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EITC is Vital for Working-Poor Families in Rural America

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In Tax Year 2004, tax filers claimed almost $40 billion through the Earned Income Tax Credit (EITC), making the EITC one of the largest federal programs that provides cash supports to low-income working families in the United States. This Fact Sheet examines rural/urban differences in the Federal EITC program.[1]

The EITC, a refundable tax credit, acts as a wage supplement and work incentive for low-income workers. Unlike many other means-tested support programs, the EITC does not require a separate bureaucracy to administer benefits because it works through the tax code. To claim the credit, individuals must work (have earned income) and file a tax return. The vast majority of EITC dollars go to working families with children who have earnings below $35,000 a year. The low administrative cost, built-in work incentive, and focus on families with children make the EITC appealing to legislators across the political spectrum.

The EITC is especially important to rural families throughout the United States. Among poor and near-poor families, those in rural areas are more likely to be working, and they are more likely to be working in low-wage jobs. Almost half (48 percent) of rural children live in low-income families (incomes less that twice the poverty line) compared with 37 percent of urban children.[2] These factors contribute to the higher rate of EITC receipt in rural areas across the country, and underline the importance of the benefit to these families. Receipt of EITC in rural areas also has been boosted in recent years by programs designed to make sure all those families who are eligible get this benefit.[3]

While only 16 percent of U.S. tax filers in 2004 were from rural areas, rural EITC filers claimed 20 percent of the 39.8 billion EITC dollars. Rural EITC recipients collectively received $7.8 billion through the credit in 2004.

The amount of money received by the average rural family ($1,850) may not seem like much to more affluent families, but for low-income families it can be an enormous help. For kids growing up in low-income families, even a small boost in income can lead to better child outcomes; a few thousand dollars a year can have significant impacts.[4]

As Congress entertains legislation to expand the EITC program, it is important to recognize how vital this program is for low-income families in rural America. For a large segment of rural families, and upwards of one-third of families in some states in the rural South, the EITC provides an important source of income that can supplement stagnant wages, help a family hold onto a home, repair a car to keep working, or cover health bills.

Several key facts are clear:

- Nationwide a higher percentage of rural tax filers (20 percent) receives the EITC than urban filers (16 percent). And the same is true in almost every state. Rural tax filers receive the EITC at a higher rate than urban filers in 42 of 48 states (All counties in New Jersey and Rhode Island are in Metropolitan Areas).
- The rate of rural EITC receipt varies greatly depending on the state. The states where receipt of EITC among rural families is the highest are in the South and Southwest. Mississippi, Louisiana, and Georgia each had more than 30 percent of their rural tax filers receive the credit in 2004.
- States in the South and Southwest are where the rural/urban gap in the percentage of fillers receiving EITC is largest. Leading the list, rural tax filers in Georgia and Arizona are much more likely to receive the EITC than their urban counterparts.
- At the national level, there is little difference in the average amount of ETIC received -- $1,831 for urban families compared to $1,850 for rural families. But there are substantial differences across the rural areas of states, ranging from a low of $1,232 in Massachusetts to a high of $2,193 in Louisiana.
- Most of the states where rural families receive a relatively high level of EITCs are located in the South: Louisiana ($2,193), Mississippi ($2,183), Georgia, ($2,099), Alabama ($2,083), and Texas ($2,048). The states with lower average credits for rural families are almost all located in New England: Massachusetts, Alaska, Vermont, New Hampshire, and Connecticut.

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Table 1. Receipt of EITC in Rural and Urban Households: Tax Year 2004

State	RURAL (Outside Metropolitan Areas)			URBAN (Inside Metropolitan Areas)			Rural/Urban Percentage-point Difference in Receiving EITC
	Share Receiving EITC	EITC Amount ($ in millions)	Average EITC Amount	Share EITC	EITC Amount ($ in millions)	Average EITC Amount	
US	20.4%	7,835.2	$1,850	16.3%	31,926.9	$1,831	4.1%
Alabama	29.2%	316.4	$2,083	24.6%	694.7	$2,109	4.6%
Alaska	13.9%	22.9	$1,516	10.6%	37.0	$1,568	3.3%
Arizona	25.9%	115.5	$1,936	16.2%	605.8	$1,817	9.7%
Arkansas	28.4%	246.4	$1,977	22.6%	292.6	$1,937	5.9%
California	15.7%	84.7	$1,602	16.3%	4,185.9	$1,801	-0.6%
Colorado	15.5%	69.3	$1,629	12.3%	357.4	$1,648	3.2%
Connecticut	9.6%	21.5	$1,565	10.2%	246.2	$1,627	-0.6%
DC				18.0%	83.3	$1,741	NA
Delaware	17.4%	25.5	$1,825	13.9%	74.2	$1,750	3.5%
Florida	21.9%	178.8	$1,860	19.7%	2,684.9	$1,839	2.2%
Georgia	31.0%	434.3	$2,099	21.0%	1,270.9	$2,000	10.0%
Hawaii	16.2%	42.0	$1,569	13.8%	95.3	$1,631	2.4%
Idaho	18.8%	65.6	$1,746	16.4%	108.6	$1,747	2.4%
Illinois	16.0%	201.5	$1,690	14.9%	1,344.2	$1,858	1.1%
Indiana	15.3%	160.1	$1,688	15.2%	585.7	$1,775	0.1%
Iowa	13.8%	132.1	$1,627	12.1%	142.2	$1,633	1.7%
Kansas	17.1%	130.3	$1,747	13.0%	168.4	$1,709	4.1%
Kentucky	24.1%	292.8	$1,804	16.8%	306.8	$1,751	7.3%
Louisiana	32.6%	305.0	$2,193	27.7%	796.7	$2,149	4.9%
Maine	16.5%	66.7	$1,623	12.2%	69.0	$1,563	4.3%
Maryland	14.5%	33.8	$1,720	13.2%	549.8	$1,731	1.3%
Massachusetts	8.4%	1.5	$1,232	10.2%	481.2	$1,590	-1.8%
Michigan	15.3%	210.1	$1,673	14.3%	930.1	$1,809	1.1%
Minnesota	13.6%	139.2	$1,604	9.8%	263.4	$1,563	3.8%
Mississippi	36.3%	491.8	$2,183	27.7%	295.6	$2,088	8.6%
Missouri	21.6%	246.2	$1,797	15.6%	524.4	$1,777	6.0%
Montana	17.5%	81.5	$1,693	15.7%	38.6	$1,599	1.8%
Nebraska	15.5%	89.6	$1,721	12.3%	95.0	$1,693	3.2%
Nevada	13.9%	25.5	$1,689	15.2%	244.3	$1,710	-1.3%
New Hampshire	11.3%	42.3	$1,564	8.8%	53.1	$1,528	2.5%
New Jersey				12.0%	838.4	$1,743	NA
New Mexico	29.2%	145.8	$1,893	21.8%	213.1	$1,812	7.4%
New York	17.2%	195.7	$1,723	17.3%	2,402.5	$1,799	-0.1%
North Carolina	24.7%	519.1	$1,935	18.6%	891.4	$1,862	6.0%
North Dakota	14.9%	39.6	$1,670	10.9%	23.9	$1,553	4.0%
Ohio	15.5%	270.2	$1,727	14.4%	1,110.6	$1,778	1.1%
Oklahoma	24.3%	230.7	$1,887	20.0%	342.3	$1,853	4.3%
Oregon	17.6%	102.6	$1,709	13.3%	259.8	$1,627	4.4%
Pennsylvania	14.6%	207.6	$1,621	13.2%	1,076.4	$1,689	1.4%
Rhode Island				13.2%	110.7	$1,721	NA
South Carolina	29.7%	251.2	$2,004	21.6%	563.1	$1,896	8.0%
South Dakota	17.0%	55.3	$1,706	13.4%	35.6	$1,612	3.6%
Tennessee	23.7%	284.2	$1,823	20.4%	727.1	$1,883	3.4%
Texas	27.5%	641.6	$2,048	23.2%	3,807.2	$2,051	4.3%
Utah	18.1%	34.3	$1,837	13.8%	207.5	$1,741	4.3%
Vermont	13.7%	42.1	$1,517	10.1%	14.6	$1,448	3.6%
Virginia	20.5%	162.0	$1,767	13.4%	695.4	$1,765	7.0%
Washington	15.8%	87.7	$1,720	12.2%	496.2	$1,659	3.6%
West Virginia	22.2%	120.5	$1,736	17.4%	125.1	$1,684	4.7%
Wisconsin	12.2%	135.8	$1,575	11.0%	343.5	$1,665	1.1%
Wyoming	13.5%	36.0	$1,615	14.7%	17.7	$1,644	-1.2%

Source: Brookings Institution analysis of Internal Revenue Service data

ENDNOTES

[1] "Rural" refers to nonmetropolitan counties and "urban" refers to counties inside metropolitan areas, as classified by the U.S. Office of Management and Budget.

[2] U.S. Census Bureau, available online at www.census.gov/hhes/www/poverty/detailedpovtabs.html

[3] For example, see The Annie E Casey Foundation, www.aecf.org/upload/PDFFiles/FES/fes_eitc.pdf.

[4] Duncan, Greg J., Jeanne Brooks-Gunn, W. Jean Yeung, and Judith R. Smith, June 1998, "How Much Does Childhood Poverty Affect the Life Chances of Children?" *American Sociological Review*, Vol. 63, (pp 406-423).