed for this analysis regards households as an industry that supplies labor and purchases goods. Accordingly, EITC dollars are treated as household output. The

³ "Credit Recipients" denotes the number of filers who claimed EITC in tax year 2001 and received it. The number of filers claiming EITC may differ from the number of filers that receive the credit. In the City of Milwaukee, for example, 63,095 claimed federal EITC. Two percent of the claims were entirely disallowed. Only those low-income families who actually received the credit generate the economic impact of the credit. Therefore, we limit our analysis to credit recipients.

⁴ Email from Dennis Collier, Director, Wisconsin Department of Revenue, to Anne Sprecher, dated June 23, 2002. See also Wisconsin Department of Revenue (2002). *Wisconsin Earned Income Tax Credit: Summary 2001*. <http://www.dor.state.wi.us/ra/eitcty01.pdf>.

⁵ VITA Supersite Follow-up Survey Results: Survey 2. Compiled by the Center for Urban Initiatives and Research, June 2003.

direct effect of the EITC is simply the total EITC dollars that flow into households. The *indirect effect* reflects the spending of those dollars for local goods and services. The *induced effect* reflects the wages and costs paid by the suppliers of those goods and services. In the RIMS II model, the indirect and induced effects are combined. They will be collectively referred to as indirect effects. The *total effect* represents the sum of the direct effect plus the indirect and induced effects, or the total impact of the EITC dollars on the economy.

A majority of EITC dollars that flow to households eventually flow into the local economy and are spent multiple times before they flow out. As Table 2 illustrates, the indirect economic output attributable to the 2001 EITC dollars totals more than \$149 million, almost 120% of the direct effect, for a total impact on the economy of nearly \$274 million. Over \$26 million returns to local households as labor compensation, an amount that supports the equivalent of 1,090 local jobs. Some of the initial round of household spending goes toward the purchase of goods and services subject to Milwaukee County's 0.5% sales tax. The BEA data suggests that about 25% of household spending is subject to the sales tax; 2001 EITC funds therefore contributed roughly \$156,000 in County revenues as they were spent by recipient households.

Table 2: Impact of 2001 EITC Payments in the City of Milwaukee

<i>(all \$ figures in thousands)</i>	Direct Effect	Indirect/Induced Effects⁶	Total Effect
Output	\$124,971	\$149,015	\$273,987
Employment (Jobs)	0	1,090	1,090
Labor Compensation (Earnings)	\$0	\$26,244	\$26,244
County Sales Tax	\$0	\$156	\$156

Milwaukee's Unclaimed EITC

The majority of eligible taxpayers claim the EITC, but some households do not take advantage of it. Failure to claim the EITC may be due to insufficient income, lack of knowledge about the credit, failure to file, or other reasons. Households with one to two children are more likely to claim the credit than those with three children, or childless individuals. The lower participation rate of childless individuals may be attributed in part to the modest amount of EITC childless workers can claim; similarly, there may be underreporting of the number of qualifying children because no extra benefit is derived from claiming federal EITC for more than two children.

⁶ The RIMS II model combines the indirect and induced effects.

Participation estimates from a variety of sources including the IRS and Brookings range between 80% and 90%. Conversely, an estimated 10% to 20% of all eligible households who could claim the EITC do not. The following analysis will show that even though a relatively small percentage of EITC is unclaimed, the actual dollar figure is quite substantial. Furthermore, the potential impact of these unclaimed funds in the local economy should not be underestimated.

Table 3 offers three estimates of unclaimed 2001 federal and state EITC by eligible City of Milwaukee residents.

Table 3: Estimated Unclaimed Federal and State 2001 EITC

	Unclaimed High	Unclaimed Medium	Unclaimed Low
Estimated Percentage of Unclaimed Funds	20%	15%	10%
Estimated Additional Funds	\$31,242,807	\$22,053,746	\$13,885,692

Potential Economic Impact of the Unclaimed EITC

Just as the claimed EITC funds have indirect effects on the local economy, so too would the unclaimed funds if they were paid out to city residents. To estimate the effects of the unclaimed 2001 EITC, we can assume the mid-level of 15%, or a loss of roughly \$22 million.

As shown in Table 4, the potential indirect economic activity of the unclaimed funds amounts to \$26.3 million, resulting in a total effect on the economy of \$48.3 million in additional output. Part of this economic activity would result in slightly more than \$4.6 million in newly generated household income, the equivalent of 192 jobs, and \$28,000 in County tax revenues.

Table 4: Potential Impact of Unclaimed 2001 EITC Payments in the City of Milwaukee

<i>(all \$ figures in thousands)</i>	Direct Effect	Indirect/Induced Effects	Total Effect
Output	\$22,054	\$26,297	\$48,351
Labor Compensation (Earnings)	\$0	\$4,631	\$4,631
Employment (Jobs)	0	192	192
County Sales Tax	\$0	\$28	\$28

Tables 5, 6, and 7 provide detailed breakdowns of the flow of the additional EITC money in the local economy. They are provided to illustrate the interdependence between different sectors of the economy. The direct effect column illustrates the fact that the money initially goes only to households—all other industries show a direct effect of \$0. Households then spend a large portion of that money on rent, groceries, bill payments, clothing, etc., generating indirect output in the affected industries. Industries receiving the vast majority of direct consumer spending are highlighted in Table 5. Businesses that benefit from this first round of household spending use the revenue to pay for labor and supplies. This second round of spending is the induced effect. The combined indirect and induced effects of the output, earnings, and jobs generated by consumer spending in each industry are quantified in dollars and percentage.

Table 5: Direct and Indirect Output by Industry

	Direct Effect	Indirect/Induced Effects		Total
Agriculture, forestry, fishing	\$0	\$108,063	0.4%	\$108,063
Mining	\$0	\$0	0.0%	\$0
Construction	\$0	\$249,207	0.9%	\$249,207
Durable Goods	\$0	\$423,432	1.6%	\$423,432
Nondurable goods	\$0	\$1,420,261	5.4%	\$1,420,261
Transportation and Public Utilities	\$0	\$1,715,781	6.5%	\$1,715,781
Wholesale Trade	\$0	\$965,954	3.7%	\$965,954
Retail Trade	\$0	\$1,960,578	7.5%	\$1,960,578
Finance, Insurance, Real Estate	\$0	\$6,856,510	26.1%	\$6,856,510
Services	\$0	\$7,965,813	30.3%	\$7,965,813
Households	\$22,053,746	\$4,631,287	17.6%	\$26,685,033
Total Output	\$22,053,746	\$26,296,887	100%	\$48,350,633
Sales Tax (applies to 25% of household expenditures)				
State	5.00%	\$275,120		\$275,120
County	0.50%	\$27,512		\$27,512
Stadium	0.10%	\$5,502		\$5,502

The economic sectors with the greatest indirect economic activity generated by the EITC are Services (30%), FIRE--Finance, Insurance, Real Estate—(26%), and households (18%). The Services sector includes most industries that sell labor and knowledge rather than a tangible product. Dry cleaning, car repair, and tax preparation are examples of service industries.

Industries in the FIRE sector deal almost exclusively in monetary transactions, such as mortgage and rent payments, car insurance, loans.

Approximately \$4.6 million of the total output is induced household earnings, illustrated in Table 6. A majority of the induced household earnings return to workers in the Services (54%), FIRE (16%), and Retail (11%) sectors.

Table 6: Direct and Indirect Household Earnings by Industry

	Direct Effect	Indirect/Induced Effect		Total
Agriculture, forestry, fishing	\$0	\$19,848	0.4%	\$19,848
Mining	\$0	\$0	0.0%	\$0
Construction	\$0	\$39,697	0.9%	\$39,697
Durable Goods	\$0	\$74,983	1.6%	\$74,983
Nondurable goods	\$0	\$183,046	4.0%	\$183,046
Transportation and Public Utilities	\$0	\$310,958	6.7%	\$310,958
Wholesale Trade	\$0	\$187,457	4.0%	\$187,457
Retail Trade	\$0	\$502,825	10.9%	\$502,825
Finance, Insurance, Real Estate	\$0	\$763,060	16.5%	\$763,060
Services	\$0	\$2,509,716	54.2%	\$2,509,716
Households	\$22,053,746	\$39,697	0.9%	\$39,697
Total Earnings	\$22,053,746	\$4,631,287	100%	\$26,685,033
State Income Tax (applies to indirect/induced income only)			6.0%	\$277,877

Table 7 depicts the number of jobs generated in a variety of sectors resulting from the induced effects of the unclaimed EITC. The largest proportion of jobs take place in the Services (58%), Retail (15%), and FIRE (13%) industries.

Table 7: Direct and Indirect Employment by Industry

	Direct Effect	Indirect/Induced Effect		Total
Agriculture, forestry, fishing	0	1	0.5%	1
Mining	0	0	0.0%	0
Construction	0	1	0.6%	1
Durable Goods	0	2	1.0%	2
Nondurable goods	0	5	2.5%	5
Transportation and Public Utilities	0	8	4.3%	8
Wholesale Trade	0	5	2.4%	5
Retail Trade	0	28	14.8%	28
Finance, Insurance, Real Estate	0	25	13.1%	25
Services	0	112	58.4%	112
Households	0	5	2.3%	5
Total Employment	0	192	100%	192

Tables 6 and 7 both illustrate the disproportionate amount of income and jobs generated in the Services industries. Businesses that provide services are primarily selling the labor and expertise of their employees, consequently much of the revenue they collect is paid out to their employees.

It should be noted that the economic statistics used to generate the RIMS II multipliers are based on annual data, so the above estimates reflect how households spend their money on a yearly basis. The EITC, however, is taken as a one-time payment by a majority of households and may not be spent in the same proportions as the annual household budget. This may affect the specific distribution of the economic impact, but it should not alter the total impacts in terms of output, earnings, or jobs.

The key point to take away from this study is that the EITC is an opportunity both to help families and improve the local economy, and some of that opportunity is being missed. While nearly \$150 million in economic activity was generated by the EITC in 2001, another \$26 million in activity did not occur because EITC dollars went unclaimed.

Works Cited

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