



**Testimony of Adam Perry
Program Manager, DC Earned Income Tax Credit (DC EITC) Campaign
Capital Area Asset Builders**

**Committee on Finance and Revenue
Fiscal Year 2012 Budget Request Act
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Mr. Chairman and members of the Committee, thank you for the opportunity to testify today. My name is Adam Perry and I am the DC Earned Income Tax Credit (DC EITC) Campaign Manager for Capital Area Asset Builders (CAAB). CAAB is a nonprofit organization that helps District residents improve their financial literacy, save regularly, and make investments that will increase their economic security. The specific goals of the DC EITC Campaign are to promote the Earned Income Tax Credit and other tax benefits, provide high-quality free tax assistance to low-income residents, and connect those residents with financial education and other financial services that are available throughout the year.

I am testifying today to commend the city for its extremely effective Earned Income Tax Credit, and to recommend that the city support community tax preparation programs like the DC EITC Campaign.

Mr. Chairman, as you know, the Earned Income Tax Credit is one of the most effective, if not the most effective, antipoverty programs ever created. The Center on Budget and Policy Priorities estimates that without the EITC the child poverty rate would be an astounding 25% higher. Additionally, "Census data show that the EITC lifts more children out of poverty than any other single program or category of programs".¹

The EITC is designed to lower the tax burden on low-income workers in order to "make work pay". The credit offsets income and payroll taxes that low-income workers may owe, and also compensates for other more regressive taxes, like sales taxes, which disproportionately impact low-wage workers.

Additionally, the EITC is very clearly an *investment* in our taxpayers and communities, not a hand-out. Numerous studies highlight the community development impact of the EITC. EITC payouts are spent overwhelmingly in taxpayers' own communities, helping to stimulate local business and create jobs. Two studies in Baltimore and Nashville estimate that between 67% and 87% of all EITC payouts are spent within their respective cities², and these local expenditures are likely to cycle multiple times. For example, a recent study in San Antonio showed that "Each additional [EITC] dollar received . . . generate[s] a further \$1.58 in local economic activity, and one additional permanent job would be created for each \$37,000 claimed".³

¹ Greenstein, R. (2005). "THE EARNED INCOME TAX CREDIT: Boosting Employment, Aiding the Working Poor". *Center on Budget and Policy Priorities*, p. 3

² Jacob France Institute (2004). "The Importance of the Earned Income Tax Credit and Its Economic Effects in Baltimore City". *University of Baltimore*; and Haskell, John (2006) "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". *Vanderbilt University*.

³ Holt, S. (2006). "The Earned Income Tax Credit at Age 30: What We Know". *The Brookings Institution*, p. 17

Similarly, the EITC helps low-income residents get back to work. From 1984-1996, employment among single women with children increased dramatically- almost 6% more than any other group. Studies attribute the majority this increase to one single factor- an increase in the EITC over that time period. By subsidizing work and offsetting payroll and other taxes, the EITC enables low-income parents to support their families by getting back to work. The District leverages this impact by partially matching the federal EITC with a state EITC, thereby increasing investment in low-income communities.

Despite these benefits, we know that thousands of DC residents aren't claiming the federal OR state EITC each year, leaving approximately \$15 million federal dollars unclaimed annually. And, just as significantly, many low-income taxpayers do not have access to affordable, high-quality tax preparation services, which highlights the need for community tax preparation services like the DC Earned Income Tax Credit Campaign.

For example, consider the story of Yana Hamilton, one of our clients who is also submitting testimony today. For many years, Yana went to the same paid preparer. However, in 2009, she received a letter from the IRS informing her that her taxes had been prepared incorrectly, and she owed significant back taxes. Yana didn't know what to do, and in 2009 she didn't file her taxes at all.

Then, this year, Yana saw an ad for the DC EITC Campaign's tax site at the Ophelia Egypt Program Center in Ward 7. She came in to prepare her taxes, explaining her situation. When I spoke with her about her experience, she said "They totally took care of me and I really appreciate it. It isn't just that it's free, it's a blessing in disguise. They went over things with me, they asked me questions. They thoroughly looked over the paperwork the IRS sent me. From that year when [the paid preparer] did my taxes, she put something on the wrong line, and the IRS said my check would be less than what you thought. [The volunteers at the tax site] were asking me questions and figured out what happened. They were very very thorough and accurate and I just really enjoyed it."

Yana ended up needing to come in a few times before all of her issues could be resolved. While the Campaign was preparing her taxes, she realized she had never claimed the first time homebuyers credit, even though she bought a home in the District in 2008. In the end, the DC EITC Campaign was able to amend her 2008 tax return, helping her claim that credit, and complete 2009 and 2010 for her. In 2010 alone she was refunded over \$5000, much of which came from the EITC. She is planning to use that money to help fix up her house and pay off some bills, and take her kids on a vacation this summer

Until this year, there were no qualification requirements or certifications for paid tax preparers- anyone with a computer and a copy of Turbo Tax could claim to be a paid tax preparer. At the DC EITC Campaign, we prioritize quality control. ALL of our tax preparers pass IRS certification tests, and every return we complete is reviewed by a Quality Reviewer, a tax professional or long-time volunteer who has received special training and certification. Our focus on quality helps insure that low-income taxpayers file their returns accurately; claiming all the credits they have earned and paying all of the liabilities they have accrued. Altogether, the DC EITC Campaign serves more than 5,000 people like Yana every year.

By helping spread the word about the Earned Income Tax Credit and helping low-income taxpayers in the District file their returns accurately, the DC EITC Campaign is working to promote local economic growth and ensure that DC's tax policies are carried out effectively and efficiently. We at the DC EITC Campaign hope that the Office of Tax and Revenue will continue to support the EITC and the efforts of the Campaign.

Two Proposed Policy Changes

Finally, I would like to call the Committee's attention to two budgetary proposals that will directly impact Yana and tens of thousands of other DC residents in similar financial situations. First, **the Mayor's proposed budget would increase income tax withholdings for working DC residents by \$160 a year.** This appears to be little more than an accounting gimmick, however, as a large majority of DC taxpayers receive a tax refund when they file a return, which suggests that the withholding amounts are sufficient for most workers under current law. In other words, most of the \$41 million raised by this change would be repaid to taxpayers in 2013.

But this change comes with a cost. For wealthy taxpayers, a higher withholding will not cause much of an impact, and is likely to go unnoticed. For lower-income workers, however, many of whom already live paycheck-to-paycheck, much of the withheld money would have otherwise been spent on immediate needs- keeping the lights on, paying for groceries, and buying school clothes for children. This withholding change, while minor from a policy standpoint, would have a disproportionately negative impact on those who are struggling to make ends meet.

Next, we at the DC EITC Campaign would like to **express our support for the Schedule H Property Tax Relief Act of 2011.** As you know, Chairman Evans, the Schedule H property tax credit income limit hasn't been increased for 35 years, and that income limit, \$20,000, considers the incomes of everyone living in that household. This credit no longer achieves its intended goal- making homeownership affordable for lower-income DC residents, and we commend your efforts to modernize and revitalize this credit.

Thank you for your time.

Respectfully,

Adam Perry,
DC EITC Campaign Manager

Capital Area Asset Builders
1444 I Street NW, Suite 201
Washington, DC 20005

aperry@caab.org

202-419-1442 x 115

www.dceitc.org